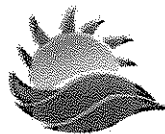


**CHARLEVOIX MONTESSORI ACADEMY FOR THE ARTS  
CHARLEVOIX, MICHIGAN**

**FINANCIAL STATEMENTS  
JUNE 30, 2017**



**SCHULZE EDWARDS & OSWALD PC  
CERTIFIED PUBLIC ACCOUNTANTS  
989-354-8707**

CHARLEVOIX MONTESSORI ACADEMY FOR THE ARTS

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CHARLEVOIX MONTESSORI ACADEMY FOR THE ARTS  
ADMINISTRATION / BOARD LIST  
JUNE 30, 2017

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ADMINISTRATION

SUPERINTENDENT                      AMANDA MINAKER

BOARD OF EDUCATION

PRESIDENT                              JOSEPH SEIDEL

VICE PRESIDENT                      DAVE KROON

SECRETARY                              CHRISTINE DILLION

TREASURER                              MICHAEL RANDALL

TRUSTEE                                  JONI OLACH

TRUSTEE                                  JUDY SIGULINSKY

TRUSTEE                                  JENNIFER EARLS



## 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, 2017 and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes 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 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 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, 2017, 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 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 Charlevoix Montessori Academy for the Art'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.

The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 September 12, 2017, 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 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.

*Schulze Edwards & Oswald PC*

Schulze Edwards & Oswald PC  
Alpena, Michigan  
September 12, 2017

**Overview of the Basic Financial Statements**

Charlevoix Montessori Academy for the Art's (the "Academy's"), 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 asset 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. The notes to the financial statements can be found on pages 15-22 of this report.

**Government-Wide Financial Analysis**

The table below summarizes the Academy’s net position as of June 30, 2017, with comparative data from June 30, 2016:

**Charlevoix Montessori Academy for the Arts  
Statement of Net Position  
June 30, 2017 and 2016**

	<b>2016</b>	<b>2017</b>
<b>Assets</b>		
Current assets	\$ 125,129	\$ 148,170
Capital assets, net of accum dep.	398,473	382,435
<b>Total assets</b>	<b>523,602</b>	<b>530,605</b>
<b>Liabilities</b>		
Current liabilities	63,405	40,788
Noncurrent liabilities	336,011	314,029
<b>Total liabilities</b>	<b>399,416</b>	<b>354,817</b>
<b>Net Position</b>		
Net investment in capital assets	41,757	46,424
Unrestricted	82,429	107,382
<b>Total Net Position</b>	<b>\$ 124,186</b>	<b>\$ 153,806</b>

At the end of the fiscal year, Charlevoix Montessori Academy for the Arts is able to report positive balances in all categories 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.

**CHARLEVOIX MONTESSORI ACADEMY FOR THE ARTS****Management's Discussion and Analysis  
Year Ended June 30, 2017**

The results for the Academy as a whole are reported in the Statement of Activities, for the year ended June 30, 2017 with comparative data for June 30, 2016 as summarized below:

**Charlevoix Montessori Academy for the Arts  
Statement of Activities  
Year Ended June 30, 2017 and 2016**

	<u>2016</u>	<u>2017</u>
<b>Revenue</b>		
Program Revenue:		
Charges for services	\$ 12,322	\$ 10,738
Grants and contributions	113,738	110,810
General Revenue:		
State aid, unrestricted	448,765	435,699
Interest and investment earnings	9	12
Loss on disposal of assets	(2,332)	-
<b>Total revenues</b>	<u>572,502</u>	<u>557,259</u>
<b>Function/ Program Expenses</b>		
Instruction	306,367	287,901
Support Services	163,403	202,931
Interest / fees on long-term debt	23,402	20,769
Depreciation - unallocated	16,934	16,038
<b>Total expenses</b>	<u>510,106</u>	<u>527,639</u>
<b>Change in net position</b>	62,396	29,620
<b>Net position, beginning of year</b>	<u>61,790</u>	<u>124,186</u>
<b>Net position, end of year</b>	<u>\$ 124,186</u>	<u>\$ 153,806</u>

As reported above, the Academy recorded \$557,259 of revenues. The majority of the Academy's revenues were from unrestricted state aid (79%) and grants and contributions (20%). The Academy's decreased enrollment provided less state aid revenue than the previous year.

The Academy incurred \$527,639 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 \$107,382 which is \$24,953 more than the beginning of the year.



