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WILL CARLETON ACADEMY
Report on Financial Statements
(with required supplementary information)
For the Fiscal Year Ended
June 30, 2019

**Will Carleton Academy
Financial Report
For the Fiscal Year Ended
June 30, 2019**

Table of Contents

Independent Auditor's Report	3-5
Management's Discussion and Analysis	6-13
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	14
Statement of Activities	15
Fund Financial Statements	
Balance Sheet - Governmental Fund	16-17
Statement of Revenue, Expenditures and Changes in Fund Balance - Governmental Fund	18-19
Reconciliation of Statement of Revenues, Expenditures and and Changes in Fund Balances of Governmental Fund to the Statement of Activities	20
Notes to the Financial Statements	21-36
Required Supplementary Information	37
Budgetary Comparison Schedule - General Fund	38-39
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 <i>Government Auditing Standards</i>	40-41

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Independent Auditor's Report

Board of Directors
Will Carleton Academy
2001 W. Hallett Road
Hillsdale, MI 49242

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Will Carleton Academy (the Academy) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 and each major fund of Will Carleton Academy as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 6 through 13 and 37 through 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, are required by the Governmental Accounting Standards Board, who considers them 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2019, on our consideration of Will Carleton 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 Will Carleton 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 the Academy's internal control over financial reporting and compliance.

DARNELL & MEYERING, P.C.

Taylor, Michigan
October 8, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Will Carleton Academy's (the 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, 2019. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Financial Highlights

- The Academy's net position was \$1,234,391
- Blended enrollment for state aid purposes was 244.31 for the year ended June 30, 2019.

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 Charter-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 Charter-wide statements.

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

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-1 Organization of Will Carleton Academy Annual Financial Report

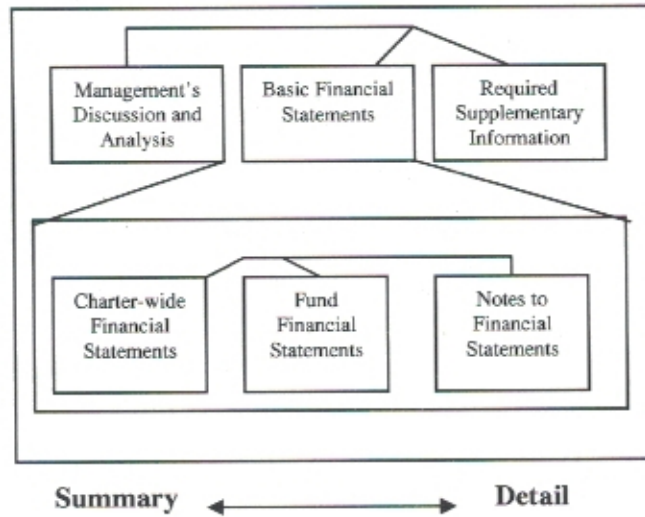


Figure A-2 summarized the major features of the Academy’s financial statements, including the portion of the Academy’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents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

Figure A – 2 Major Features of the Charter-Wide and Fund Financial Statements

	Charter-wide statements	Fund financial 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/deferred outflows of resources/liability/deferred inflows of resources information	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources both financial and capital, short-term and long-term	Generally assets and deferred outflows of resources expected to be used up and liabilities and deferred inflows of resources 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

Charter-wide statements

The Charter-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 outflows of resources (if any), liabilities, and deferred inflows of resources (if any). 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 Charter-wide statements report the Academy's net position and how it has changed. Net position – the difference between the Academy's assets, deferred outflows of resources (if any), liabilities, and deferred inflows of resource (if any), are 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 districts.

Fund financial statements

The fund financial statements provide more detailed information about the Academy's funds, focusing on its more significant or "major" fund – 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:

Governmental activities – The Academy's basic services are included in the general fund, such as regular and special education and administration. State foundation aid finances most of these activities.

The Academy has three kinds of funds:

General Fund – Most 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 Charter-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

Debt Service Fund – The Academy makes long term principal and interest payments from the Debt Service Fund.

Capital Projects Fund – The Academy acquires buildings, land, furniture and equipment through the Capital Projects Fund. The Capital Projects Fund was inactive for the entire year.

Financial analysis of the Academy as a whole

Net position - the Academy's combined net position was \$1,243,391 on June 30, 2019. See Figure A – 3.

The total revenues were \$2,137,538 State aid foundation allowance included in revenue from state sources accounts for 92 percent of the Academy's revenue.

The total cost of instruction was \$1,268,174. The total cost of support services was \$710,746.

The Academy's stable net position is the product of many factors. The primary reasons are the number of students enrolled and the management of expenses to bring them in line with the Academy's revenue.

Academy governmental activities

The state aid was \$7,871 per pupil during the 2018-2019 school year. The school board oversaw the Academy's financial activities while the administration carefully managed expenses.

	2019	2018
Assets		
Current assets	\$ 901,543	\$ 931,426
Non-current assets	327,353	323,921
Capital assets	2,164,684	2,250,838
	<u>3,393,580</u>	<u>3,506,185</u>
Liabilities		
Current liabilities	307,544	254,769
Noncurrent liabilities	1,842,645	1,907,390
Total liabilities	<u>2,150,189</u>	<u>2,162,159</u>
Net position:		
Net investment in capital assets	262,665	294,074
Restricted for debt service	335,440	323,921
Unrestricted	645,286	726,031
Total net position	<u>\$ 1,243,391</u>	<u>\$ 1,344,026</u>

	2019	2018
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 145,746	\$ 103,971
General revenues:		
State aid - unrestricted	1,954,662	1,998,691
Investment	842	601
Other	36,288	24,115
Total revenues	2,137,538	2,127,378
Expenses:		
Instruction	1,268,174	1,173,049
Support services	710,746	815,519
Athletic services	51,995	28,224
Community services	4,255	-
Interest expense and fees	153,562	157,677
Unallocated depreciation	49,441	53,155
Total expenses	2,238,173	2,227,624
Change in net position	\$ (100,635)	\$ (100,246)

Financial analysis of the Academy's funds

The stable financial performance of the Academy as a whole is reflected in its governmental fund as well. As the Academy completed the year, its governmental funds (General) reported a fund balance of \$678,659. The Academy's debt service fund reported a fund balance of \$326,988.

The General Fund transferred \$212,217 to the Debt Service Fund for debt service requirements.

General fund budgetary highlights

Over the course of the year, the Academy revised the annual operating budget once. The budget amendment fell into several categories:

Changes were made to account for student enrollment counts, federal funds, and changes in assumptions (e.g. staffing changes, repairs and maintenance, and supply costs) since the original budget was adopted.

While the Academy's final budget for the general fund anticipated revenues would be under expenditures and transfers by (\$166,255), the actual results for the year showed revenues under expenditures and transfers of (\$110,902).

Capital asset and debt administration

Capital assets

At June 30, 2019, the Academy had invested \$2,164,684 in capital assets consisting primarily of land, computer equipment, furniture and fixtures, buildings and improvements, and land improvements, net of accumulated depreciation. More detailed information about capital assets can be found in Note 5 to the financial statements. Total depreciation expense for the year was \$86,154.

The Academy's capital assets are as follows:

	<u>Cost</u>	<u>Accumulated Depreciation & Amortization</u>	<u>2019 Net Book Value</u>	<u>2018 Net Book Value</u>
Land	\$ 76,523	\$ -	\$ 76,523	\$ 76,523
Computer equipment	75,772	50,768	25,004	35,084
Furniture and fixtures	232,799	177,222	55,577	66,755
Buildings and improvements	2,770,408	805,108	1,965,300	2,025,553
Land improvements	123,576	81,296	42,280	46,923
Total	<u>\$ 3,279,078</u>	<u>\$ 1,114,394</u>	<u>\$ 2,164,684</u>	<u>\$ 2,250,838</u>

Long-term debt

At year end the Academy had \$1,902,019 in installment obligations. (More detailed information about the Academy's long-term liabilities is presented in Note 6 to the Financial Statements).

	<u>2019</u>	<u>2018</u>
Revenue bonds	\$ 1,890,000	\$ 1,940,000
John Deere loan	12,019	16,764
Total	<u>\$ 1,902,019</u>	<u>\$ 1,956,764</u>

Factors bearing on the Academy's future

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

- The Academy has adopted a balanced general fund budget for 2019/2020.
- The charter agreement with Hillsdale ISD expires June 30, 2028.

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, at 5251 Clyde Park Avenue SW, Wyoming, MI 49509. Phone (616) 785-8440.

Will Carleton Academy
Statement of Net Position
June 30, 2019

	Governmental Activities
Assets	
Current assets:	
Cash and equivalents	\$ 449,863
Receivables:	
Accounts receivable	496
Other governmental units	422,451
Prepaid expenses	28,733
Total Current assets	901,543
Noncurrent assets:	
Restricted cash - debt service	327,353
Capital assets	3,279,078
Less accumulated depreciation	(1,114,394)
Total Noncurrent assets	2,492,037
Total Assets	3,393,580
Liabilities	
Current liabilities:	
Accounts payable	56,786
Accrued liabilities	10,792
Accrued interest	61,892
Accrued salaries and benefits	116,383
Unearned revenue	2,317
Current portion of long term obligations	59,374
Total Current liabilities	307,544
Noncurrent liabilities:	
Noncurrent portion of long term obligations	1,842,645
Total Noncurrent liabilities	1,842,645
Total Liabilities	2,150,189
Net position:	
Net investment in capital assets	262,665
Restricted for debt service	335,440
Unrestricted	645,286
Total Net Position	\$ 1,243,391

The notes to the financial statements are an integral part of this statement.

Will Carleton Academy
Statement of Activities
Year Ended June 30, 2019

	Program Revenues		Governmental Activities
	Charges for Services	Operating Grants & Contributions	Net (expense) Revenue and Changes in Net Position
<u>Functions/Programs</u>			
Governmental activities:			
Instruction	\$ 1,268,174	\$ 145,746	\$ (1,120,852)
Support services	710,746	-	(710,746)
Athletic services	51,995	-	(51,995)
Community services	4,255	-	(4,255)
Interest expense and fees	153,562	-	(153,562)
Unallocated depreciation	49,441	-	(49,441)
	\$ 2,238,173	\$ 145,746	(2,090,851)
Total governmental activities	\$ 2,238,173	\$ 145,746	(2,090,851)
General revenues:			
State of Michigan school aid unrestricted			1,954,662
Investment revenue			842
Miscellaneous			34,712
Total general revenues			1,990,216
Change in net position			(100,635)
Net position beginning of year			1,344,026
Net position, end of year			\$ 1,243,391

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The notes to the financial statements are in integral part of this statement.

Will Carleton Academy
Balance Sheet
Governmental Funds
June 30, 2019

	General Fund	Debt Service	Total Governmental Funds
Assets:			
Cash and equivalents	\$ 449,863	\$ 327,353	\$ 777,216
Receivables:			
Accounts receivable	496	-	496
Other governmental units	422,451	-	422,451
Prepaid expenditures and deposits	28,733	-	28,733
Total assets	<u>901,543</u>	<u>327,353</u>	<u>1,228,896</u>
Liabilities and Fund Balance			
Liabilities:			
Accounts payable	\$ 56,421	\$ 365	\$ 56,786
Accrued liabilities	10,792	-	10,792
Accrued Salaries and Benefits	116,383	-	116,383
Unearned revenue	2,317	-	2,317
Total liabilities	<u>185,913</u>	<u>365</u>	<u>186,278</u>
Deferred inflows of resources:			
Unavailable revenue	36,971	-	36,971
Fund balances:			
Nonspendable for prepaid expenditures	28,733	-	28,733
Restricted for debt service	70,344	326,988	397,332
Unassigned	579,582	-	579,582
Total fund balances	<u>678,659</u>	<u>326,988</u>	<u>1,005,647</u>
Total Liabilities and Fund Balances	<u>\$ 901,543</u>	<u>\$ 327,353</u>	<u>\$ 1,228,896</u>

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Total governmental fund balances \$ 1,005,647

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

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

The cost of capital assets is

Accumulated depreciation is

\$ 3,279,078
(1,114,394) 2,164,684

Long term ballooned liabilities are not due and payable in the current period and are not reported in the governmental funds

Long term obligations

Accrued interest payable is not included as a liability in governmental funds

(1,902,019)
(61,892)

Receivables collected after 60 days are considered unavailable in the governmental funds

36,971

Net position of governmental activities

\$ 1,243,391

Will Carleton Academy
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
Year Ended June 30, 2019

	General Fund	Debt Service	Total Governmental Funds
Revenues:			
Local sources	\$ 36,335	\$ 795	\$ 37,130
State sources	2,027,273	-	2,027,273
Federal sources	36,164	-	36,164
Total revenues	2,099,772	795	2,100,567
Expenditures:			
Current:			
Instruction:			
Basic programs	1,009,429	-	1,009,429
Added needs	222,032	-	222,032
Total instruction	1,231,461	-	1,231,461
Support services:			
Pupil support	2,450	-	2,450
Improvement of instruction	12,661	-	12,661
Library	9,938	-	9,938
General administration	143,040	-	143,040
School administration	247,174	-	247,174
Business and fiscal services	6,954	-	6,954
Operations and maintenance	219,817	-	219,817
Pupil transportation services	1,789	-	1,789
Central	66,923	-	66,923
Total support services	710,746	-	710,746
Total support services	51,995	-	51,995
Athletics	4,255	-	4,255
Community services	-	-	-

	General Fund	Debt Service	Total Governmental Funds
Debt service:			
Principal retirements	-	54,745	54,745
Interest & fiscal charges	-	155,200	155,200
Total expenditures	1,998,457	209,945	2,208,402
Excess (deficiency) of revenues over expenditures	101,315	(209,150)	(107,835)
Other financing sources (uses):			
Operating transfers in	-	212,217	212,217
Operating transfers out	(212,217)	-	(212,217)
Loan proceeds	-	-	-
Loan principle payments	-	-	-
Total other financing sources (uses):	(212,217)	212,217	-
Net change in fund balances	(110,902)	3,067	(107,835)
Fund balances:			
Beginning of year	789,561	323,921	1,113,482
End of year	\$ 678,659	\$ 326,988	\$ 1,005,647

The notes to the financial statements are an integral part of this statement.

Will Carleton Academy
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balance of Governmental Funds
To the Statement of Activities
Year Ended June 30, 2019

Net change in fund balances total governmental funds Increase \$ (107,835)

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 and amortization

Depreciation and amortization expense

(86,154)

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities).

54,745

Accrued interest is recorded in the statement of activities when incurred; it is not recorded in the governmental funds until it is paid.

Accrued interest payable beginning of the year

63,530

Accrued interest payable end of the year

(61,892)

Governmental funds report revenues when they are collected within 60 days after the year end.

Revenues are recorded in the statement of activities when earned.

36,971

Change in net position of governmental activities

\$ (100,635)

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WILL CARLETON ACADEMY
Notes to the Financial Statements
June 30, 2019

Note 1. Summary of Significant Accounting Policies

The accounting policies of Will Carleton Academy (the Academy) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Academy.

A. Reporting Entity

The Academy is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993 and is subject to the leadership and general supervision of the State Board of Education. Hillsdale Intermediate School District is the authorizing body of the Academy and has contracted with the Academy confirming the status of the public school academy. The contract with Hillsdale Intermediate School District expires on June 30, 2028. The Academy's school board is approved by the authorizing body and is authorized to manage the property and affairs of the Academy. The Academy's reporting entity does not include any component unit within its financial statements as defined in Governmental Accounting Standards Board Statements Nos. 14 and 39.

B. Charter-Wide and Fund Financial Statements

CHARTER-WIDE STATEMENTS

The charter-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. The charter-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid and other unrestricted items are not included as program revenues but instead as *general revenues*.

WILL CARLETON ACADEMY
Notes to the Financial Statements
June 30, 2019
(Continued)

In the charter-wide statement of net position, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis which recognizes all long-term assets and receivables as well as long-term debt and obligations.

The Academy first utilizes restricted resources to finance qualifying activities.

The charter-wide statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (State Foundation Aid, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (State Foundation Aid, intermediate district sources, interest income and other revenues).

The Academy does not allocate indirect costs.

This charter-wide focus is more on the sustainability of the Academy as an entity and the change in the Academy's net position resulting from the current year's activities.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

FUND BASED STATEMENTS

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

The Academy reports the following major funds:

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 servicing of general long-term debt.

WILL CARLETON ACADEMY
Notes to the Financial Statements
June 30, 2019
(Continued)

Additionally, the Academy reports the following as non-major fund type;

The *capital projects fund* accounts for acquisitions of buildings, land, furniture and equipment. There was no activity in the capital projects fund in the current year.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The charter-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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the charter-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Modified Accrual Method

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 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, if any, are recorded only when payment is due.

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

WILL CARLETON ACADEMY
Notes to the Financial Statements
June 30, 2019
(Continued)

State Revenue

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 the charter school based on information supplied by the schools.

For the year June 30, 2019, the foundation allowance was based on the pupil membership counts taken in October 2018 and February of 2018. 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 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, 2018 to August, 2019. Thus, the unpaid portion at June 30 is reported as due from other governmental units.

The Academy also receives revenue from the State to administer certain categorical education programs. State rules required that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year, are recorded as unearned revenue.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

D. Other Accounting Policies

1. Deposits and Investments

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. The Academy reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40, *Deposit and Investment Risk Disclosure*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity.

WILL CARLETON ACADEMY
Notes to the Financial Statements
June 30, 2019
(Continued)

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. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. Banks, and mutual funds composed of investments as outlined above. At June 30, 2019, the Academy had \$327,353 of money market funds in the debt service fund.

2. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the charter-wide and fund financial statements.

3. Capital Assets

Capital assets, include land, buildings, furniture, and equipment are reported in the applicable governmental activities column in the charter-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure type assets.

Depreciation and amortization on all assets is provided using the straight-line method over the following useful lives:

Computers	5 years
Furniture and fixtures	5-20 years
Land improvements	20 years
Building improvements	7-30 years
Buildings	50 years

4. Deferred Outflows/Inflows

WILL CARLETON ACADEMY
Notes to the Financial Statements
June 30, 2019
(Continued)

In addition to assets, the statement of net position and/or balance sheet 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 does not have any outflows to report in the statement of net position and/or balance sheet as of June 30, 2019.

In addition to liabilities, the statement of net position and/or balance sheet 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 then. The Academy does not have any inflows to report in the statement of net position and/or balance sheet as of June 30, 2019.

5. Long-term obligations

In the charter-wide financial statements, long-term debt obligations are reported as liabilities on the statement of net position. Debt premiums and discounts are deferred and amortized over the life of the debt using the straight-line method of the old debt. The difference between the reacquisition price and the net carrying amount of the old debt are reported as deferred outflow of resources or deferred inflow of resources. Bond issuance costs are expensed at the time they are incurred.

In the fund financial statements, governmental fund types recognize debt premiums and discounts, as well as debt 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.

6. Governmental Fund Balance

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;

WILL CARLETON ACADEMY
Notes to the Financial Statements
June 30, 2019
(Continued)

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;

Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purposes unless the government takes the same highest level action to remove or change the constraint;

Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;

Unassigned fund balance – amounts that are available for any purpose; positive amounts are reported only in the general fund.

The Academy's board establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of a fund. Assigned fund balance is established by the Academy's board through adoption or amendment of the budget as intended for a specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes). The Academy utilizes fund balance in the following order when an expenditure has been incurred for which more than one type of fund balance is available for that respective expenditure: Restricted, Committed, Assigned, Unassigned.

In the general fund, the Academy strives to maintain an unassigned fund balance to be used for unanticipated emergencies.

7. Charter-wide-Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net Position consists of the following:

Net Investment in Capital Assets - consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.

WILL CARLETON ACADEMY
Notes to the Financial Statements
June 30, 2019
(Continued)

Restricted net position – consists of restricted assets less accrued interest for long term obligations that can only be used for debt service.

Unrestricted net position – consists of all other assets that do not meet the definition of “restricted” or “net investment in capital assets.”

8. Use of Estimates

The process of preparing general purpose 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 expenditures. 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 2. Stewardship, Compliance and Accountability

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America, except for capital outlay, which is reported in the function or activity it services. Annual appropriated budgets are adopted for the general fund. All annual appropriations lapse at fiscal year end.

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

- A. The management company submits to the School Board 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 budget is at the functional level as set forth in the combined statement of revenues, expenditures and changes in fund balances – budget and actual – general fund.
- B. Public hearings are conducted to obtain local public comments.
- C. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act. 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, or in excess of the amount appropriated. Any expenditures in violation of the budgeting act are disclosed as unfavorable variances in the budgetary comparison schedule – budget and actual (GAAP basis) – general fund

WILL CARLETON ACADEMY
Notes to the Financial Statements
June 30, 2019
(Continued)

- D. The management company is authorized to transfer 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 School Board.
- E. Formal budgetary integration is employed as a management control device during the year for the general fund.
- F. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30th.
- G. The Academy had no general fund budget function overdrafts for the year ended June 30, 2019.

Note 3. Deposits and Restricted Investments

The Academy is governed by the deposit and investment limitations of Michigan State law which limitations are indicated in the Summary of Significant Accounting policies reported earlier.

The deposits and investments held at June 30, 2019, and reported at fair value, are as follows:

<u>Type</u>	<u>Carrying Value</u>
Deposits:	
Cash on Hand	\$ 300
Demand Deposits	<u>776,916</u>
Total Deposits	<u>\$ 777,216</u>
Reconciliation To Statement of Net Position:	
Current:	
Cash and Cash Equivalents	\$ 449,863
Noncurrent	
Restricted cash - debt service	<u>327,353</u>
Total	<u>\$ 777,216</u>

WILL CARLETON ACADEMY
Notes to the Financial Statements
June 30, 2019
(Continued)

Interest Rate Risk

The Academy will minimize interest rate risk, which is the risk that the market value of the securities in the portfolio will fall due to changes in market interest rates by structuring the investment portfolio so that the securities purchased can mature immediately when funds are needed to meet operating needs (sweep account). This avoids the need to sell securities in the open market, and investing operating funds primarily in short term securities, liquid asset funds, money market mutual funds, or similar investment pools and limited the average maturity in accordance with the Academy's cash requirements.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2019, the Academy had no rated investments only cash and cash equivalents.

Concentration of Credit Risk

The Academy will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. All amounts are invested in the above cash equivalent, which is not affected by the market.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2019, \$314,890 of the Academy's bank balances of \$814,890 was exposed to custodial credit risk because they were not completely covered by the FDIC. The FDIC insures bank deposits up to \$250,000 per financial institution.

Foreign Currency

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

Fair value measurement

WILL CARLETON ACADEMY
Notes to the Financial Statements
June 30, 2019
(Continued)

The Academy is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the Academy's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Academy does not have any investments subject to the fair value measurement.

Note 4. Receivables

Receivables as of year-end were as follows:

State Aid	\$ 349,963
Federal	71,789
ISD	699
Miscellaneous	<u>496</u>
 Net total Receivables	 <u><u>\$ 422,947</u></u>

All receivables were deemed collectible as of June 30, 2019.

WILL CARLETON ACADEMY
Notes to the Financial Statements
June 30, 2019
(Continued)

Note 5. Capital Assets

Capital asset activity for the Academy for the current fiscal year was as follows:

	Balance July 1, 2018	Additions	Deletions/ Transfer	Balance June 30, 2019
Capital Assets not Being Depreciated:				
Land	\$ 76,523	\$ -	\$ -	\$ 76,523
Capital Assets Being Depreciated:				
Computers	157,007	-	81,235	75,772
Furniture, Fixtures & Equip.	243,570	-	10,771	232,799
Buildings	2,571,654	-	-	2,571,654
Building Improvements	198,754	-	-	198,754
Land Improvements	123,576	-	-	123,576
Subtotal	<u>3,294,561</u>	<u>-</u>	<u>92,006</u>	<u>3,202,555</u>
Less Accumulated Depreciation for:				
Computers	121,923	10,080	81,235	50,768
Furniture, Fixtures & Equip.	176,815	11,178	10,771	177,222
Buildings	672,050	51,447	-	723,497
Building Improvements	72,805	8,806	-	81,611
Land Improvements	76,653	4,643	-	81,296
Subtotal	<u>1,120,246</u>	<u>86,154</u>	<u>92,006</u>	<u>1,114,394</u>
Net Depreciable assets	<u>2,174,315</u>	<u>(86,154)</u>	<u>-</u>	<u>2,088,161</u>
Net Governmental Capital Assets	<u>\$ 2,250,838</u>	<u>\$ (86,154)</u>	<u>\$ -</u>	<u>\$ 2,164,684</u>

WILL CARLETON ACADEMY
 Notes to the Financial Statements
 June 30, 2019
 (Continued)

Depreciation for the fiscal year ended June 30, 2019 amounted to \$86,154. Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities:

Instruction	\$ 18,870
Support	17,843
Unallocated	49,441
	<u>\$ 86,154</u>

Note 6. Long-Term Debt

Changes in long-term obligations for the year ended June 30, 2019 are as follows:

	<u>Beginning Balance July 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance June 30, 2019</u>	<u>Due Within One Year</u>
Governmental Activities:					
Revenue Bonds	\$ 1,940,000	\$ -	\$ 50,000	\$ 1,890,000	\$ 55,000
Direct Borrowings:					
John Deere Loan	<u>16,764</u>	<u>-</u>	<u>4,745</u>	<u>12,019</u>	<u>4,374</u>
Total	<u>\$ 1,956,764</u>	<u>\$ -</u>	<u>\$ 54,745</u>	<u>\$ 1,902,019</u>	<u>\$ 59,374</u>

The Academy's outstanding note from direct borrowings related to governmental activities of \$12,019 has no provisions for an event of default.

WILL CARLETON ACADEMY
Notes to the Financial Statements
June 30, 2019
(Continued)

Annual debt service requirements to maturity for the above (Governmental) installment loans and loan note payable are as follows:

<u>June 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 55,000	\$ 149,000	\$ 204,000
2021	60,000	144,400	204,400
2022	65,000	139,400	204,400
2023	70,000	134,000	204,000
2024	75,000	128,200	203,200
2025-2029	480,000	536,000	1,016,000
2030-2034	710,000	301,200	1,011,200
2035-2036	375,000	30,600	405,600
Total	<u>\$ 1,890,000</u>	<u>\$ 1,562,800</u>	<u>\$ 3,452,800</u>

Annual interest expense for the year amounted to \$153,200. The stated interest rate is 8%. The debt was issued to defease debt as described in Note 10.

Note 7. Management Agreement

Choice School provides management services under a Consultancy Services Agreement, which commenced on July 1, 2018 for five years. The management company charges a level fee for its services for the first year of services and for years 2-5 they charge 10% of all gross revenues. During the year ended June 30, 2019, the Academy incurred expense of \$61,285.

Note 8. Oversight Fees

The Academy pays an administrative oversight fee of 3% of its state school aid discretionary and proposal A obligation payments to the Hillsdale Intermediate School District, as set forth by contract, to reimburse the district 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, 2019, the Academy incurred expense of \$59,327 for oversight fees.

WILL CARLETON ACADEMY
Notes to the Financial Statements
June 30, 2019
(Continued)

Note 9. 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 employee's and natural disasters.

The Academy continues to carry commercial insurance for other risks of loss.

Note 10. Prior Years' Debt Defeasance

In prior year, the Academy has defeased Series A and Series B bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the Academy's government-wide financial statements. As of June 30, 2019, the amount of defeased debt outstanding for Series A and Series B amounted to \$46,496 and \$348,071 respectively.

Note 11. New Accounting Standards

For the year ended June 30, 2019, the Academy implemented the following pronouncements:

GASB Statement 88 – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*

Summary:

The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be sued in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt to be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

WILL CARLETON ACADEMY
Notes to the Financial Statements
June 30, 2019
(Continued)

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

REQUIRED SUPPLEMENTARY INFORMATION

Will Carleton Academy
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues:				
Local sources	\$ 13,035	\$ 32,045	\$ 36,335	\$ 4,290
State sources	2,022,932	2,056,133	2,027,273	(28,860)
Federal sources	77,866	95,403	36,164	(59,239)
Total revenues	2,113,833	2,183,581	2,099,772	(83,809)
Expenditures:				
Current:				
Instruction:				
Basic programs	974,043	1,057,837	1,009,429	48,408
Added needs	116,171	249,792	222,032	27,760
Total instruction	1,090,214	1,307,629	1,231,461	76,168
Support services:				
Pupil support	3,000	2,500	2,450	50
Improvement of instruction	5,000	15,500	12,661	2,839
Library	13,139	11,000	9,938	1,062
General administration	154,939	171,092	143,040	28,052
School administration	320,468	252,000	247,174	4,826
Business and fiscal services	13,000	8,000	6,954	1,046
Operations and maintenance	204,023	235,115	219,817	15,298
Pupil transportations	-	2,000	1,789	211
Central	69,000	71,000	66,923	4,077
Total support services	782,569	768,207	710,746	57,461
Athletics	29,301	54,500	51,995	2,505
Community services	-	6,500	4,255	2,245

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Total expenditures	1,902,084	2,136,836	1,998,457	138,379
Excess of revenues over expenditures	211,749	46,745	101,315	54,570
Other financing sources (uses): Operating transfers out	(211,500)	(213,000)	(212,217)	783
Net change in fund balance	249	(166,255)	(110,902)	55,353
Fund balance:				
Beginning of year	789,561	789,561	789,561	-
End of year	\$ 789,810	\$ 623,306	\$ 678,659	\$ 55,353

DARNELL & MEYERING, P.C.*Certified Public Accountants*

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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**

Board of Directors
 Will Carleton Academy
 2001 W. Hallett Road
 Hillsdale, MI 49242

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Will Carleton Academy (the Academy) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated October 8, 2019.

Internal Control over Financial Reporting

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

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

combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

DARNELL & MEYERING, P.C.

Taylor, MI
October 8, 2019