

CANIFF LIBERTY ACADEMY
Hamtramck, Michigan

FINANCIAL STATEMENTS
June 30, 2018



**Gardner | Provenzano
Thomas & Luplow**

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

October 2, 2018

To the Board of Directors
Caniff Liberty Academy

Report of the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the remaining fund information of Caniff Liberty Academy as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Caniff Liberty 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 of material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit 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.

To the Board of Directors
Caniff Liberty Academy
Page Two

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 remaining fund information of Caniff Liberty Academy as of June 30, 2018 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2018, on our consideration of Caniff Liberty 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Caniff Liberty Academy's internal control over financial reporting and compliance.

Martin, Provinzano, Thomas & Lupton

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

CANIFF LIBERTY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Introduction

This section of the annual financial report presents management's discussion and analysis of Caniff Liberty Academy's financial results for the fiscal year ended June 30, 2018. Please read this along with the financial statements that follow for a comprehensive understanding of the financial position of the Academy.

Using This Report

The annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Academy as a whole (government-wide statements) and also in more detail (governmental fund statements) showing the year's activity by fund.

Academy Wide Financial Statements

The Academy Wide Financial Statements appear first and report all assets and liabilities using the accrual basis of accounting, similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The statement of activities covers all of the Academy's services including instruction and support services which are financed through Unrestricted State Aid and State and Federal grants. In addition, revenue less expense results in the change in net position, which can either increase or decrease on an annual basis.

Fund Financial Statements

The Fund Financial Statements are reported on a modified accrual basis and are formatted to comply with the legal requirements of the Michigan Department of Education's Accounting Manual. The Academy uses funds to help control and manage money for specific purposes or to meet legal responsibilities for certain grants. Funds provide a detailed short-term view of the operations and services of the Academy, show how money flows through and out of funds, and the balances left at year-end. Reviewing the funds helps the reader consider whether the Academy is accountable for the resources taxpayers and others provide and gives insight into the Academy's overall financial health.

The relationship between governmental activities (Academy Wide Financial Statements) and governmental fund activities (Fund Financial Statements) will be reconciled later in the report.

**CANIFF LIBERTY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Condensed Financial Statements

Analysis of Overall Financial Position and Results of Operations

The table below provides a summary of the Academy's net position as of June 30, 2018 and 2017.

	<u>2018</u>	<u>2017</u>
Assets		
Current and other assets	\$ 1,425,027	\$ 1,158,143
Capital assets - net of accumulated depreciation	<u>203,861</u>	<u>179,262</u>
Total assets	<u><u>1,628,888</u></u>	<u><u>1,337,405</u></u>
Liabilities		
Current liabilities	469,018	544,412
Noncurrent liabilities	<u>9,095</u>	<u>15,162</u>
Total liabilities	<u><u>478,113</u></u>	<u><u>559,574</u></u>
Net position		
Net investment in capital assets	188,700	158,330
Unrestricted	<u>962,075</u>	<u>619,501</u>
Total net position	<u><u>\$ 1,150,775</u></u>	<u><u>\$ 777,831</u></u>

The Academy's net position was \$1,150,775 at June 30, 2018. Net investment in capital assets of \$188,700 was computed by taking the original cost of the assets and subtracting the depreciation expense and related debt. The remaining amount of net position \$962,075 is unrestricted and represents the accumulation of the current years' operations. The operating results of the general fund will have a significant impact on the change in unrestricted net position from year to year.

The Academy's results of operations for the years ended June 30, 2018 and 2017 are reported below.

	<u>2018</u>	<u>2017</u>
Revenue		
Program revenue		
Grants and contributions	\$ 1,072,273	\$ 1,045,322
General revenue		
State foundation allowance	3,288,241	2,980,891
Other	48,913	27,572
Special item		
Insurance proceeds	-	78,114
Total revenue	<u><u>4,409,427</u></u>	<u><u>4,131,899</u></u>
Function/program expenses		
Instruction	1,696,698	1,655,669
Support services	2,030,326	1,911,653
Food service	309,459	342,814
Total expenses	<u><u>4,036,483</u></u>	<u><u>3,910,136</u></u>
Increase (decrease) in net position	<u><u>\$ 372,944</u></u>	<u><u>\$ 221,763</u></u>

**CANIFF LIBERTY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Analysis of Overall Financial Position and Results of Operations (cont.)