**CHARLEVOIX MONTESSORI ACADEMY FOR THE ARTS**

**Management's Discussion and Analysis  
Year Ended June 30, 2017**

**General Fund Budgetary Highlights**

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

The final budgeted amounts were less than the actual amounts reflecting a decrease in various expenditures of \$4,670.

**Capital Assets**

At June 30, 2017 the Academy had \$382,435 net of accumulated depreciation, 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, 2017**

	<u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2017</u>
Land and improvements	\$ 75,000	\$ -	\$ -	\$ 75,000
Buildings and improvements	562,723	-	-	562,723
Furniture and equipment	40,330	-	-	40,330
<b>Total capital assets</b>	<b>678,053</b>	<b>-</b>	<b>-</b>	<b>678,053</b>
Less accum. Depreciation	279,580	16,038	-	295,618
<b>Net capital assets</b>	<b>\$ 398,473</b>	<b>\$ 16,038</b>	<b>\$ -</b>	<b>\$ 382,435</b>

**Long-Term Debt Outstanding**

At the end of the year, the Academy had \$336,011 outstanding long-term debt.

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

**Charlevoix Montessori Academy for the Arts  
Year Ended June 30, 2017**

	<u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2017</u>
Building capital lease	\$ 356,716	\$ -	\$ 20,705	\$ 336,011
<b>Total leases payable</b>	<b>\$ 356,716</b>	<b>\$ -</b>	<b>\$ 20,705</b>	<b>\$ 336,011</b>

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. This 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 several years, 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 2017-2018 school year, we will endeavor to continue to provide the exemplary education that a Montessori program can provide and to take advantage of publicity opportunities-including community involvement in local festivals and programs, press releases, and courtesy photos of events provided to local newspapers.

**Request for Information**

This financial report is designed to provide a general overview of the Academy's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Charlevoix Montessori Academy for the Arts  
Leslie Herriman  
115 W. Hurlbut  
Charlevoix, MI 49720  
1 (231) 547-9000

**CHARLEVOIX MONTESSORI ACADEMY FOR THE ARTS  
BASIC FINANCIAL STATEMENTS**

CHARLEVOIX MONTESSORI ACADEMY FOR THE ARTS  
STATEMENT OF NET POSITION  
JUNE 30, 2017

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<u>Assets</u>	Governmental Activities
Cash and investments	\$ 53,750
Accounts receivable	1,365
Due from governmental units	89,455
Prepaid expenses	3,600
Capital assets - net	382,435
Total assets	<u>530,605</u>
<u>Liabilities</u>	
Accounts payable	2,369
Accrued expenses	38,419
Long-term liabilities	
Capital lease: Due within one year	21,982
Capital lease: Due in more than one year	314,029
Total liabilities	<u>376,799</u>
<u>Net Position</u>	
Invested in capital assets, net of related debt	46,424
Unrestricted	107,382
Total Net Position	<u>\$ 153,806</u>

See accompanying notes which are an integral part of the financial statements.

CHARLEVOIX MONTESSORI ACADEMY FOR THE ARTS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Activities</u>
<u>Functions/programs</u>		<u>Services</u>	<u>Grants</u>	<u>Net (Expense)</u>
				<u>Revenue and</u>
				<u>Change in</u>
				<u>Net Position</u>
<b>Governmental Activities</b>				
Instruction	\$ 287,901	\$ 10,738	93,056	\$ (184,107)
Support services	202,931	-	17,754	(185,177)
Interest on long term debt	20,769	-	-	(20,769)
Depreciation - unallocated	16,038	-	-	(16,038)
<b>Total Governmental</b>				
<b>Activities</b>	<u>\$ 527,639</u>	<u>\$ 10,738</u>	<u>\$ 110,810</u>	<u>(406,091)</u>
<b>General Revenues</b>				
State and federal aid, unrestricted				435,699
Interest and investment earnings				12
<b>Total General Revenues</b>				<u>435,711</u>
<b>Change in Net Position</b>				29,620
<b>Net position - beginning of year</b>				<u>124,186</u>
<b>Net position - end of year</b>				<u>\$ 153,806</u>

See accompanying notes which are an integral part of the financial statements.

CHARLEVOIX MONTESSORI ACADEMY FOR THE ARTS  
 BALANCE SHEET - GOVERNMENTAL FUNDS  
 JUNE 30, 2017

	GENERAL
<b>ASSETS</b>	
Cash and investments	\$ 53,750
Accounts receivable (net)	1,365
Due from other governmental units	89,455
Prepaid expense	3,600
Total Assets	\$ 148,170
<b>LIABILITIES AND FUND BALANCES</b>	
<b>LIABILITIES:</b>	
Accounts payable	\$ 2,369
Accrued expenses	38,419
Total Liabilities	40,788
<b>FUND BALANCES:</b>	
Committed for lease	3,600
Unassigned - General Fund	103,782
Total Fund Balances	107,382
Total Liabilities and Fund Balances	\$ 148,170

**Reconciliation of Governmental Fund Balances to District-Wide Government Activities Net Position**

Total Governmental Fund Balances		\$ 107,382
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources, and are not reported in the funds:		
The cost of capital assets is		678,053
Accumulated depreciation is		(295,618)
Deferred outflows used in governmental activities are not financial resources and therefore are not reported in the governmental funds:		
Related to pensions		
Long term liabilities are not due and payable in the current period and are not reported in the funds:		
Capitalized leases		(336,011)
Net Position of Governmental Activities		\$ 153,806

See accompanying notes which are an integral part of the financial statements.

**CHARLEVOIX MONTESSORI ACADEMY FOR THE ARTS**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES, OTHER FINANCING SOURCES**  
**(USES), AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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	<b>GENERAL</b>
<b>REVENUES:</b>	
Local sources	\$ 47,637
State sources	471,618
Federal sources	30,860
Interdistrict sources	17,754
Miscellaneous	-
Total Revenues	567,869
 <b>EXPENDITURES:</b>	
Current:	
Instruction	287,901
Support services	209,941
Debt service:	
Principal	20,605
Interest and fees	24,469
Total Expenditures	542,916
 <b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	 24,953
 <b>OTHER FINANCING SOURCES (USES):</b>	 -
 <b>NET CHANGES IN FUND BALANCES</b>	 24,953
 <b>FUND BALANCES - Beginning of year</b>	 82,429
 <b>FUND BALANCES - End of year</b>	 \$ 107,382

See accompanying notes which are an integral part of the financial statements.

**CHARLEVOIX MONTESSORI ACADEMY FOR THE ARTS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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Net Change in Fund Balances - Total Governmental Funds	\$	24,953
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Amounts reported for governmental activities are different because:

Government funds report capital outlays as expenditures;  
in the statement of activities these costs are allocated  
over their estimated useful lives as depreciation.

Depreciation expense	\$	(16,038)	
Capital Outlay		-	(16,038)

Payments on capitalized leases are not an expense in the government wide statements where they reduce long term debt		20,705
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Change in Net Position of Governmental Activities	\$	29,620
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See accompanying notes which are an integral part of the financial statements.



CHARLEVOIX MONTESSORI ACADEMY FOR THE ARTS  
FIDUCIARY FUND  
STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2017

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<u>ASSETS</u>	<u>2017</u>
Cash	\$ <u>10,674</u>
Total Assets	\$ <u><u>10,674</u></u>
<u>LIABILITIES</u>	
Due to student groups	\$ <u>10,674</u>
Total Liabilities	\$ <u><u>10,674</u></u>

See accompanying notes which are an integral part of the financial statements.

CHARLEVOIX MONTESSORI ACADEMY FOR THE ARTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

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**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 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.

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.

CHARLEVOIX MONTESSORI ACADEMY FOR THE ARTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 operation 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.

**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.

CHARLEVOIX MONTESSORI ACADEMY FOR THE ARTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

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.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**ASSETS, LIABILITIES AND FUND BALANCES (continued)**

**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.

**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 did not incur expenditures which were in excess of the amounts appropriated.

**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 the 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 the year-end, the carrying amount of the Academy's deposits for both governmental activities and fiduciary funds was \$64,424 and the bank balance was also \$64,484, 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.

CHARLEVOIX MONTESSORI ACADEMY FOR THE ARTS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2017

**NOTE 4 - CAPITAL ASSETS**

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

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Assets not being depreciated:	\$ 75,000	\$ -	\$ -	\$ 75,000
Land and improvements				
Capital assets being depreciated:				
Buildings and improvements	562,723	-	-	562,723
Furniture and equipment	40,330	-	-	40,330
Subtotal	603,053	-	-	603,053
Accumulated depreciation:				
Buildings and improvements	248,216	13,847	-	262,063
Furniture and equipment	31,364	2,191	-	33,555
Subtotal	279,580	16,038	-	295,618
Net capital assets being depreciated	323,473	16,038	-	307,435
Governmental activities net capital assets	\$ 398,473	\$ 16,038	\$ -	\$ 382,435

Governmental activities depreciation expense was charged as follows:

Unallocated	\$ 16,038
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**NOTE 5 - SHORT-TERM DEBT - STATE AID NOTES**

The Academy sometimes issues State aid notes in advance of State aid receipts, depositing the proceeds in the General Fund. When the issued note is necessary because a State aid payment is not received in September.

The Academy did not issue a State aid note for the year end June 30, 2017.

	Beginning Balance	Issued	Redeemed	Ending Balance
State aid note	\$ -	\$ -	\$ -	\$ -

CHARLEVOIX MONTESSORI ACADEMY FOR THE ARTS  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2017

**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, 2017:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Building capital lease	\$ 356,716	\$ -	\$ 20,705	\$ 336,011	\$ 21,982
	<u>\$ 356,716</u>	<u>\$ -</u>	<u>\$ 20,705</u>	<u>\$ 336,011</u>	<u>\$ 21,982</u>

Long-term debt payable at June 30, 2017, is comprised of the following individual instrument:

Building capital lease:

\$371,872 building capital lease in monthly installments of \$3,456 including interest at 6.0% through August, 2020. The lease is with a related party, Northwest Academy Building Corporation. The terms are identical to those that the lessor with its lender.

\$ 336,011

The annual requirements to amortize all governmental obligations at June 30, 2017 are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 21,982	\$ 19,492	\$ 41,474
2019	23,338	18,136	41,474
2020	24,777	16,697	41,474
2021	<u>265,914</u>	<u>1,324</u>	<u>267,238</u>
Total	<u>\$ 336,011</u>	<u>\$ 55,649</u>	<u>\$ 391,660</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.

CHARLEVOIX MONTESSORI ACADEMY FOR THE ARTS  
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**NOTE 7-OPERATING LEASES/ PREPAID EXPENSES**

On June 1, 2017, the Academy entered into a 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, 2017 were \$3,600. The current lease term is \$3,600 per year through August 31, 2018. There is also a prepaid expense of \$3,600 reflecting the next year of this lease.

**NOTE 8 - RELATED PARTIES**

In addition to Northwest Academy Building Corporation noted in the Long-Term Debt Note, the Academy is related to both Lakeshore and Charlevoix Educational Management who contracted with the Academy for most of its personnel. Payments to Lakeshore Educational Management from June through June 2017 were \$105,938. The Academy is related to Charlevoix Educational Management, who now contracts with the Academy for most of its personnel. Payments of \$218,347 were made for the year ending June 30, 2017.

**NOTE 9 - FUND BALANCE CLASSIFICATIONS**

Amounts for specific purposes by fund and fund balance classifications for the year ended June 30, 2017, are as follows:

<u>Classification/ Fund</u>	<u>Purpose</u>	<u>Amount</u>
Nonspendable		
Prepaid Items		\$      3,600
Unassigned		
General Fund		<u>103,782</u>
		<u>\$    107,382</u>



CHARLEVOIX MONTESSORI ACADEMY FOR THE ARTS  
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**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.

**NOTE 11 - SUBSEQUENT EVENTS**

The board has evaluated subsequent events through June 30, 2017, the date on which the financial statements were available to be issued.

**NOTE 12 - OTHER INFORMATION**

**New GASB Standards**

Governmental Accounting Standards Board (GASB) Statement No. 77, Tax Abatement Disclosures, requires disclosure of tax abatement information about a reporting government's own tax abatement agreements and about tax abatement agreements entered into by other governments that reduce the reporting government's tax revenue.

No such tax abatements exist for Charlevoix Montessori Academy for the Arts.

**REQUIRED SUPPLEMENTAL INFORMATION**

CHARLEVOIX MONTESSORI ACADEMY FOR THE ARTS  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget
	2017 Original	2017 Final		
<b>REVENUES</b>				
Local sources	\$ 18,000	\$ 46,765	\$ 37,027	\$ (9,738)
State sources	487,043	471,827	471,618	(209)
Federal sources	25,400	31,241	30,860	(381)
Interdistrict sources	10,000	16,128	17,754	1,626
Total Revenues	540,443	565,961	557,259	(8,702)
<b>EXPENDITURES</b>				
Current:				
Instruction:				
Basic programs	259,184	197,899	195,589	2,310
Added needs	92,400	93,277	92,312	965
Support services:				
Instructional staff				
General administration	12,250	71,484	71,093	391
School administration	64,755	56,791	56,791	-
Business services	27,500	23,973	22,970	1,003
Operation & maintenance	11,400	29,055	29,055	-
Central	26,520	15,517	15,516	1
Other	-	3,906	3,906	-
Debt service	42,500	45,074	45,074	-
Total Expenditures	536,509	536,976	532,306	4,670
<b>OTHER FINANCING SOURCES (USES)</b>				
Total Other Sources (uses)	-	-	-	-
Excess of Revenues over (under) Expenditures and Other Financing Sources (Uses)	3,934	28,985	24,953	(4,032)
Budgetary fund balance - July 1, 2016	82,429	82,429	82,429	-
Budgetary fund balance - June 30, 2017	\$ 86,363	\$ 111,414	\$ 107,382	\$ (4,032)

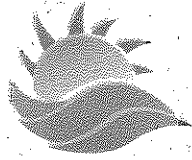
See notes to the financial statements.

## **OTHER SUPPLEMENTAL INFORMATION**

**CHARLEVOIX MONTESSORI ACADEMY FOR THE ARTS**  
**OTHER SUPPLEMENTAL INFORMATION**  
**TRUST AND AGENCY FUND - SCHOOL ACTIVITIES**  
**STATEMENT OF CHANGES IN DEPOSITS HELD FOR OTHERS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	Balance				Balance	
	June 30, 2016	Receipts	Disbursements	June 30, 2017		
4-6 Class	\$ 120	\$ 254	\$ 142	\$ 232		
7-8 Class	341	361	39	663		
Art Class	94	119	72	141		
Arts & Theater	48	1,876	972	952		
Athletics	481	-	-	481		
Brya Student Government	68	-	58	10		
Class of 2014	423	-	423	-		
Class of 2015	(279)	423	-	144		
Class of 2016	79	-	-	79		
Class of 2017	10	-	-	10		
Community Service	18	-	-	18		
High School Trip	1,665	-	-	1,665		
K-3	-	286	89	197		
Library	99	-	-	99		
Lunch	(48)	3,304	2,886	370		
Music	255	-	-	255		
Musical Theater	-	151	-	151		
Off Campus Educational Activities	4	-	-	4		
Paver Brick	927	-	-	927		
Prek-3	1,211	318	1,509	20		
Prom & Dances	427	-	-	427		
Science	100	-	-	100		
Spanish	556	-	22	534		
Strings	21	77	100	(2)		
Student Assistance	6	-	-	6		
Student Government	(8)	-	-	(8)		
Surplus Class Funds	101	293	255	139		
Technology	123	-	123	-		
Yearbook	2,703	1,265	908	3,060		
Miscellaneous	-	-	-	-		
<b>TOTAL</b>	<b>\$ 9,545</b>	<b>\$ 8,727</b>	<b>\$ 7,598</b>	<b>\$ 10,674</b>		

See notes to the financial statements.



## AUDIT COMMUNICATION

September 12, 2017

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

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, 2017. 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 September 12, 2017. 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, 2017. 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 that 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 estimates 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 disclosures in the financial statements 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 September 12, 2017.

### 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.

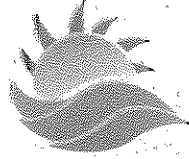
Very truly yours,

*Schulze Edwards & Oswald PC*

### **Schulze Edwards & Oswald PC**

Certified Public Accountants

Alpena, Michigan



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of Charlevoix Montessori Academy for the Arts (the "Academy") as of and for the year ended June 30, 2017, 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 September 12, 2017.

### 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 School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School'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. We consider the deficiency described below to be a material weakness.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

- The Academy does not have the expertise to prepare financial statements in accordance with generally accepted accounting principles. As a matter of convenience, the Academy has relied upon its auditors to prepare financial statements and related notes and supplemental schedules for external reporting in accordance with GAAP. Further, the audit process is used as a means of accumulating data, performing reconciliations and making year-end adjustments. As a consequence, the Academy has not developed the tools and resources necessary to enable its employees to prepare reports in conformity with GAAP in the normal course of performing their assigned functions. In this regard, the Academy is not unlike many other school districts of its size and nature.



- 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 of 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 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 result 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.

*Schulze Edwards & Oswald PC*

Schulze Edwards & Oswald PC  
Alpena, Michigan  
September 12, 2017