NEW BRANCHES CHARTER ACADEMY

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

YEAR ENDED JUNE 30, 2017

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, 2017 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, 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 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 22, 2017 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 22, 2017

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, 2017. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Financial Highlights

- The Academy had a decrease in the fund balance in the general fund of $20,121 compared to a budgeted decrease of $107,251. This gives the Academy a fund balance in the general fund of $448,055.

OVERVIEW OF THE FINANCIAL STATEMENTS

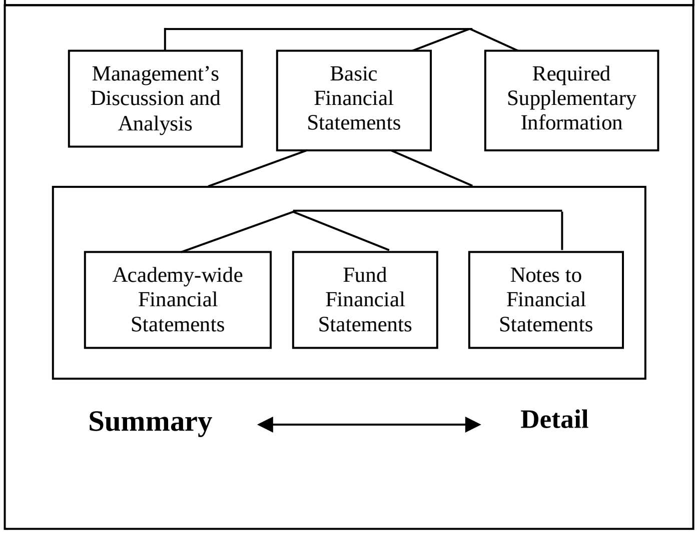
This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy:

- 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, 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 ($2,456,500) increased by $1,121,884 during the year. See Figures A-3 and A-4.

The total revenues decreased by 6% to $2,980,923. This is mainly due to the decrease in student enrollment. The state aid foundation allowance included in revenue from state sources accounts for approximately 68% of the Academy's revenue.

The total cost of instruction decreased by 30% due to a decrease in enrollment and changes related to pension costs. Total support service increased by 3%.

Academy governmental activities

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

	2017	2016
Current and other assets	$ 1,213,895	$ 1,174,646
Capital assets	2,144,825	2,074,565
Total assets	3,358,720	3,249,211
Deferred outflows of resources	39,274	70,769
Other liabilities	521,109	453,605
Long-term liabilities	2,477,534	3,117,769
Total liabilities	2,998,643	3,571,374
Deferred inflows of resources	2,867,572	3,326,990
Net position:		
Net investment in capital assets	(99,978)	(237,593)
Restricted:		
Debt service	256,452	281,288
Unrestricted	(2,612,974)	(3,622,079)
Total net position	$ (2,456,500)	$ (3,578,384)

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

	2017	2016
Revenues:		
Program revenues:		
Federal and state categorical grants	$ 707,204	$ 939,308
General revenues:		
State aid - unrestricted	2,024,344	2,199,501
Other	249,375	34,572
Total revenues	2,980,923	3,173,381
Expenses:		
Instruction	570,191	812,959
Support services	851,856	829,868
Community service	48,081	30,458
Food service	143,852	155,020
Interest and fees on long-term debt	174,112	4,829
Depreciation (unallocated)	70,947	180,542
Total expenses	1,859,039	2,013,676
Change in net position	$ 1,121,884	$ 1,159,705

Financial analysis of the Academy's funds

The Academy's general fund balance decreased by $20,121 to $ $448,055. Instruction expenses decreased by $77,247 and support service expenses increased by $76,678.
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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 expenditures and other financing uses would exceed revenues by $107,251. The actual results for the year showed expenditures over revenue of $20,121.

Actual revenues were $16,618 more than budgeted.

Actual expenditures were $62,382 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, 2017, the Academy had invested $2,144,825 in capital assets net of accumulated depreciation as summarized in Figure A-5. This amount represents an increase of $217,260 from the beginning of the year. Total depreciation expense for the year was $70,947. 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

	2017			2016
	Cost	Accumulated depreciation	Net book value	Net book value
Land	$ 147,000	$ -	$ 147,000	$ 147,000
Furniture and equipment	383,348	258,203	125,145	142,498
Buildings	2,129,397	279,591	1,849,806	1,754,569
Equipment under capital lease	38,122	15,248	22,874	30,498
Total	$ 2,697,867	$ 553,042	$ 2,144,825	$ 1,927,565

Long-term debt

At year end, the Academy had total long-term debt of $2,244,803 in general obligation bonds. The Academy continued to pay down its debt, retiring $60,000 of outstanding bonds and $7,355 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 2017/2018 in which expenditures exceed revenues by $7,351.

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 P.O. Box 141493, Grand Rapids, Michigan, 49514, phone (616) 785-8440.

BASIC FINANCIAL STATEMENTS

NEW BRANCHES CHARTER ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental activities
ASSETS:	
Cash and cash equivalents	$ 291,041
Restricted cash	232,731
Accounts receivable	69,649
Intergovernmental receivable	509,143
Prepaids	111,331
Capital assets, not being depreciated	147,000
Capital assets, net of accumulated depreciation	1,997,825
TOTAL ASSETS	3,358,720
DEFERRED OUTFLOWS OF RESOURCES:	
Related to pensions	39,274
LIABILITIES:	
Accounts payable	100,350
Unearned revenue	54,714
Accrued salaries and related items	154,514
Accrued expenditures	11,721
Accrued interest	27,785
State aid note payable	172,025
Noncurrent liabilities:	
Escrow deposit	232,731
Due within one year	72,580
Due in more than one year	2,172,223
TOTAL LIABILITIES	2,998,643
DEFERRED INFLOWS OF RESOURCES:	
Related to pensions	2,867,572
NET POSITION:	
Net investment in capital assets	(99,978)
Restricted for debt service	256,452
Unrestricted	(2,612,974)
TOTAL NET POSITION	$ (2,456,500)

See notes to financial statements.

NEW BRANCHES CHARTER ACADEMY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

Functions/programs	Expenses	Program revenues: Charges for services	Program revenues: Operating grants	Governmental activities: Net (expense) revenue and changes in net position
Governmental activities:				
Instruction	$ 570,191	$ -	$ 498,467	$ (71,724)
Support services	851,856	-	12,057	(839,799)
Community services	48,081	57,971	-	9,890
Food services	143,852	75	138,634	(5,143)
Interest and fees	174,112	-	-	(174,112)
Depreciation (unallocated)	70,947	-	-	(70,947)
Total governmental activities	$ 1,859,039	$ 58,046	$ 649,158	(1,151,835)
General revenues:				
State sources - unrestricted				2,024,344
Incoming transfer from Kent ISD				40,545
Other				208,830
Total general revenues				2,273,719
CHANGE IN NET POSITION				1,121,884
NET POSITION, beginning of year				(3,578,384)
NET POSITION, end of year				$ (2,456,500)

See notes to financial statements.

NEW BRANCHES CHARTER ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017

	General fund	2010 Debt Service fund	Non-major (special revenue) fund	Total governmental funds
ASSETS:				
Cash and cash equivalents	$ 234,035	$ 57,006	$ -	$ 291,041
Restricted cash	-	232,731	-	232,731
Accounts receivable	69,649	-	-	69,649
Intergovernmental receivables	501,516	-	7,627	509,143
Due from other funds	11,721	-	-	11,721
Prepaids	111,331	-	-	111,331
TOTAL ASSETS	$ 928,252	$ 289,737	$ 7,627	$ 1,225,616
LIABILITIES:				
Accounts payable	$ 98,944	-	$ 1,406	$ 100,350
Due to other funds	-	5,500	6,221	11,721
Unearned revenue	54,714	-	-	54,714
Accrued salaries and related items	143,504	-	-	143,504
State aid note payable	172,025	-	-	172,025
Accrued expenditures	11,010	-	-	11,010
TOTAL LIABILITIES	480,197	5,500	7,627	493,324
FUND BALANCES:				
Nonspendable:				
Prepaids	111,331	-	-	111,331
Restricted:				
Debt service	-	284,237	-	284,237
Assigned for subsequent years expenditures	7,351			7,351
Unassigned	329,373	-	-	329,373
TOTAL FUND BALANCES	448,055	284,237	-	732,292
TOTAL LIABILITIES AND FUND BALANCES	$ 928,252	$ 289,737	$ 7,627	$ 1,225,616

Total governmental fund balances		$ 732,292
Amounts reported for governmental activities in the statement of net position are different because:		
Deferred outflows of resources - related to pensions		39,274
Deferred inflows of resources - related to pensions		(2,867,572)
Capital assets used in governmental activities are not financial resources and are not reported in the funds:		
The cost of the capital assets is	$ 2,697,867	
Accumulated depreciation is	(553,042)	
		2,144,825
Long-term liabilities are not due and payable in the current period and are not reported in the funds:		
Long-term debt obligations		(2,244,803)
Accrued interest is not included as a liability in government funds, it is recorded when paid		(27,785)
Escrow deposit		(232,731)
Net position of governmental activities		$ (2,456,500)

See notes to financial statements.

NEW BRANCHES CHARTER ACADEMY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017

	General fund	2010 Debt Service fund	Non-major (special revenue) fund	Total governmental funds
REVENUES:				
Local sources	$ 89,514	$ 304	$ 75	$ 89,893
State sources	2,334,128	-	5,412	2,339,540
Federal sources	200,740	-	133,222	333,962
Incoming transfers and other	217,684	-	-	217,684
Total revenues	2,842,066	304	138,709	2,981,079
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	1,009,137	-	-	1,009,137
Added needs	267,366	-	-	267,366
Total instruction	1,276,503	-	-	1,276,503
Support services:				
Pupil	79,437	-	-	79,437
Instructional staff	93,138	-	-	93,138
General administration	318,814	-	-	318,814
School administration	217,818	-	-	217,818
Business services	67,759	-	-	67,759
Operation and maintenance	433,251	-	-	433,251
Central support services	79,835	-	-	79,835
Other support services	5,013	-	-	5,013
Total support services	1,295,065	-	-	1,295,065
Community service	48,081	-	-	48,081
Food service	-	-	143,852	143,852
Debt service:				
Principal	-	60,000	-	60,000
Interest	-	174,750	-	174,750
Total debt service	-	234,750	-	234,750
Total expenditures	2,619,649	234,750	143,852	2,998,251
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	222,417	(234,446)	(5,143)	(17,172)
OTHER FINANCING SOURCES (USES):				
Transfers in	-	237,395	5,143	242,538
Transfers out	(242,538)	-	-	(242,538)
Total other financing sources (uses)	(242,538)	237,395	5,143	-
NET CHANGE IN FUND BALANCES	(20,121)	2,949	-	(17,172)
FUND BALANCES:				
Beginning of year	468,176	281,288	-	749,464
End of year	$ 448,055	$ 284,237	$ -	$ 732,292

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, 2017

Net change in fund balances total governmental funds	$ (17,172)
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	141,207
Depreciation expense	(70,947)
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	28,423
Accrued interest payable, end of the year	(27,785)
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	(156)
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	7,355
Principal repayment on capital lease	60,000
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	1,000,959
Change in net position of governmental activities	$ 1,121,884

NEW BRANCHES CHARTER ACADEMY
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 *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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Concluded)

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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

4. The budget was amended during the year with supplemental appropriations, the last one approved prior to year-end June 30, 2017. The Academy does not consider these amendments to be significant.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 three 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.

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 one 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

5. Capital assets

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 and improvements	25 - 50

6. Deferred outflows/inflows of resources

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.

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 qualifies 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 the differences in the estimates used by the actuary to calculate the pension liability and the actual results. The amounts are amortized over a period determined by the actuary.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

7. 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.

8. 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.

9. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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, 2017, $117,522 of the Academy's bank balance of $367,522 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, 2017 consist of the following:

Governmental units:	
State aid	$ 393,414
Federal revenue	63,268
Payments from ISD	52,461
	$ 509,143

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, 2016	Additions	Deletions	Balance June 30, 2017
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 147,000	$ -	$ -	$ 147,000
Capital assets, being depreciated:				
Furniture and equipment	377,707	5,641	-	383,348
Buildings	1,993,831	135,566	-	2,129,397
Equipment under capital lease	38,122	-	-	38,122
	2,409,660	141,207	-	2,550,867
Accumulated depreciation:				
Furniture and equipment	235,209	22,994	-	258,203
Buildings	239,262	40,329	-	279,591
Leasehold improvements	7,624	7,624	-	15,248
	482,095	70,947	-	553,042
Net capital assets being depreciated	1,927,565	70,260	-	1,997,825
Net governmental capital assets	$ 2,074,565	$ 70,260	$ -	$ 2,144,825

Depreciation for the fiscal year ended June 30, 2017 amounted to $70,947. 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, 2017, the Academy has $172,025 funds outstanding from state aid anticipation notes. The note matures August, 29, 2017 and carries an interest rate of 3.00%. 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, 2016	Additions	Payments	Balance June 30, 2017
$ 11,582	$ 628,000	$ (467,557)	$ 172,025

NOTE 6 - LONG-TERM DEBT

The following is a summary of long-term debt activity for the Academy for the year ended June 30, 2017.

	2010 revenue bond	Other long-term debt	Total
Balance, July 1, 2016	$ 2,280,000	$ 32,158	$ 2,312,158
Principal repayments	60,000	7,355	67,355
Balance, June 30, 2017	2,220,000	24,803	2,244,803
Due within one year	65,000	7,580	72,580
Total due in more than one year	$ 2,155,000	$ 17,223	$ 2,172,223

Long-term debt at June 30, 2017 consists of the following:

$2,410,000 2010 Michigan Public Educational Facilities Authority Limited Obligation Revenue Bonds; due in annual installments of $65,000 to $215,000 through 2035; interest payable at 6.375% to 7.625%.	$ 2,220,000
Capital lease	24,803
Total general long-term debt	$ 2,244,803

Interest expense on all outstanding debt for the fiscal year ended June 30, 2017 was $174,112.

The annual requirements to amortize long-term debt outstanding as of June 30, 2017, including interest of $1,927,452 are as follows:

Year ending June 30,	Principal	Interest	Total
2018	$ 72,580	$ 167,353	$ 239,933
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 - 2027	515,000	636,306	1,151,306
2028 - 2032	745,000	407,175	1,152,175
2033 - 2035	600,000	93,788	693,788
	$ 2,244,803	$ 1,927,452	$ 4,172,255

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivable and payable balances at June 30, 2017 are as follows:

Receivable fund		Payable fund	
General fund	$ 11,721	Debt service fund	$ 5,500
		Special revenue fund	6,221
Total	$ 11,721	Total	$ 11,721

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	$ 242,538	Debt service fund	$ 237,395
		Special revenue fund	5,143
			$ 242,538

Transfers were made to the debt service fund and special revenue fund to pay for principal and interest payments on capital financing bonds and to subsidize food service operations.

NOTE 9 - DEFINED BENEFIT PLAN 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/mpsers-cafr.

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

NOTE 9 - DEFINED BENEFIT PLAN 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 pension 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	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. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act.

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 member. Pension Plus 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 members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

NOTE 9 - DEFINED BENEFIT PLAN 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. Members who elected under Option 1 to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP).

Regular Retirement (no reduction factor for age)

Eligibility - 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 - Total credited service as of the Transition Date times 1.5% of final average compensation.

Pension Plus

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

Option 1 - Credited Service after the Transition Date times 1.5% times FAC.

Option 2 - Credited Service after the Transition Date (until total service reaches 30 years) times 1.5% times FAC, PLUS Credited Service after the Transition Date and over 30 years times 1.25% times FAC.

Option 3 - Credited Service after the Transition Date times 1.25% times FAC.

Option 4 - None (member will receive benefit through a Defined Contribution plan). As a DC participant they receive a 4% employer contribution to a tax - deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS.

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.

NOTE 9 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

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.

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

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits (OPEB). Contribution provisions are specified by state statute and may be amended only by action of the State Legislature

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 20-year period for fiscal year 2016.

School Academys' 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:

October 1, 2015 - September 30, 2016	14.56% - 18.95%
October 1, 2016 - September 30, 2017	15.27% - 19.03%

The Academy's pension contributions for the year ended June 30, 2017 were equal to the required contribution total. Pension contributions were approximately $0.

NOTE 9 - DEFINED BENEFIT PLAN 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, 2017, 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, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2015 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, 2016 and 2015, the Academy's proportion was 0.00000% and 0.00235%.

MPSERS (Plan) Non-university employers	September 30, 2016	September 30, 2015
Total pension liability	$ 67,917,445,078	$ 66,312,041,902
Plan fiduciary net position	$ 42,968,263,308	$ 41,887,015,147
Net pension liability	$ 24,949,181,770	$ 24,425,026,755
Proportionate share	0.00000%	0.00235%
Net pension liability for the District	$ -	$ 573,036

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

At June 30, 2017, 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	$ 39,274	$ 2,867,572
	$ 39,274	$ 2,867,572

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
2017	$ (1,000,958)
2018	(1,000,958)
2019	(750,751)
2020	(75,631)

NOTE 9 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Actuarial Assumptions

Investment rate of return - 8.0% 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 - 2.5%

Mortality assumptions - RP2000 Combined Healthy Life Mortality table, adjusted for mortality improvements to 2025 using projection scale BB for men and women were used.

Experience study - The annual actuarial valuation report of the System used for these statements is dated September 30, 2015. 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 rate was 8% (7% Pension Plus Plan) 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.

The target asset allocation at September 30, 2016 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%	5.90%
Alternate Investment Pools	18.00%	9.20%
International Equity Pools	16.00%	7.20%
Fixed Income Pools	10.50%	0.90%
Real Estate and Infrastructure Pools	10.00%	4.30%
Absolute Return Pools	15.50%	6.00%
Short Term Investment Pools	2.00%	0.00%
	100.00%	

* Long term rate of return does not include 2.1% inflation.

NOTE 9 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Discount rate - The discount rate used to measure the total pension liability was 8% (7% for Pension Plus Plan). The discount rate did not change from the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school Academies will be made at contractually required rates, actuarially determined. 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 active and inactive employees. 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 plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2016 Comprehensive Annual Financial Report.

Payable to the pension plan - At year end the School Academy is current on all required pension 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 funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

Other Information

Discount Rate - Assumed Rate of Return

On February 23, 2017, in accordance with PA 300 of 1980, as amended, the Michigan Public Schools Employees' Retirement System's Board approved a decrease in the assumed investment rate of return (discount rate) used in the System's annual actuarial valuation for the non-hybrid defined benefit pension plan from 8% to 7.5% effective for the fiscal year 2016 valuation and following.

The September 30, 2016 Annual Actuarial Valuation Report will be used to establish the employer contribution for fiscal year beginning October 1, 2018 and will be based upon the 7.5% investment rate of return assumption. The actuarial computed employer contributions and the net pension liability will increase as a result of lowering the assumed investment rate of return.

NOTE 9 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Pension Reform 2017

Senate Bill 401 amends the Public School Employees Retirement Act (PA 300 of 1980, as amended).

The bill closes the current hybrid plan (Pension Plus) to newly hired employees as of February 1, 2018 and creates a new optional revised hybrid plan with similar plan benefit calculations but contains 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 would close to new employees if the actuarial funded ratio falls below 85% for two consecutive years. The bill includes other provisions to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

Benefit Provisions - Other Post-employment

Introduction

Benefit provisions of the post-employment healthcare plan are established by state statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP-Graded plan members), the subsidy is the maximum allowed by statute. To limit future liabilities of Other Post-employment Benefits, members who first worked on or after July 1, 2008, (MIP-Plus plan members), have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date.

Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to annually contribute 3% of their compensation to offset employer contributions for health care benefits of current retirees.

Retiree Healthcare Reform of 2012

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, 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 retirement healthcare. Any changes to a member's healthcare benefit 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

NOTE 9 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Concluded)

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions will be deposited into their 401(k) accounts.

Employer Contributions

The employer contribution rate ranged from 5.52% to 6.45% of covered payroll for the period October 1, 2013 to March 9, 2015, 2.2% to 2.71% of covered payroll for the period from March 10, 2015 to September 30, 2015, and from 6.4% to 6.83% of covered payroll for the period from October 1, 2015 through September 30, 2016 5.69% to 5.91% of covered payroll for the period from October 1, 2016 through September 30, 2017 dependent upon the employee’s date of hire and plan election.

The Academy post-employment healthcare contributions to MPSERS for the year ended June 30, 2017 was $0.

NOTE 10 - OVERSIGHT FEES

The Academy pays an administrative oversight fee of 3% of its state school aid to the 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, 2017 the Academy incurred expense of approximately $60,526 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 approximately $243,098 for the fiscal year 2017.

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, 2017 was approximately $20,500.

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 $614,000 under a state aid anticipation note in August 2017 at 2.12% to be repaid monthly from October 2017 through September 2018.

REQUIRED SUPPLEMENTARY INFORMATION

NEW BRANCHES CHARTER ACADEMY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2017

	Original budget	Final budget	Actual	Variance with final budget
REVENUES:				
Local sources	$ 101,078	$ 108,327	$ 89,514	$ (18,813)
State sources	2,723,958	2,362,019	2,334,128	(27,891)
Federal sources	293,151	188,762	200,740	11,978
Incoming transfers and other	160,000	166,340	217,684	51,344
Total revenues	3,278,187	2,825,448	2,842,066	16,618
EXPENDITURES:				
Instruction:				
Basic programs	1,245,688	1,030,457	1,009,137	21,320
Added needs	326,601	278,511	267,366	11,145
Total instruction	1,572,289	1,308,968	1,276,503	32,465
Support services:				
Pupil	65,633	85,000	79,437	5,563
Instructional staff	89,325	92,105	93,138	(1,033)
General administration	412,835	341,257	318,814	22,443
School administration	234,227	231,198	217,818	13,380
Business	65,672	69,582	67,759	1,823
Operation and maintenance	289,875	389,799	433,251	(43,452)
Pupil transportation	1,500	-	-	-
Central support services	133,600	90,100	79,835	10,265
Other support services	6,115	5,280	5,013	267
Total support services	1,298,782	1,304,321	1,295,065	9,256
Community service activities	40,829	68,742	48,081	20,661
Total expenditures	2,911,900	2,682,031	2,619,649	62,382
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	366,287	143,417	222,417	79,000
OTHER FINANCING SOURCES (USES):				
Transfers in (out)	(286,233)	(250,668)	(242,538)	8,130
Total other financing sources (uses)	(286,233)	(250,668)	(242,538)	8,130
NET CHANGE IN FUND BALANCE	$ 80,054	$ (107,251)	(20,121)	$ 87,130
FUND BALANCE:				
Beginning of year			468,176	
End of year			$ 448,055	

ADDITIONAL SUPPLEMENTARY INFORMATION

NEW BRANCHES CHARTER ACADEMY
2010 REVENUE BONDS
YEAR ENDED JUNE 30, 2017

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

Principal due May 1,	Interest due 1-May	Interest due 1-Nov	Debt service requirement for fiscal year June 30,	Debt service requirement for fiscal year Amount
$ 65,000	$ 83,356	$ 83,356	2018	$ 231,713
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
$ 2,220,000	$ 963,113	$ 963,113		$ 4,146,225

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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, 2017 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 22, 2017.

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 22, 2017

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September 22, 2017

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, 2017, and have issued our report thereon dated September 22, 2017. 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 22, 2017.

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