

**FINANCIAL REPORT**  
**CHARLEVOIX MONTESSORI ACADEMY FOR THE ARTS**  
June 30, 2015

**CHARLEVOIX MONTESSORI ACADEMY FOR THE ARTS**  
**FINANCIAL REPORT**  
**Year Ended June 30, 2015**

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October 29, 2015

Independent Auditors' Report

Board of Education  
Charlevoix Montessori Academy for the Arts  
Charlevoix, Michigan

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the major fund of Charlevoix Montessori Academy for the Arts (the "Academy"), as of and for the year ended June 30, 2015, 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 statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the 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 Charlevoix Montessori Academy for the Arts, as of June 30, 2015, and the respective changes in financial position, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the 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 Northwest Academy's basic financial statements. The accompanying other supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2015, on our consideration of Charlevoix Montessori Academy for the Art'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Charlevoix Montessori Academy for the Art's internal control over financial reporting and compliance.

*Hill, Schroeder & Co.*

CERTIFIED PUBLIC ACCOUNTANTS  
Petoskey, Michigan

## **Management's Discussion and Analysis**

### **Overview of the Basic Financial Statements**

Charlevoix Montessori Academy for the Art's (the "Academy's"), previously Northwest Academy, basic financial statements include government-wide statements, fund financial statements and notes to the financial statements. This report also contains required and other supplemental information in addition to the basic financial statements

### **Government-wide Financial Statements**

The government-wide financial statements report information on all of the Academy's non-fiduciary funds. The government-wide statements are designed to provide readers with a broad overview of the Academy's finances, in a manner similar to a private-sector business.

The Statement of Net Position displays all of the Academy's assets and liabilities, with the difference reported as net position. All long-term assets and debt obligations are presented.

The Statement of Activities focuses on the gross and net cost of the various functions within the Academy (instruction, support services, etc.), which are supported by the Academy's general revenues (unrestricted state aid, etc.).

### **Fund Financial Statements**

The fund financial statements report on the governmental funds, with an emphasis on major funds. Major funds are determined by the level of activity within the various funds. The focus of the fund financial statements is on the sources and uses of funds during the current year.

The fiduciary fund is also presented separately from the governmental funds, due to the fact that these assets do not represent assets of the Academy. These assets are not presented as part of the government-wide financial statements.

Charlevoix Montessori Academy for the Arts maintains one individual governmental fund. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund which is considered a major fund.

### **Notes to the Financial Statements**

The notes provide additional information which is essential to a full understanding of the data provided in the government-wide and fund financial statements.

## Government-Wide Financial Analysis

The table below summarizes the Academy's net position as of June 30, 2015, with comparative data from June 30, 2014:

### Charlevoix Montessori Academy for the Arts Statement of Net Position June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>Assets</b>		
Current assets	\$ 121,033	\$ 118,253
Capital assets, net of accum dep.	<u>417,740</u>	<u>429,223</u>
Total assets	<u>538,773</u>	<u>547,476</u>
<b>Liabilities</b>		
Current liabilities	121,442	121,273
Noncurrent liabilities	<u>355,541</u>	<u>319,919</u>
Total liabilities	<u>476,983</u>	<u>441,192</u>
<b>Net Position</b>		
Net investment in capital assets	96,410	88,527
Unrestricted	<u>(34,620)</u>	<u>17,757</u>
Total net position	<u>\$ 61,790</u>	<u>\$ 106,284</u>

At the end of the fiscal year, Charlevoix Montessori Academy for the Arts is able to report a positive balance in one category of net position. The first portion of the Academy's net position is its investment in capital assets (land, building and equipment) less any related debt used to acquire those assets that is still outstanding. The Academy uses these capital assets in providing educational services; consequently these assets are not available for future spending.

The remaining portion of net position, unrestricted net position, may be used at the Academy's discretion to meet ongoing obligations.