Funding for the above activities comes from a variety of sources. Some activities are partially funded by those who benefit from the programs or by grants and categoricals from governments and organizations. The remaining activities are paid for by the State Foundation Allowance and other revenues from local sources.

Budget Highlights

Caniff Liberty Academy's budget was developed according to the Uniform Budget Act of the State of Michigan requirements. The Act requires that the original budget for the upcoming fiscal year be approved prior to July 1, the start of the fiscal year.

<u>General fund</u>	<u>Original</u>	<u>Final</u>	<u>Variance</u>	<u>Actual</u>	<u>Variance</u>
Total revenue	\$3,866,572	\$4,111,905	5.97%	\$4,108,451	-0.08%
Total expenditures	3,840,033	4,076,894	5.81%	3,765,877	-8.26%
Excess revenue/expenditures	<u>\$ 26,539</u>	<u>\$ 35,011</u>		<u>\$ 342,574</u>	

Changes to the original General Fund budget were as follows:

- When establishing the original 2017/18 revenue and expenditure budget in the summer of 2017 only estimates could be used due to the uncertain state of the amount of the per-pupil foundation grant and uncertainties regarding enrollment. Once student enrollment became known and State aid amounts became certain, in the fall of 2017 new budgets were prepared to reflect an increase in the number of students served from the original estimate. While an increase in the number of students results in more revenue to the Academy, an increase in students results in required expenditures increasing as well.

Final vs. Actual Budget

- Management believes that the final budget to actual results variances were not significant.

Academy's Funds

General Fund

The General Fund is the primary operating fund for the Academy. For fiscal year ending June 30, 2018, the fund increased by \$342,574.

Food Service Fund

The Academy maintained the school lunch program for the fiscal year. The general fund subsidized the food service fund \$7,362 during the year ended June 30, 2018. The food service fund has a fund balance of \$0 at June 30, 2018.

**CANIFF LIBERTY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Capital Assets

As of June 30, 2018, the Academy has \$203,861 in capital assets including furniture and equipment, less depreciation.

	<u>2018</u>	<u>2017</u>
Equipment and furniture	\$ 282,730	\$ 230,567
Less accumulated depreciation	(78,869)	(51,305)
Net capital assets	<u>\$ 203,861</u>	<u>\$ 179,262</u>

Long-term Debt

The Academy entered into a capital lease obligation for lighting improvements. A summary of the transactions associated with this obligation follows.

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance July 30, 2018</u>
Capital lease obligation	<u>\$ 20,932</u>	<u>\$ -</u>	<u>\$ 5,771</u>	<u>\$ 15,161</u>

Conditions Affecting Next Year's Budget

Our Board members and administration consider many factors when setting the Academy's 2018/19 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2018/19 fiscal year is 10 percent and 90 percent of the February 2018 and September 2018 student counts, respectively. The 2019 budget was adopted in June 2018, based on an estimate of students that will be enrolled in September 2018. Approximately 87 percent of the total General Fund revenue is from the foundation allowance. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2018/19 school year, we anticipate that the fall student count will be lower than the estimates used in creating the 2018/19 budget. Once the final student count and related per pupil funding is validated, State law requires the Academy to amend the budget if actual Academy resources are not sufficient to fund original appropriations.

Since the Academy's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to academies. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates funds are sufficient to fund the appropriation. The overall State economy remains a cause for concern, and the Academy will continue to be properly cautious in fiscal matters.

**CANIFF LIBERTY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Requests for Information

This report is designed to provide our stakeholders with a general overview of the Academy's finances. If you have questions about this report or need additional information, contact the Academy Business Office, 26999 Central Park Blvd., Southfield, Michigan 48076.

BASIC FINANCIAL STATEMENTS

CANIFF LIBERTY ACADEMY
Academy Wide
Statement of Net Position
June 30, 2018

	Governmental Activities
Assets	
Cash	\$ 708,287
Receivables	716,740
Capital assets less accumulated depreciation	203,861
Total Assets	\$ 1,628,888
 Liabilities	
Current liabilities	
Accounts payable	22,129
Due to management company	440,823
Capital lease obligation, due within one year	6,066
Noncurrent liabilities	
Capital lease obligation, due in more than one year	9,095
Total Liabilities	478,113
 Net Position	
Net investment in capital assets	188,700
Unrestricted	962,075
Total Net Position	\$ 1,150,775

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

CANIFF LIBERTY ACADEMY
Academy Wide
Statement of Activities
For the Year Ended June 30, 2018

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities Net (Expense) Revenue and Changes in Net Position</u>
Functions/Programs				
Instruction	\$ 1,696,698	\$ -	\$ 713,649	\$ (983,049)
Support services	2,030,326	-	57,648	(1,972,678)
Food service	309,459	-	300,976	(8,483)
Totals	<u>\$ 4,036,483</u>	<u>\$ -</u>	<u>\$ 1,072,273</u>	<u>(2,964,210)</u>
General revenues:				
State aid - unrestricted				3,288,241
Other				48,913
Total General Revenues				<u>3,337,154</u>
Change in Net Position				372,944
Net Position - Beginning of Year				777,831
Net Position - End of Year				<u>\$ 1,150,775</u>

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

CANIFF LIBERTY ACADEMY
 Governmental Funds
 Balance Sheet
 June 30, 2018

	General Fund	(Non-Major Fund) Food Service	Totals
<u>Assets</u>			
Cash	\$ 708,287	\$ -	\$ 708,287
Due from other governmental units	716,740	-	716,740
Total Assets	\$ 1,425,027	\$ -	\$ 1,425,027
<u>Liabilities and Fund Balance</u>			
Liabilities			
Accounts payable	\$ 22,129	\$ -	\$ 22,129
Due to management company	440,823	-	440,823
Total Liabilities	462,952	-	462,952
Fund balance			
Unassigned	962,075	-	962,075
Total Fund Balance	962,075	-	962,075
Total Liabilities and Fund balance	\$ 1,425,027	\$ -	\$ 1,425,027

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

CANIFF LIBERTY ACADEMY
Reconciliation of Balance Sheet of Governmental Funds to Net Position
June 30, 2018

Total Fund Balances - Governmental Funds	\$ 962,075
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	
The cost of the capital assets are:	282,730
Accumulated depreciation is:	(78,869)
Long-term liabilities are not due and payable in the current period and are not reported in the funds.	
Capital lease obligation	(15,161)
Total Net Position - Governmental Activities (Academy Wide)	<u>\$ 1,150,775</u>

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

CANIFF LIBERTY ACADEMY
Governmental Funds
Statement of Revenue, Expenses, and Changes in Fund Balances
For the Year Ended June 30, 2018

	General	(Non-Major Fund) Food Service	Totals
Revenue			
Local	\$ 48,913	\$ -	\$ 48,913
State	3,623,430	3,890	3,627,320
Federal	436,108	297,086	733,194
Total Revenue	<u>4,108,451</u>	<u>300,976</u>	<u>4,409,427</u>
Expenditures			
Instruction			
Basic programs	1,076,588	-	1,076,588
Added needs	620,110	-	620,110
Support Services			
Pupil services	140,577	-	140,577
Staff	88,426	-	88,426
General administration	237,379	-	237,379
School administration	170,099	-	170,099
Business	625,531	-	625,531
Operation and maintenance	681,789	-	681,789
Transportation	81,024	-	81,024
Central services	36,992	-	36,992
Food service	-	308,338	308,338
Total Expenditures	<u>3,758,515</u>	<u>308,338</u>	<u>4,066,853</u>
Excess (Deficiency) of Revenues over Expenditures	349,936	(7,362)	342,574
Other Financing Sources (Uses)			
Operating transfers in	-	7,362	7,362
Operating transfers out	(7,362)	-	(7,362)
Total Other Financing Sources (Uses)	<u>(7,362)</u>	<u>7,362</u>	<u>-</u>
Net Change in Fund Balances	342,574	-	342,574
Fund Balance, Beginning of Year	<u>619,501</u>	<u>-</u>	<u>619,501</u>
Fund Balance, End of Year	<u>\$ 962,075</u>	<u>\$ -</u>	<u>\$ 962,075</u>

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

CANIFF LIBERTY ACADEMY
 Reconciliation of the Statement of Revenues, Expenditures, and Changes in
 Fund Balances of Governmental Funds to the Statement of Activities
 For the Year Ended June 30, 2018

Net Change in Fund Balances - Governmental Funds	\$	342,574
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p style="margin-left: 40px;">Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are capitalized and depreciated over their estimated useful lives.</p>		
Capital outlay		52,163
Depreciation expense		(27,564)
<p style="margin-left: 40px;">Repayment of principal is an expenditure in the governmental funds, but not in the Academy Wide statement of activities.</p>		
Obligation under capital lease		5,771
		5,771
Change in Net Position of Governmental Activities (Academy Wide)	\$	372,944

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

CANIFF LIBERTY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies

Caniff Liberty Academy was formed as a Charter School Academy pursuant to the Michigan School Code of 1976, as amended by Act 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982.

In June 2012, the Academy entered into an agreement with Oakland University to operate as a public school academy. The Academy began operations as a public school academy in the 2012/2013 school year. The Academy is required to act exclusively as a governmental agency and is prohibited to take any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. Oakland University is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays Oakland University three percent of unrestricted state aid as administrative fees. The total administrative fees incurred to Oakland University for the year ended June 30, 2018 was \$108,820.

Reporting Entity

The accompanying financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational and financial relationships that determine which of the governmental organizations are a part of the Academy's reporting entity, and which organizations are legally separate component units of the Academy. The Academy has no component units.

A. Academy-Wide Statements

The statement of net position and the statement of activities display information about the Academy as a whole. The usual purpose of these statements is to distinguish between activities that are governmental and those that are considered business-type activities. Currently, all activities of the Academy are considered to be governmental.

The Academy-wide statements are prepared using the economic resources measurement focus and the full accrual basis of accounting. This basis is different from the manner in which the governmental fund financial statements are prepared. Therefore reconciliations are included to identify the relationship between the Academy-wide statements and the statements for the governmental funds.

CANIFF LIBERTY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

A. Academy-Wide Statements (continued)

The Academy-wide statement of activities presents a comparison between program expenses and program revenues; revenues that are not classified as direct program revenues are presented as general revenues. The comparison of program expenses and revenues identifies the extent to which each program is self-financed or draws resources from the Academy.

The Academy-wide approach is focused more on the sustainability of the Academy as an entity and the change in the Academy's net position from the current year's activities.

B. Fund Financial Statements

The accounts of the Academy are organized on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following fund types are used by the Academy:

Governmental Funds

The governmental fund statements are prepared using the current resources measurement focus and the modified accrual basis of accounting. The fund approach is focused on the currently available resources and changes in the currently available resources of the Academy.

General Fund is the general operating fund of the Academy. It is used to account for all financial resources except those that are required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for a specified purpose. The Special Revenue Fund maintained by the Academy is the Food Service Fund. The Food Service Fund is intended to be self-supporting; however, this year expenditures exceeded revenues.

Usually the emphasis in fund financial statements is on the major funds. The Academy has opted to display information for all funds without regard to the criteria for determination of major funds as determined by GASB 34. However, only the general fund met the criteria as a major fund.

CANIFF LIBERTY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

C. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures /expenses are recognized in the accounts and reported in the financial statements. Accounting basis relates to the timing of the measurements made regardless of the measurement focus applied.

Full Accrual

The full accrual basis of accounting requires recognition of revenues when earned and expenses when incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. This method is used for the Academy-Wide statements.

Modified Accrual

The modified accrual basis recognizes revenues when they are measurable and available, available means collectible within the current period or within 60 days after year-end. Expenditures are still recognized when incurred; however, principal and interest on long-term debt is recognized when payment is due. This method is used for the Fund Level statements.

The most significant difference between the full accrual basis of accounting and the modified accrual basis of accounting is the way in which capital assets and long-term debt are recognized. The full accrual basis of accounting recognizes purchases of capital assets as an asset and long-term debt proceeds as a liability (similar to a for-profit business). The modified accrual basis of accounting recognizes the purchase of capital assets as expenditures and long-term debt proceeds as other revenue sources.

D. Financial Statement Amounts

Cash

Cash includes cash on hand and demand deposits.

Receivables

Receivables consist of all revenues earned at year-end but not yet received.

CANIFF LIBERTY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

D. