NEW BRANCHES CHARTER ACADEMY

REPORT ON FINANCIAL STATEMENTS
(with required supplementary and
additional supplementary information)

YEAR ENDED JUNE 30, 2018

Maner Costerisan
Certified Public Accountants
Business & Technology Advisors

C O N T E N T S

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
New Branches Charter Academy

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of New Branches Charter Academy, as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise New Branches Charter Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of New Branches Charter Academy as of June 30, 2018, 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 other required supplementary information, as identified 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 New Branches Charter Academy's basic financial statements. The additional supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The additional supplementary 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. The additional supplementary 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 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 additional supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated September 25, 2018 on our consideration of New Branches Charter Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of New Branches Charter Academy's 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 New Branches Charter Academy's internal control over financial reporting and compliance.

Maner Costerisan PC

September 25, 2018

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of New Branches Charter Academy (Academy) annual financial report presents our discussion and analysis of the public school Academy’s financial performance during the fiscal year that ended on June 30, 2018. Please read it in conjunction with the Academy’s financial statements, which immediately follow this section.

Financial Highlights

- The Academy had an increase in the fund balance in the general fund of $94,280 compared to a budgeted increase of $47,309. This gives the Academy a fund balance in the general fund of $542,335.

OVERVIEW OF THE FINANCIAL STATEMENTS

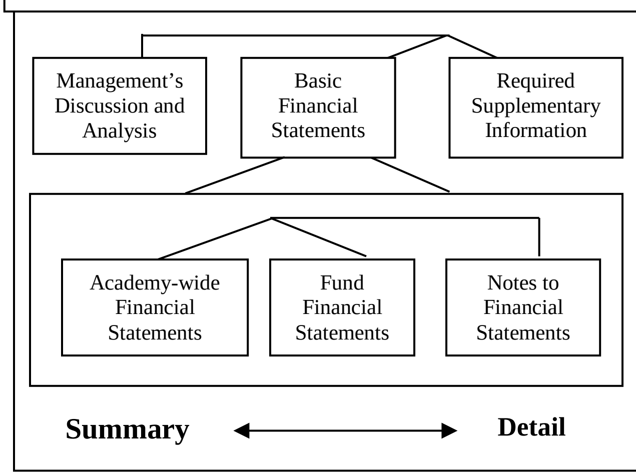
This annual report consists of three parts - management’s discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy:

- The first two statements are Academy-wide *financial statements* that provide both short-term and long-term information about the Academy’s overall financial status.

- The remaining statements are *fund financial statements* that focus on individual parts of the Academy, reporting the Academy’s operations in more detail than the Academy-wide statements.

- The *governmental funds* statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.

Figure A-1
Organization of New Branches Charter Academy’s Financial Report



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy’s budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

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

Figure A-2 Major Features of the Academy-wide and Fund Financial Statements

	Academy-wide statements	Governmental funds
Scope	Entire Academy (except fiduciary funds)	All activities of the Academy that are not fiduciary
Required financial statements	* Statement of net position * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable

Academy-wide statements

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

The two Academy-wide statements report the Academy's net position and how they have changed. Net position - the difference between the Academy's assets, deferred inflows and outflows, and liabilities, is one way to measure the Academy's financial health or position.

- Over time, increases or decreases in the Academy's net position is an indicator of whether its financial position is improving or deteriorating, respectively.

- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy's enrollment, the condition of school buildings and other facilities, and the Academy's ability to be competitive with other public school academies and area school academies.

Governmental activities - The Academy's basic services are included here, such as regular and special education and administration. State foundation aid finances most of these activities.

Fund financial statements

The fund financial statements provide more detailed information about the Academy's funds, focusing on its more significant or "major" funds - not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs. The Academy has a general fund, special revenue fund, debt service fund, and capital projects fund.

- Some funds are required by State law and by bond covenants.

- The Academy establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like school lunch).

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

Financial analysis of the Academy as a whole

Net position - the Academy's combined net position of ($1,224,992) increased by $1,231,508 during the year. See Figures A-3 and A-4.

The total revenues increased by 22% to $3,647,693. This is mainly due to the increase in student enrollment. The state aid foundation allowance included in revenue from state sources accounts for approximately 74% of the Academy's revenue.

The total cost of instruction increased by 38% due to a increase in enrollment. Total support service increased by 36%.

Academy governmental activities

Figure A-3
New Branches Charter Academy's Net Position

	2018	2017
Current and other assets	$ 1,336,758	$ 1,213,895
Capital assets	2,123,791	2,144,825
Total assets	3,460,549	3,358,720
Deferred outflows of resources	24,813	39,274
Other liabilities	452,716	521,109
Long-term liabilities	2,405,485	2,477,534
Total liabilities	2,858,201	2,998,643
Deferred inflows of resources	1,852,153	2,867,572
Net position:		
Net investment in capital assets	(48,432)	(99,978)
Restricted:		
Debt service	30,682	256,452
Unrestricted	(1,468,267)	(2,612,974)
Total net position	$ (1,486,017)	$ (2,456,500)

Figure A-4
Changes in New Branches Charter Academy's Net Position

	2018	2017
Revenues:		
Program revenues:		
Federal and state categorical grants	$ 740,996	$ 649,158
Charges for services	37,423	58,046
	778,419	707,204
General revenues:		
State aid - unrestricted	2,703,347	2,024,344
Other	165,927	249,375
Total revenues	3,647,693	2,980,923
Expenses:		
Instruction	785,642	570,191
Support services	1,162,138	851,856
Community service	56,785	48,081
Food service	157,195	143,852
Interest and fees on long-term debt	171,417	174,112
Depreciation (unallocated)	83,008	70,947
Total expenses	2,416,185	1,859,039
Change in net position	$ 1,231,508	$ 1,121,884

Financial analysis of the Academy's funds

The Academy's general fund balance increased by $94,280 to $ $542,335. Instruction expenses increased by $254,210 and support service expenses increased by $192,514.

General fund budgetary highlights

Over the course of the year, the Academy revised the general fund annual operating budget when necessary. Changes were made in both revenue and expenditures which reflected anticipated increases in state aid and actual salary figures for staff.

The Academy's final budget for the general fund anticipated revenues would exceed expenditures by $47,309. The actual results for the year showed revenue over expenditures of $94,280.

Actual revenues were $1,600 less than budgeted.

Actual expenditures were $48,571 less than budget, due primarily to the unspent state and federal grants and savings in general administration.

Capital asset and debt administration

Capital assets

By the end of the year ended June 30, 2018, the Academy had invested $2,123,791 in capital assets net of accumulated depreciation as summarized in Figure A-5. This amount represents a decrease of $21,034 from the beginning of the year. Total depreciation expense for the year was $83,008. More detailed information about capital assets can be found in Note 4 to the financial statements.

The Academy's capital assets are as follows:

Figure A-5
New Branches Charter Academy's Capital Assets

	2018			2017
	Cost	Accumulated depreciation	Net book value	Net book value
Land	$ 147,000	$ -	$ 147,000	$ 147,000
Furniture and equipment	445,322	288,287	157,035	125,145
Buildings	2,129,397	324,890	1,804,507	1,849,806
Equipment under capital lease	38,122	22,873	15,249	22,874
Total	$ 2,759,841	$ 636,050	$ 2,123,791	$ 2,144,825

Long-term debt

At year end, the Academy had total long-term debt of $2,172,223 in general obligation bonds and capital lease. The Academy continued to pay down its debt, retiring $65,000 of outstanding bonds and $7,580 towards the capital lease. See Note 6 for more information.

Factors bearing on the Academy's future

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

- The Academy has adopted a general fund budget for 2018/2019 in which revenues exceed expenditures by $28,472.

Contacting the Academy's financial management

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy's Management Company, Choice Schools Associates, LLC at 5251 Clyde Park Avenue SW, Wyoming, Michigan, 49509, phone (616) 785-8440.

BASIC FINANCIAL STATEMENTS

NEW BRANCHES CHARTER ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental activities
ASSETS:	
Cash and cash equivalents	$ 376,851
Restricted cash	233,262
Accounts receivable	9,858
Intergovernmental receivable	599,263
Prepaids	117,524
Capital assets, not being depreciated	147,000
Capital assets, net of accumulated depreciation	1,976,791
TOTAL ASSETS	3,460,549
DEFERRED OUTFLOWS OF RESOURCES:	
Related to pensions	24,813
LIABILITIES:	
Accounts payable	54,728
Unearned revenue	92,528
Accrued salaries and related items	151,131
Accrued expenditures	14,703
Accrued interest	27,095
State aid note payable	112,531
Noncurrent liabilities:	
Escrow deposit	233,262
Due within one year	77,810
Due in more than one year	2,094,413
TOTAL LIABILITIES	2,858,201
DEFERRED INFLOWS OF RESOURCES:	
Related to pensions	1,852,153
NET POSITION:	
Net investment in capital assets	(48,432)
Restricted:	
Food service	30,682
Debt service	261,025
Unrestricted	(1,468,267)
TOTAL NET POSITION	$ (1,224,992)

See notes to financial statements.

NEW BRANCHES CHARTER ACADEMY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

		Program revenues		Governmental activities
Functions/programs	**Expenses**	**Charges for services**	**Operating grants**	**Net (expense) revenue and changes in net position**
Governmental activities:				
Instruction	$ 785,642	$ -	$ 513,367	$ (272,275)
Support services	1,162,138	-	39,769	(1,122,369)
Community services	56,785	37,406	-	(19,379)
Food services	157,195	17	187,860	30,682
Interest and fees	171,417	-	-	(171,417)
Depreciation (unallocated)	83,008	-	-	(83,008)
Total governmental activities	$ 2,416,185	$ 37,423	$ 740,996	(1,637,766)
General revenues:				
State sources - unrestricted				2,703,347
Incoming transfer from Kent ISD				96,216
Other				69,711
Total general revenues				2,869,274
CHANGE IN NET POSITION				1,231,508
NET POSITION, beginning of year				(2,456,500)
NET POSITION, end of year				$ (1,224,992)

NEW BRANCHES CHARTER ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	General fund	2010 Debt service fund	Total non-major funds	Total governmental funds
ASSETS:				
Cash and cash equivalents	$ 313,493	$ 63,358	$ -	$ 376,851
Restricted cash	-	233,262	-	233,262
Accounts receivable	9,858	-	-	9,858
Intergovernmental receivables	599,263	-	-	599,263
Due from other funds	8,500	-	80,682	89,182
Prepaids	117,524	-	-	117,524
TOTAL ASSETS	$ 1,048,638	$ 296,620	$ 80,682	$ 1,425,940
LIABILITIES:				
Accounts payable	$ 54,728	$ -	$ -	$ 54,728
Due to other funds	80,682	8,500	-	89,182
Unearned revenue	92,528	-	-	92,528
Accrued salaries and related items	151,131	-	-	151,131
State aid note payable	112,531	-	-	112,531
Accrued expenditures	14,703	-	-	14,703
TOTAL LIABILITIES	506,303	8,500	-	514,803
FUND BALANCES:				
Nonspendable:				
Prepaids	117,524	-	-	117,524
Restricted:				
Debt service	-	288,120	-	288,120
Food service	-	-	30,682	30,682
Assigned for capital projects	-	-	50,000	50,000
Unassigned	424,811	-	-	424,811
TOTAL FUND BALANCES	542,335	288,120	80,682	911,137
TOTAL LIABILITIES AND FUND BALANCES	$ 1,048,638	$ 296,620	$ 80,682	$ 1,425,940

Total governmental fund balances		$ 911,137
Amounts reported for governmental activities in the statement of net position are different because:		
Deferred outflows of resources - related to pensions		24,813
Deferred inflows of resources - related to pensions		(1,852,153)
Capital assets used in governmental activities are not financial resources and are not reported in the funds:		
The cost of the capital assets is	$ 2,759,841	
Accumulated depreciation is	(636,050)	
		2,123,791
Long-term liabilities are not due and payable in the current period and are not reported in the funds:		
Long-term debt obligations		(2,172,223)
Accrued interest is not included as a liability in government funds, it is recorded when paid		(27,095)
Escrow deposit		(233,262)
Net position of governmental activities		$ (1,224,992)

See notes to financial statements.

NEW BRANCHES CHARTER ACADEMY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	General fund	2010 Debt service fund	Total non-major funds	Total governmental funds
REVENUES:				
Local sources	$ 105,140	$ 2,508	$ 17	$ 107,665
State sources	3,080,987	-	1,767	3,082,754
Federal sources	175,496	-	186,093	361,589
Incoming transfers and other	96,216	-	-	96,216
Total revenues	3,457,839	2,508	187,877	3,648,224
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	1,207,373	-	-	1,207,373
Added needs	323,340	-	-	323,340
Total instruction	1,530,713	-	-	1,530,713
Support services:				
Pupil	112,923	-	-	112,923
Instructional staff	52,627	-	-	52,627
General administration	435,556	-	-	435,556
School administration	241,290	-	-	241,290
Business services	67,083	-	-	67,083
Operation and maintenance	288,007	-	-	288,007
Pupil transportation	188,281	-	-	188,281
Central support services	97,735	-	-	97,735
Other support services	4,077	-	-	4,077
Total support services	1,487,579	-	-	1,487,579
Community service	56,785	-	-	56,785
Food service	-	-	157,195	157,195
Debt service:				
Principal	-	65,000	-	65,000
Interest	-	172,107	-	172,107
Total debt service	-	237,107	-	237,107
Total expenditures	3,075,077	237,107	157,195	3,469,379
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	382,762	(234,599)	30,682	178,845
OTHER FINANCING SOURCES (USES):				
Transfers in	-	238,482	50,000	288,482
Transfers out	(288,482)	-	-	(288,482)
Total other financing sources (uses)	(288,482)	238,482	50,000	-
NET CHANGE IN FUND BALANCES	94,280	3,883	80,682	178,845
FUND BALANCES:				
Beginning of year	448,055	284,237	-	732,292
End of year	$ 542,335	$ 288,120	$ 80,682	$ 911,137

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See notes to financial statements.

NEW BRANCHES CHARTER ACADEMY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

Net change in fund balances total governmental funds	$ 178,845
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	61,974
Depreciation expense	(83,008)
Accrued interest on bonds and debt is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:	
Accrued interest payable, beginning of the year	27,785
Accrued interest payable, end of the year	(27,095)
The issuance of long-term debt (e.g., bank loan) provides current financial resources to governmental funds, while repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The effect of this difference in the treatment of long-term debt is as follows:	
Interest earned on escrow deposit	(531)
Proceeds and repayments of principal on long-term debts are other financing sources and expenditures in the governmental funds, but not in the statement of activities (where they are additions and reductions of liabilities):	
Principal repayment on bonds	65,000
Principal repayment on capital lease	7,580
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the the governmental funds:	
Pension related items	1,000,958
Change in net position of governmental activities	$ 1,231,508

See notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Academy. All fiduciary activities are reported only in the fund financial statements. *Governmental activities* normally are supported by intergovernmental revenues.

B. Reporting Entity

The New Branches Charter Academy (the "Academy") is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Central Michigan University is the authorizing governing body for the Academy and has contracted with the Academy to charter the public school through June 2019. The Academy's Board of Directors is approved by the authorizing body and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. The Academy receives funding from local, state, and federal sources and must comply with all of the requirements of these funding source entities. However, the Academy is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. In addition, the Academy's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board (GASB) Statements.

C. Basis of Presentation - Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

D. Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the Academy's funds. Separate statements for each fund category are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Presentation - Fund Financial Statements (Concluded)

The Academy reports the following major governmental fund:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term debt.

The Academy reports the following nonmajor governmental funds:

The *capital projects fund* accounts for the acquisition of fixed assets or construction of major capital projects.

The *special revenue fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The Academy accounts for its food service activity in a special revenue fund.

During the course of operations the Academy has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported as gross amounts as transfers in/out. While reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources.* The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Continued)

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are generally collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

State and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end).

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to public school academies based on information supplied by the Academies. For the current year ended, the foundation allowance was based on pupil membership counts.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The state revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as an intergovernmental receivable.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Concluded)

The Academy also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received and accrued, which are not expended by the close of the fiscal year are recorded as unearned revenue.

All other revenue items are generally considered to be measurable and available only when cash is received by the Academy.

F. Budgetary Information

Budgetary basis of accounting:

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue fund.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods or services (i.e., purchase orders, contracts, and commitments). The Academy does not utilize encumbrance accounting.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Chief Administrative Officer submits to the Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.

2. Prior to July 1, the budget is legally adopted by Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.

3. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Directors.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Information (Concluded)

4. The budget was amended during the year with supplemental appropriations, the last one approved prior to year-end June 30, 2018. The Academy does not consider these amendments to be significant.

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and cash equivalents

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of 3 months or less from the date of acquisition.

2. Investments

Certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. Standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Academy or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

3. Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

4. Capital assets

Capital assets, as summarized below, are reported in the government-wide financial statements. Capital assets are defined by the Academy as assets with an initial, individual cost of more than $5,000 and a useful life in excess of 1 year. Group purchases are evaluated on a case by case basis. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Land and construction in progress, if any, are not depreciated. Capital assets of the Academy are depreciated using the straight line method over the following estimated useful lives:

Capital asset classes	Lives
Furniture and equipment	4 - 20
Equipment under capital lease	5
Buildings	25 - 50

5. Defined benefit plans

For purposes of measuring the net pension, deferred outflows of resources and deferred inflows of resources related to pensions, information about the fiduciary net position of the Michigan Public Employees Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

6. Deferred outflows

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Academy only has one item that qualifies for reporting in this category. It is the pension related items reported in the government-wide statement of net position. These amounts are expensed in the plan year in which they apply.

7. Deferred inflows

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Academy has one item that qualify for reporting in this category. The item is the future resources yet to be recognized in relation to the pension actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension and other postemployment benefit liability and the actual results. The amounts are amortized over a period determined by the actuary.

8. Net position flow assumption

Sometimes the Academy will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Academy’s policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Concluded)

9. Fund balance flow assumptions

Sometimes the Academy will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Academy's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

10. Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Academy itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Academy's highest level of decision-making authority. The Board of Directors is the highest level of decision-making authority for the Academy that can, by adoption of a board action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the board action remains in place until a similar action is taken (the adoption of another board action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the Academy for specific purposes but do not meet the criteria to be classified as committed. Intent can be expressed by the Board of Directors or by an official or body to which the board of directors delegates authority. The Board of Directors may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

H. Revenues and Expenditures/Expenses

1. Program revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment. Unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related debt. Bond issuance costs are reported as expenditures in the year in which they are incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE 2 - CASH DEPOSITS - CREDIT RISK

Cash is held in the name of the Academy. These deposits are subject to custodial credit risk. This is the risk that in the event of a bank failure, the Academy’s deposits may not be returned to it. The Academy minimizes custodial credit risk on deposits by assessing the credit worthiness of the individual institutions in which it deposits funds. The amount of deposits with each institution is assessed to determine the level of risk it may pose to the Academy in relation to deposits in excess of insured amounts. As of June 30, 2018, $187,070 of the Academy’s bank balance of $437,070 was exposed to custodial credit risk because it was not covered by federal depository insurance and was not collateralized.

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2018 consist of the following:

Governmental units:	
State aid	$ 525,768
Federal revenue	8,554
Payments from ISD	64,941
	$ 599,263

Amounts due from governmental units include amounts due from federal, state and local sources for various projects and programs.

Because of the Academy's favorable collection experience, no allowance for doubtful accounts has been recorded.

NOTE 4 - CAPITAL ASSETS

A summary of changes in the Academy's capital assets follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 147,000	$ -	$ -	$ 147,000
Capital assets, being depreciated:				
Furniture and equipment	383,348	61,974	-	445,322
Buildings	2,129,397	-	-	2,129,397
Equipment under capital lease	38,122	-	-	38,122
	2,550,867	61,974	-	2,612,841
Accumulated depreciation:				
Furniture and equipment	258,203	30,084	-	288,287
Buildings	279,591	45,299	-	324,890
Equipment under capital lease	15,248	7,625	-	22,873
	553,042	83,008	-	636,050
Net capital assets being depreciated	1,997,825	(21,034)	-	1,976,791
Net governmental capital assets	$ 2,144,825	$ (21,034)	$ -	$ 2,123,791

Depreciation for the fiscal year ended June 30, 2018 amounted to $83,008. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 5 - NOTE PAYABLE - STATE AID ANTICIPATION NOTE

At June 30, 2018, the Academy has $112,531 funds outstanding from state aid anticipation note. The note matures September 13, 2018 and carries an interest rate of 2.12%. Proceeds of the note were used to fund school operations. The note is secured by the full faith and credit of the Academy as well as pledged state aid.

Balance July 1, 2017	Additions	Payments	Balance June 30, 2018
$ 172,025	$ 614,000	$ (673,494)	$ 112,531

NOTE 6 - LONG-TERM DEBT

The following is a summary of long-term debt activity for the Academy for the year ended June 30, 2018.

	2010 Revenue bond	Capital lease	Total
Balance, July 1, 2017	$ 2,220,000	$ 24,803	$ 2,244,803
Principal repayments	65,000	7,580	72,580
Balance, June 30, 2018	2,155,000	17,223	2,172,223
Due within one year	70,000	7,810	77,810
Total due in more than one year	$ 2,085,000	$ 9,413	$ 2,094,413

Long-term debt at June 30, 2018 consists of the following:

$2,410,000 2010 Michigan Public Educational Facilities Authority Limited Obligation Revenue Bonds; due in annual installments of $70,000 to $215,000 through 2035; interest payable at 6.375% to 7.625%.	$ 2,155,000
Capital lease	17,223
Total general long-term debt	$ 2,172,223

Interest expense on all outstanding debt for the fiscal year ended June 30, 2018 was $171,417.

NOTE 6 - LONG-TERM DEBT (Concluded)

The annual requirements to amortize long-term debt outstanding as of June 30, 2018, including interest of $1,760,100 are as follows:

Year ending June 30,	Principal	Interest	Total
2019	$ 77,810	$ 162,979	$ 240,789
2020	78,048	158,278	236,326
2021	76,365	153,649	230,014
2022	80,000	147,925	227,925
2023	90,000	141,825	231,825
2024 - 2028	555,000	597,038	1,152,038
2029 - 2033	800,000	350,369	1,150,369
2034 - 2035	415,000	48,038	463,038
	$ 2,172,223	$ 1,760,100	$ 3,932,323

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivable and payable balances at June 30, 2018 are as follows:

Receivable fund	
General fund	$ 8,500
Capital projects fund	50,000
Special revenue fund	30,682
Total	$ 89,182

Payable fund	
General fund	$ 80,682
Debt service fund	8,500
Total	$ 89,182

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfunds goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

NOTE 8 - TRANSFERS

Transfers between the governmental funds were as follows:

Transfers out		Transfers in	
General fund	$ 288,482	Debt service fund	$ 238,482
		Capital projects fund	50,000
			$ 288,482

Transfers were made to the debt service fund to pay for principal and interest payments on capital financing bonds and to the capital projects fund for future capital purchases.

NOTE 9 - RETIREMENT AND POST RETIREMENT BENEFITS

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) (System) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the Board's authority to promulgate or amend the provisions of the System. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at www://michigan.gov/ors schools.

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act.

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian of the System.

NOTE 9 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Benefits Provided

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the plans offered by MPSERS is as follows:

Plan name	Plan type	Plan status
Basic	Defined Benefit	Closed
Member Investment Plan (MIP)	Defined Benefit	Closed
Pension Plus	Hybrid	Closed
Pension Plus 2	Hybrid	Open
Defined Contribution	Defined Contribution	Open

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Retirement benefits for DB plan members are determined by final average compensation and years of service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

Prior to Pension reform of 2010 there were two plans commonly referred to as Basic and the Member Investment Plan (MIP). Basic Plan member's contributions range from 0% - 4%. On January 1, 1987, the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990, or later including Pension Plus Plan members, contribute at various graduated permanently fixed contribution rates from 3.0% - 7.0%.

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employees' Retirement System (MPSERS) who became a member of MPSERS after June 30, 2010 is a Pension Plus Plan member. Pension Plus Plan is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus Plan members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus Plan members.

NOTE 9 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

An amount determined by the member's election of Option 1, 2, 3, or 4 described below:

Option 1 - Members voluntarily elected to increase their contributions to the pension fund as noted below, and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until terminate public school employment.

- Basic plan members: 4% contribution
- Member Investment Plan (MIP)-Fixed, MIP-Graded, and MIP-Plus members: a flat 7% contribution

Option 2 - Members voluntarily elected to increase their contribution to the pension fund as stated in Option 1 and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they reach 30 years of service. If and when they reach 30 years of service, their contribution rates will return to the previous level in place as of the day before their transient date (0% for Basic Plan members, 3.9% for MIP-Fixed, up to 4.3% for MIP-Graded, or up to 6.4% for MIP-Plus). The pension formula for any service thereafter would include a 1.25% person factor.

Option 3 - Members voluntarily elected not to increase their contribution to the pension fund and maintain their current level of contribution to the pension fund. The pension formula for their years of service as of the day before their transition date will include a 1.5% pension factor. The pension formula for any service thereafter will include a 1.25% pension factor.

NOTE 9 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Pension Reform 2012 (Concluded)

Option 4 - Members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the Defined Contribution plan for future service as of their transition date. As a DC participant they receive a 4% employer contribution to the tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS to a 457 account. They vest in employer contributions and related earnings in their 401(k) account based on the following schedule: 50% at 2 years, 75% at 3 years, and 100% at 4 years of service. They are 100% vested in any personal contributions and related earnings in their 457 account. Upon retirement, if they meet age and service requirements (including their total years of service), they would also receive a pension (calculated based on years of service and final average compensation as of the day before their transition date and a 1.5% pension factor).

Members who did not make an election before the deadline defaulted to Option 3 as described above. Deferred or nonvested public school employees on September 3, 2012, who return to public school employment on or after September 4, 2012, will be considered as if they had elected Option 3 above. Returning members who made the retirement plan election will retain whichever option they chose.

Employees who first work on or after September 4, 2012 choose between two retirement plans: the Pension Plus Plan and a Defined Contribution that provides a 50% employer match up to 3% of salary on employee contributions.

Final Average Compensation (FAC) - Average of highest 60 consecutive months (36 months for MIP members). FAC is calculated as of the last day worked unless the member elected Option 4, in which case the FAC is calculated at the transition date.

Pension Reform of 2017

On July 13, 2017, the Governor signed Public Act 92 of 2017 into law. The legislation closes the current hybrid plan (Pension Plus Plan) to newly hired employees as of February 1, 2018 and creates a new optional revised hybrid plan with similar plan benefit calculations but containing a 50/50 cost share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the new hybrid plan is 6%. Further, the law provides that, under certain conditions, the new hybrid plan would close to new employees if the actuarial funded ratio falls below 85% for 2 consecutive years. The law includes other provisions to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

NOTE 9 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Regular Retirement (no reduction factor for age)

Eligibility - A Basic plan member may retire at age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, age 46 with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60th birthday and has credited service in each of the last 5 years. For Pension Plus Plan (PPP) members, age 60 with 10 years of credited service.

Annual Amount - The annual pension is paid monthly for the lifetime of a retiree. The calculation of a member's pension is determined by their pension election under PA 300 of 2012.

Member Contributions

Depending on the plan selected, member contributions range from 0% - 7%. Plan members electing the Defined Contribution plan are not required to make additional contributions.

Employer Contributions

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of September 30, 2016 valuation will be amortized over a 22-year period for fiscal 2017.

School academies contributions are determined based on employee elections. There are several different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by the ORS. The range of rates is as follows:

	Pension
October 1, 2016 - September 30, 2017	15.27% - 19.03%
October 1, 2016 - September 30, 2018	13.54% - 19.74%

The Academy's pension contributions for the year ended June 30, 2018 were equal to the required contribution total. Pension contributions were approximately $0.

NOTE 9 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension Liabilities

At June 30, 2018, the Academy reported a liability of $0 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The Academy's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017 and 2016, the Academy's proportion was 0.00000% and 0.00000%.

MPSERS (Plan) Non-university employers	September 30, 2017	September 30, 2016
Total pension liability	$ 72,407,218,688	$ 67,917,445,078
Plan fiduciary net position	$ 46,492,967,573	$ 42,968,263,308
Net pension liability	$ 25,914,251,115	$ 24,949,181,770
Proportionate share	0.00000%	0.00000%
Net pension liability for the District	$ -	$ -

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Changes in proportion and differences between employer contributions and proportionate share	$ 24,813	$ 1,852,153

NOTE 9 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Amounts reported as deferred outflows of resources and (deferred inflows) of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30,	Amount
2018	$ (1,000,958)
2019	(750,751)
2020	(75,631)
2021	-

Actuarial Assumptions

Investment rate of return - 7.5% a year, compounded annually net of investment and administrative expenses for the non-hybrid groups and 7.0% a year, compounded annually net of investment and administrative expenses for the hybrid group (Pension Plus Plan).

Salary increases - The rate of pay increase used for individual members is 3.5%.

Inflation - 3.0%.

Mortality assumptions - RP2000 Combined Healthy Life Mortality table, adjusted for mortality improvements to 2025 using projection scale BB (for men, 80% of the table rates were used and for women, 70% of the table rates were used).

Experience study - The annual actuarial valuation report of the System used for these statements is dated September 30, 2016. Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

The long-term expected rate of return on pension plan investments - The pension rate was 7.5% (7% Pension Plus Plan), and the other postemployment benefit rate was 7.5%, net of investment and administrative expenses was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Cost of living pension adjustments - 3.0% annual non-compounded for MIP members.

NOTE 9 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Actuarial Assumptions (Continued)

The target asset allocation at September 30, 2017 and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Investment category	Target allocation	Long-term expected real rate of return*
Domestic Equity Pools	28.00%	5.60%
Alternate Investment Pools	18.00%	8.70%
International Equity Pools	16.00%	7.20%
Fixed Income Pools	10.50%	-0.10%
Real Estate and Infrastructure Pools	10.00%	4.20%
Absolute Return Pools	15.50%	5.00%
Short Term Investment Pools	2.00%	-0.90%
	100.00%	

* Long term rates of return are net of administrative expenses and 2.3% inflation.

Pension discount rate - The discount rate used to measure the total pension liability was 7.5% (7.0% for Pension Plus Plan). This discount rate was based on the long-term rate of return on pension plan investments of 7.5% (7.0% for the Pension Plus Plan). The projection of cash flows used to determine the discount rate assumed that plan members contributions will be made at the current contribution rate and that contributions from school districts will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Plan Fiduciary Net Position

Detailed information about the pension's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2017 Comprehensive Annual Financial Report.

Payable to the Pension - At year end the School District is current on all required pension and other postemployment benefit plan payments. Amounts accrued at year end for accounting purposes are separately stated in the financial statements as a liability titled accrued retirement. These amounts represent current payments for June paid in July, accruals for summer pay primarily for teachers, and the contributions due from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL).

NOTE 9 - RETIREMENT AND POST RETIREMENT BENEFITS (Concluded)

Other Information

On December 20, 2017, the Michigan Supreme Court affirmed that Public Act 75 of 2010 is unconstitutional as it substantially impaired the employee's employment contracts by involuntarily reducing the employee's wages by 3%. As a result, the funds collected pursuant to Public Act 75 before the effective date of Public Act 300 of 2012, must be refunded to the employees in accordance with the Michigan Court of Claims judgment on the aforementioned court case. Effective September 30, 2017, the 3% contribution collected under Public Act 75, which amounted to approximately $554 million (including interest), was posted as a liability on the plan's CAFR report.

NOTE 10 - OVERSIGHT FEES

The Academy pays an administrative oversight fee of 3% of its state school aid to Central Michigan University, as set forth by contract, to reimburse the University Board for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2018 the Academy incurred expense of $80,831 for oversight fees.

NOTE 11 - MANAGEMENT AGREEMENT

The Academy currently has a management agreement with Choice Schools Associates, LLC (Choice Schools) for operations of the Academy through June 2019. Under the terms of the management agreement, Choice Schools' compensation for operating the Academy was $332,644 for the fiscal year 2018

NOTE 12 - PURCHASED SERVICES

The Academy leases all employee services from Choice Schools. Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of Choice Schools. The amount due to Choice Schools at June 30, 2018 was approximately $45,500.

NOTE 13 - RISK MANAGEMENT

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. To minimize the risk, the Academy carries commercial insurance.

NOTE 14 - SUBSEQUENT EVENTS

The Academy borrowed $600,000 under a state aid anticipation note in August 2018 at 3.44% to be repaid monthly from September 2018 through August 2019.

NOTE 15 - UPCOMING ACCOUNTING PRONOUNCEMENT

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017 and will be effective for the Academy's 2021 year end. The objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

REQUIRED SUPPLEMENTARY INFORMATION

NEW BRANCHES CHARTER ACADEMY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2018

	Original budget	Final budget	Actual	Variance with final budget
REVENUES:				
Local sources	$ 131,288	$ 112,638	$ 105,140	$ (7,498)
State sources	2,844,565	3,088,553	3,080,987	(7,566)
Federal sources	229,888	162,032	175,496	13,464
Incoming transfers and other	40,545	96,216	96,216	-
Total revenues	3,246,286	3,459,439	3,457,839	(1,600)
EXPENDITURES:				
Instruction:				
Basic programs	1,238,134	1,237,598	1,207,373	30,225
Added needs	228,984	320,598	323,340	(2,742)
Total instruction	1,467,118	1,558,196	1,530,713	27,483
Support services:				
Pupil	86,000	108,500	112,923	(4,423)
Instructional staff	109,977	52,640	52,627	13
General administration	410,007	442,561	435,556	7,005
School administration	245,445	238,707	241,290	(2,583)
Business	74,138	71,953	67,083	4,870
Operation and maintenance	285,812	293,086	288,007	5,079
Pupil transportation	140,980	187,616	188,281	(665)
Central support services	99,500	102,015	97,735	4,280
Other support services	6,200	4,378	4,077	301
Total support services	1,458,059	1,501,456	1,487,579	13,877
Community service activities	75,159	63,996	56,785	7,211
Total expenditures	3,000,336	3,123,648	3,075,077	48,571
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	245,950	335,791	382,762	46,971
OTHER FINANCING SOURCES (USES):				
Transfers out	(253,301)	(288,482)	(288,482)	-
Total other financing sources (uses)	(253,301)	(288,482)	(288,482)	-
NET CHANGE IN FUND BALANCE	$ (7,351)	$ 47,309	94,280	$ 46,971
FUND BALANCE:				
Beginning of year			448,055	
End of year			$ 542,335	

ADDITIONAL SUPPLEMENTARY INFORMATION

NEW BRANCHES CHARTER ACADEMY
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
YEAR ENDED JUNE 30, 2018

	Capital projects fund	Special revenue (food service)	Total nonmajor funds
ASSETS:			
Due from other funds	$ 50,000	$ 30,682	$ 80,682
FUND BALANCES:			
Restricted:			
Food service	$ -	$ 30,682	$ 30,682
Assigned for capital projects	50,000	-	50,000
TOTAL FUND BALANCES	$ 50,000	$ 30,682	$ 80,682

NEW BRANCHES CHARTER ACADEMY
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2018

	Capital projects fund	Special revenues (food service)	Total nonmajor funds
REVENUES:			
Local sources	$ -	$ 17	$ 17
State sources	-	1,767	1,767
Federal sources	-	186,093	186,093
Total revenues	-	187,877	187,877
EXPENDITURES:			
Food service	-	157,195	157,195
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	30,682	30,682
OTHER FINANCING SOURCES (USES):			
Transfers in	50,000	-	50,000
NET CHANGE IN FUND BALANCES	50,000	30,682	80,682
FUND BALANCES:			
Beginning of year	-	-	-
End of year	$ 50,000	$ 30,682	$ 80,682

NEW BRANCHES CHARTER ACADEMY
2010 REVENUE BONDS
YEAR ENDED JUNE 30, 2018

$2,410,000 Bonds issued March 19, 2010

Principal due May 1,	Interest due May 1, 2017	Interest due November 1, 2017	Debt service requirement for fiscal year June 30,	Debt service requirement for fiscal year Amount
$ 70,000	$ 81,284	$ 81,284	2019	$ 232,569
70,000	79,053	79,053	2020	228,106
75,000	76,822	76,822	2021	228,644
80,000	73,963	73,963	2022	227,925
90,000	70,913	70,913	2023	231,825
95,000	67,481	67,481	2024	229,963
100,000	63,859	63,859	2025	227,719
110,000	60,047	60,047	2026	230,094
120,000	55,853	55,853	2027	231,706
130,000	51,278	51,278	2028	232,556
135,000	46,322	46,322	2029	227,644
150,000	41,175	41,175	2030	232,350
160,000	35,456	35,456	2031	230,913
170,000	29,356	29,356	2032	228,713
185,000	22,875	22,875	2033	230,750
200,000	15,822	15,822	2034	231,644
215,000	8,197	8,197	2035	231,394
$ 2,155,000	$ 879,756	$ 879,756		$ 3,914,513

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

To the Board of Directors
New Branches Charter Academy

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, each major fund, and the aggregate remaining fund information of New Branches Charter Academy as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the New Branches Charter Academy's basic financial statements and have issued our report thereon dated September 25, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered New Branches Charter 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 New Branches Charter Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the New Branches Charter Academy's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Maner Costerisan PC

September 25, 2018

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September 25, 2018

To the Board of Directors
New Branches Charter Academy

We have audited the financial statements of New Branches Charter Academy for the year ended June 30, 2018, and have issued our report thereon dated September 25, 2018. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and *Government Auditing Standards*

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of New Branches Charter Academy. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of New Branches Charter Academy's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

Significant Audit Findings

1. Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by New Branches Charter Academy are described in Note 1 to the financial statements. We noted no transactions entered into by the Academy during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 financial statements were:

Management's determination of the estimated life span of the capital assets:

We evaluated the key factors and assumptions used by management to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole. In addition, certain amounts included in capital assets have been estimated based on an outside appraisal company.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

We did not identify any sensitive disclosures.

2. Difficulties Encountered in Performing the Audit

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

3. Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are 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 or in the aggregate, to the financial statements taken as a whole.

4. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as 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.

5. Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 25, 2018.

6. 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 New Branches Charter 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.

7. 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 New Branches Charter 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.

8. Other Matters

We applied certain limited procedures to the required supplementary information (RSI) which are required and supplement the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the other supplementary information, which accompany the financial statements but are not RSI. With respect to this other supplementary information, 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 other supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

A separate management letter was not issued.

This information is intended solely for the use of the Board of Directors and management of New Branches Charter Academy and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Maner Costerisan PC