The results for the Academy as a whole are reported in the Statement of Activities, for the year ended June 30, 2015 with comparative data for June 30, 2014 as summarized below:

**Charlevoix Montessori Academy for the Arts**  
**Statement of Activities**  
**Year Ended June 30, 2015 and 2014**

	2015	2014
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 1,876	\$ 939
Grants and contributions	120,092	89,695
General revenue:		
State aid, unrestricted	526,150	670,380
Interest and investment earnings	15	18
Other	-	2,494
	<u>648,133</u>	<u>763,526</u>
 <b>Function/Program Expenses</b>		
Instruction	399,111	473,338
Support services	249,239	303,802
Interest/fees on long-term debt	25,240	23,799
Depreciation (unallocated)	19,037	18,959
	<u>692,627</u>	<u>819,898</u>
 <b>Change in net position</b>	 (44,494)	 (56,372)
 <b>Net position - beginning of year</b>	 <u>106,284</u>	 <u>162,656</u>
 <b>Net position - end of year</b>	 <u><u>\$ 61,790</u></u>	 <u><u>\$ 106,284</u></u>

As reported above, the Academy recorded \$648,133 of revenues. The majority of the Academy's revenues were from unrestricted state aid (81%) and grants and contributions (18%). The Academy's decreased enrollment provided less state aid revenue than the previous year.

The Academy incurred \$692,627 of expenses. The decrease in expenses is attributable to cuts made for fewer students.

**Fund Financial Analysis**

As of year end, the governmental fund reported a fund balance of \$15,695 which is \$2,062 less than the beginning of the year.

**General Fund Budgetary Highlights**

Final budgeted revenues were less than originally budgeted due to a decrease in enrollment. Final budgeted expenditures were also less than originally budgeted.

The final budgeted amounts were less than the actual amounts reflecting an increase in various expenditures.

## Capital Assets

At June 30, 2015 the Academy had \$688,053 invested in capital assets. The following table summarizes the capital asset activity for the year:

### Charlevoix Montessori Academy for the Arts Year Ended June 30, 2015

	<u>July 1, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2015</u>
Land and improvements	\$ 75,000	\$ -	\$ -	\$ 75,000
Buildings and improvements	562,723	-	-	562,723
Furniture and equipment	<u>42,776</u>	<u>7,554</u>	<u>-</u>	<u>50,330</u>
Total capital assets	680,499	7,554	-	688,053
Less accum. depreciation	<u>251,276</u>	<u>19,037</u>	<u>-</u>	<u>270,313</u>
Net capital assets	<u>\$ 429,223</u>	<u>\$ (11,483)</u>	<u>\$ -</u>	<u>\$ 417,740</u>

## Long-Term Debt Outstanding

At the end of the year, the Academy had \$371,644 outstanding long-term debt.

Below is the long-term debt activity for the year:

### Charlevoix Montessori Academy for the Arts Year Ended June 30, 2015

	<u>July 1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2015</u>
Note payable	\$ -	\$ 50,315	\$ -	\$ 50,315
Building capital lease	<u>340,696</u>	<u>-</u>	<u>19,367</u>	<u>321,329</u>
Total leases payable	<u>\$ 340,696</u>	<u>\$ 50,315</u>	<u>\$ 19,367</u>	<u>\$ 371,644</u>

The reduction in debt was attributable to regular debt payments.

## Economic Factors

The economic factors most impacting Charlevoix Montessori Academy for the Arts in regards to this financial report are our sources of funding and student enrollment. As a public school academy, the sources of funding differ significantly from those available to traditional public schools. Public school academies cannot seek bonds to pay for facilities or additional needs. Approximately 90% of the total funds available to appropriate are generated by the State foundation allowance. The amount is calculated based on student enrollment and serves as our largest source of funding for both operations and facilities. Public school academies do receive services from the local Intermediate School District, and from federal Title programs for which we qualify. These funds amount to less than 5% of our total funding.



Over the past year, Charlevoix Montessori Academy for the Arts experienced a decline in enrollment. Our financial challenges are due to the nearly exclusive reliance on the per-pupil foundation allowance for all operating and building expenses. However, with our decreased revenue, the Academy did adequately cut expenditures in order to meet the changes in revenue. We believe our Montessori elementary program and Arts focus will attract new students to benefit from our program, which will increase our student count. For the 2015-2016 school year, we will endeavor to continue to provide the exemplary education that a Montessori program can provide and take advantage of publicity opportunities- including community involvement in local festivals and programs, press releases, and courtesy photos of events provided to local newspapers.

### **Financial Contact**

The Academy's financial statements are designed to present users with a general overview of the Academy's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed towards the Business Office at Charlevoix Montessori Academy for the Arts.

**CHARLEVOIX MONTESSORI ACADEMY FOR THE ARTS**  
**Statement of Net Position**  
**June 30, 2015**

	Governmental Activities
<b>Assets</b>	
<b>Current Assets</b>	
Cash	\$ 27,191
Due from other governmental units	93,842
Total current assets	121,033
<b>Noncurrent Assets</b>	
Capital assets, non-depreciable	75,000
Capital assets, depreciable	613,053
Less: accumulated depreciation	(270,313)
Total noncurrent assets	417,740
Total assets	538,773
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Accounts payable	38,229
Accrued expenses	67,109
Capital lease and note payable, due within one year	16,104
Total current liabilities	121,442
<b>Noncurrent Liabilities</b>	
Note payable, net of current portion	50,315
Capital lease, net of current portion	305,226
Total noncurrent liabilities	355,541
Total liabilities	476,983
<b>Net Position</b>	
Net investment in capital assets	96,410
Unrestricted	(34,620)
Total net position	\$ 61,790

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

**CHARLEVOIX MONTESSORI ACADEMY FOR THE ARTS**  
**Statement of Activities**  
**Year Ended June 30, 2015**

		Program Revenues				Net Revenue (Expense) and Changes in Net Position
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		Governmental Activities
Governmental Activities:						
Instruction	\$ 399,111	\$ 1,876	\$ 73,294	\$ -		\$ (323,941)
Support services	249,239	-	46,798	-		(202,441)
Interest fees on long-term debt	25,240	-	-	-		(25,240)
Depreciation (unallocated)	19,037	-	-	-		(19,037)
	<u>\$ 692,627</u>	<u>\$ 1,876</u>	<u>\$ 120,092</u>	<u>\$ -</u>		<u>(570,659)</u>
General Revenues:						
State and federal aid, unrestricted						526,150
Interest and investment earnings						15
Other						-
Total general revenues						526,165
<b>Change in net position</b>						(44,494)
<b>Net position - beginning of year</b>						106,284
<b>Net position - end of year</b>						\$ 61,790

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

**CHARLEVOIX MONTESSORI ACADEMY FOR THE ARTS**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2015**

	General
<b><u>Assets</u></b>	
Cash	\$ 27,191
Due from other governmental units	93,842
	121,033
Total assets	\$ 121,033
<b><u>Liabilities and Fund Balance</u></b>	
Liabilities:	
Accounts payable	\$ 38,229
Accrued expenditures	67,109
	105,338
Total liabilities	105,338
Fund Balance	
Unassigned	15,695
	15,695
Total liabilities and fund balance	\$ 121,033

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

**CHARLEVOIX MONTESSORI ACADEMY FOR THE ARTS**  
**Governmental Funds**  
**Reconciliation of Balance Sheet of Governmental Funds to Net Position**  
**June 30, 2015**

<b>Total Fund Balances - Governmental Funds</b>	\$	15,695
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds balance sheet.

Cost of capital assets		688,053
Accumulated depreciation		(270,313)

Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds balance sheet.

Note payable		(50,315)
Building capital lease		(321,330)

Total net position - governmental activities	\$	<u>61,790</u>
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The accompanying notes are an integral part of the financial statements.

**CHARLEVOIX MONTESSORI ACADEMY FOR THE ARTS**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Year Ended June 30, 2015**

	General
<b>Revenues</b>	
Local sources	\$ 46,338
State sources	556,401
Federal sources	30,570
Interdistrict and other sources	14,824
Total revenues	648,133
<b>Expenditures</b>	
Current:	
Instruction	399,111
Support services	249,239
Debt service:	
Principal	19,367
Interest and fees	25,239
Capital outlay	7,554
Total expenditures	700,510
<b>Other financing sources (uses)</b>	
Note proceeds	50,315
<b>Net change in fund balance</b>	(2,062)
<b>Fund balance - beginning of year</b>	17,757
<b>Fund balance - end of year</b>	\$ 15,695

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

**CHARLEVOIX MONTESSORI ACADEMY FOR THE ARTS**  
**Governmental Funds**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balance of Governmental Funds**  
**to the Statement of Activities**  
**Year Ended June 30, 2015**

**Net Change in Fund Balance - Total Governmental Funds** \$ (2,062)

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital outlay	7,554
Depreciation expense	(19,037)

Proceeds of long-term debt (including capital leases) are recorded as an other financing source for governmental funds, but are not recorded in the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Loan proceeds	(50,315)
Principal repaid	<u>19,366</u>
Change in net position - governmental activities	<u><u>\$ (44,494)</u></u>

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

CHARLEVOIX MONTESSORI ACADEMY FOR THE ARTS  
Fiduciary Fund  
Statement of Fiduciary Net Position  
June 30, 2015

	<u>Student Activities Agency Fund</u>
<b>Assets</b>	
Cash	\$ <u>6,862</u>
<b>Liabilities</b>	
Due to student groups	\$ <u>6,862</u>

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



**CHARLEVOIX MONTESSORI ACADEMY FOR THE ARTS**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Charlevoix Montessori Academy for the Arts (the "Academy"), previously Northwest Academy, operates under a Board-Administrator form of government and provides education services to its residents. The accounting policies of the Academy conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant policies used by the Academy:

**Reporting Entity**

Criteria for determining if other entities are potential component units which should be reported within the Academy's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) Codification of Governmental Accounting and Financial Reporting Standards, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the Academy is financially accountable and other organizations that the nature and significance of their relationship to the Academy are such that exclusion would cause the Academy's basic financial statements to be misleading or incomplete. The Academy has no component units.

**Basic Financial Statements – Overview**

The Academy's basic financial statements include both government-wide (reporting the Academy as a whole) and fund financial statements (reporting the Academy's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support. All of the Academy's activities are considered governmental activities.

**Basic Financial Statements – Government-Wide Statements**

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government. These statements are reported using the economic resources measurement focus and the full accrual basis of accounting. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. The government-wide focus is more on operational efficiency, the sustainability of the Academy as an entity and the change in the Academy's net position resulting from the current year's activities.

In the government-wide Statement of Net Position, the governmental activities column is presented on a consolidated basis. Due to the full accrual, economic resource basis, all long-term assets and receivables, as well as long-term debt and obligations are recognized. The Academy's net position are reported in three parts – invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The Academy first utilizes restricted resources to finance qualifying activities.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

#### Basic Financial Statements – Government-Wide Statements - Continued

The government-wide Statement of Activities, due to the full accrual, economic resource basis, records revenue when it is earned and expenses when a liability is incurred, regardless of the timing of related cash flows. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers who purchase, use or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, unrestricted State Aid and other items not properly included among program revenues are reported as general revenue. Any net costs, by function, are allocated to the general revenue.

#### Basic Financial Statements – Fund Financial Statements

The financial transactions of the Academy are reported in individual funds in the fund financial statements. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures. The emphasis in the fund financial statements is on the major funds in the governmental activities category. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures of the governmental funds) for the determination of major funds. The Academy's major fund, as described below, is the General Fund. The Academy has no non-major funds.

The governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded in the accounting period in which they become both available and measurable. Revenues are available when received within the current period or within 60 days after year end. Expenditures are recorded in the accounting period in which the liability is incurred. The exception to this general rule is principal and interest on general obligation long-term debt, if any, is recognized when due.

The focus of the fund financial statements is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources).

Government resources are allocated to and accounted for in individual funds based upon 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 financial statements in this report, into generic fund types and broad fund categories as follows:

#### Governmental Funds

Governmental funds are those funds through which most Academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through governmental funds.

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. The General Fund is a major fund of the Academy.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**Basic Financial Statements – Fund Financial Statements - Continued**

**Fiduciary Funds**

Fiduciary Funds are used to account for assets held by the Academy in a trustee or agency capacity for others and therefore are not available to support Academy programs. Since these funds cannot be used to address activities or obligations of the Academy, these funds are not incorporated into the government-wide statements. Fiduciary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting. The following agency fund is presented in the Statement of Fiduciary Net Position:

Student Activities Agency Fund – The Academy presently maintains a Student Activities Agency Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held by the Academy for the students.

**ASSETS, LIABILITIES, AND FUND BALANCES**

**Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, demand deposits and other accounts that have the general characteristics of demand deposits.

**Capital Assets**

Capital assets, which include land, buildings, equipment and vehicles are reported in the Statement of Net Position in the government-wide financial statements. Capital assets are defined by the Academy as assets that are purchased or acquired with an original cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date donated. Additions, improvements and other capital outlay that significantly extend the useful life of an asset, or increase its capacity or efficiency, are capitalized. Other costs incurred for repairs and maintenance is expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and improvements	20-50 years
Furniture and other equipment	5-15 years

**Fund Balances**

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not spendable form – pre-paid items or inventories; or (b) legally or contractually required to be maintained intact.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

#### ASSETS, LIABILITIES AND FUND BALANCES – CONTINUED

##### Fund Balances - Continued

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

*Restricted fund balance.* This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

*Committed fund balance.* These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the School Board – the government’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the board removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

*Assigned fund balance.* This classification reflects the amounts constrained by the Academy’s “intent” to be used for specific purposes, but are neither restricted nor committed. The School Board has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

*Unassigned fund balance.* This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the Academy’s policy to use externally restricted resources first, then unrestricted resources – committed, assigned, and unassigned – in order as needed.

##### Use of 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 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 revenue and expenses during the period. Actual results could differ from those estimates.

**NOTES TO FINANCIAL STATEMENT - CONTINUED**

**NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

The Academy is required to adopt a budget for the General Fund. An annual budget is adopted on a basis consistent with generally accepted accounting principles and State law for this fund. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits Academies to amend their budgets during the year. All annual appropriations lapse at year end.

The presentation of budgetary information is required for the General Fund. In the required supplemental information section, the Academy's actual and budgeted expenditures for the General Fund are presented.

During the year, the Academy incurred expenditures which were in excess of the amounts appropriated for the following Funds:

<u>Fund</u>	<u>Appropriations</u>	<u>Amount of Expenditures</u>	<u>Variance</u>
General Fund	\$ 696,105	\$ 700,510	\$ 4,405

**NOTE 3: CASH AND INVESTMENTS**

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

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. At year-end, the carrying amount of the Academy's deposits for both governmental activities and fiduciary funds was \$34,053 and the bank balance was \$35,206, all of which was covered by federal depository insurance. State statutes prohibit security in the form of collateral, surety bonds or another form be taken for the deposit of public funds.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

**NOTE 4: CAPITAL ASSETS**

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

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2015</u>
Assets not being depreciated:				
Land and improvements	\$ 75,000	\$ -	\$ -	\$ 75,000
Capital assets being depreciated:				
Buildings and improvements	562,723	-	-	562,723
Furniture and equipment	<u>42,776</u>	<u>7,554</u>	<u>-</u>	<u>50,330</u>
Subtotal	<u>605,499</u>	<u>7,554</u>	<u>-</u>	<u>613,053</u>
Accumulated depreciation:				
Buildings and improvements	220,521	13,848	-	234,369
Furniture and equipment	<u>30,755</u>	<u>5,189</u>	<u>-</u>	<u>35,944</u>
Subtotal	<u>251,276</u>	<u>19,037</u>	<u>-</u>	<u>270,313</u>
Net capital assets being depreciated	<u>354,223</u>	<u>(11,483)</u>	<u>-</u>	<u>342,740</u>
Governmental activities net capital assets	<u>\$ 429,223</u>	<u>\$ (11,483)</u>	<u>\$ -</u>	<u>\$ 417,740</u>

Governmental activities depreciation expense was charged as follows:

Unallocated	<u>\$ 19,037</u>
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**NOTE 5: SHORT-TERM DEBT – STATE AID NOTES**

The Academy issues State aid notes in advance of State aid receipts, depositing the proceeds in the General Fund. This note is necessary due to reduced funding and because a State aid payment is not received in September.

Short-term debt activity for the year ended June 30, 2015, excluding interest expense of \$1,983, was as follows:

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
State aid note	<u>\$ -</u>	<u>\$ 50,100</u>	<u>\$ (50,100)</u>	<u>\$ -</u>

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

**NOTE 6: LONG-TERM DEBT**

The following is a summary of the Academy's governmental activities long-term debt transactions for the year ended June 30, 2015:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Note payable	\$ -	\$ 50,315	\$ -	\$ 50,315	-
Building capital lease	340,696	-	19,367	321,329	16,105
	<u>\$ 340,696</u>	<u>\$ 50,315</u>	<u>\$ 19,367</u>	<u>\$ 371,644</u>	<u>\$ 16,105</u>

Long-term debt payable at June 30, 2015, is comprised of the following individual instrument:

Building capital lease:

\$404,830 building capital lease in monthly installments of \$3,510 including interest at 6.5% through August, 2015. The outstanding amount was refinanced on August 14, 2015 in the amount of \$371,872 which includes an amount of \$50,315 for the payoff of the note payable noted below. The lease is with a related party, Northwest Academy Building Corporation. The terms are identical to those that the lessor has with its lender.

\$321,329

Note payable:

\$50,315 note payable due on August 14, 2015. The amount was paid in full with the refinancing of the lease payable as noted above.

50,315

Total long term debt

\$371,644

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

**NOTE 6: LONG-TERM DEBT-CONTINUED**

The annual requirements to amortize all governmental obligations at June 30, 2015 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 16,105	\$ 18,229	\$ 34,334
2017	20,705	20,769	41,474
2018	21,982	19,492	41,474
2019	23,338	18,136	41,474
2020	24,777	16,697	41,474
2021	264,737	2,637	267,374
Total	<u>\$ 371,644</u>	<u>\$ 95,960</u>	<u>\$ 467,604</u>

All long-term debt will be liquidated from the General Fund. There are limitations and restrictions contained in the agreement. The Academy is in compliance with all significant limitations and restrictions.

**NOTE 7: OPERATING LEASES**

On September 1, 2011, the Academy extended its lease agreement for a parcel of land adjacent to the school to be used as playground space. This lease is considered for accounting purposes to be an operating lease. Lease expenditures for the year ended June 30, 2015 were \$3,600. The lease term was for three years, through August 31, 2014. No formal extension has been signed as of this date.

**NOTE 8: RELATED PARTIES**

In addition to Northwest Academy Building Corporation noted in the Long-Term Debt Note, the Academy is related to Professional Staff Services, LLC who contracted with the Academy for most of its personnel. Payments to Professional Staff Services during July and August 2014 were \$74,437. The Academy is related to Lakeshore Educational Management, who now contracts with the Academy for most of its personnel. Payments of \$454,866 were made ending June 30, 2015.

**NOTE 9: FUND BALANCE CLASSIFICATIONS**

Amounts for specific purposes by fund and fund balance classifications for the year ended June 30, 2015, are as follows:

<u>Classification/Fund</u>	<u>Purpose</u>	<u>Amount</u>
Unassigned General Fund		<u>\$ 15,695</u>

**NOTE 10: 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; and natural disasters for which it obtains coverage from commercial insurance companies. The Academy has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.



REQUIRED SUPPLEMENTAL INFORMATION

**CHARLEVOIX MONTESSORI ACADEMY FOR THE ARTS**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended June 30, 2015**

	Original Budget	Final Budget	Actual	Variance with Final Budget Over/(Under)
<b>Revenues</b>				
Local sources	\$ 11,000	\$ 46,338	\$ 46,338	\$ -
State sources	794,208	556,279	556,401	122
Federal sources	22,474	30,539	30,570	31
Interdistrict and other sources	7,700	14,824	14,824	-
Total revenues	<u>835,382</u>	<u>647,980</u>	<u>648,133</u>	<u>153</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Basic programs	377,279	273,233	274,925	1,692
Added needs	65,070	125,879	124,186	(1,693)
Support services:				
Instructional staff	45,000	12,568	12,568	-
General administration	-	86,980	86,141	(839)
School administration	114,875	69,673	69,673	-
Business services	29,400	15,587	16,917	1,330
Operation and maintenance	-	33,540	36,773	3,233
Central	78,346	26,800	27,167	367
Debt service	-	44,291	44,606	315
Capital Outlay	7,554	7,554	7,554	-
Total expenditures	<u>717,524</u>	<u>696,105</u>	<u>700,510</u>	<u>4,405</u>
<b>Other financing sources (uses)</b>				
Loan proceeds	<u>-</u>	<u>50,000</u>	<u>50,315</u>	<u>315</u>
<b>Net change in fund balance</b>	117,858	1,875	(2,062)	(3,937)
<b>Fund balance - beginning of year</b>	<u>134,494</u>	<u>17,757</u>	<u>17,757</u>	<u>-</u>
<b>Fund balance - end of year</b>	<u><u>\$ 252,352</u></u>	<u><u>\$ 19,632</u></u>	<u><u>\$ 15,695</u></u>	<u><u>\$ (3,937)</u></u>

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

OTHER SUPPLEMENTAL INFORMATION

**CHARLEVOIX MONTESSORI ACADEMY FOR THE ARTS**  
**Other Supplemental Information**  
**Statement of Account Balances**  
**Fiduciary Fund**  
**Year Ended June 30, 2015**

	Balance	2014-2015		Balance
	June 30, 2014	Receipts	Disbursements	June 30, 2015
4-6 Class	\$ 28	\$ 719	\$ 741	\$ 6
7-8 Class	-	296	177	119
Art Class	-	94	-	94
Arts & Theater	16	-	74	(58)
Athletics	781	136	436	481
Brya Student Government	223	-	-	223
Class of 2013	46	-	46	-
Class of 2014	423	-	-	423
Class of 2015	(232)	171	205	(266)
Class of 2016	90	-	-	90
Class of 2017	10	-	-	10
Community Service	28	-	10	18
High School Trip	234	7,254	6,739	749
Graduation	2	-	-	2
Library	13	-	-	13
Lunch	(367)	119	-	(248)
Music	(79)	387	53	255
Off Campus Educational Activities	4	-	-	4
Paver Brick	927	-	-	927
Prek-3	38	1,138	20	1,156
Prom & Dances	201	268	199	270
Science	100	-	-	100
Spanish	1,823	-	1,267	556
Student Assistance	6	-	-	6
Student Government	61	-	69	(8)
Surplus Class Funds	171	-	493	(322)
Technology	123	-	-	123
Yearbook	1,067	1,860	858	2,069
Miscellaneous	110	-	40	70
Luke Pace Memorial Fund	8,374	-	8,374	-
	<u>8,374</u>	<u>-</u>	<u>8,374</u>	<u>-</u>
Total	<u>\$ 14,221</u>	<u>\$ 12,442</u>	<u>\$ 19,801</u>	<u>\$ 6,862</u>

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

INTERNAL CONTROL, COMPLIANCE AND OTHER MATTERS

October 29, 2015

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

Board of Education  
Charlevoix Montessori Academy for the Arts  
Charlevoix, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of Charlevoix Montessori Academy for the Arts (the "Academy") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Charlevoix Montessori Academy for the Art's basic financial statements and have issued our report thereon dated October 29, 2015.

**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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

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.

The Academy does not have the expertise to prepare financial statements in accordance with generally accepted accounting principles. According to issued auditing standards this inability to prepare financial statements in accordance with generally accepted accounting principles is an indicator of a significant deficiency and a strong indicator of a material weakness in internal control.

We did note the Academy's management does possess the skill necessary to prepare and monitor the annual budget. The accounting system which is designed primarily for budgetary purposes and State of Michigan FID reporting is also used as the source information in preparing the financial statements in accordance with generally accepted accounting principles with some adjustment, format differences and note disclosures.

## Compliance and Other Matters

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

## 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.

*Hill, Schroeder & Co.*

CERTIFIED PUBLIC ACCOUNTANTS  
Petoskey, Michigan

NO MANAGEMENT LETTER WAS ISSUED TO CHARLEVOIX MONTESSORI ACADEMY FOR THE ARTS FOR THE YEAR ENDED JUNE 30, 2015.



October 29, 2015

Communication with Those Charged with Governance

To the Board of Education  
Charlevoix Montessori Academy for the Arts

We have audited the financial statements of the governmental activities, and the major fund, of Charlevoix Montessori Academy for the Arts, "Academy" for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, if applicable, *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 28, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Charlevoix Montessori Academy for the Arts are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ending June 30, 2015. We noted no transactions entered into by the Academy during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Academy's financial statements was:

Management's estimate of depreciation is based on estimated useful lives of capital assets. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually and in the aggregate, to the financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 29, 2015.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Academy's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Academy's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Education and management of Charlevoix Montessori Academy for the Arts and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

*Hill, Schroderus & Co.*

Hill, Schroderus & Co., LLP

NO DATA COLLECTION FORM IS REQUIRED TO BE ISSUED TO CHARLEVOIX MONTESSORI ACADEMY FOR THE ARTS FOR THE YEAR ENDED JUNE 30, 2015.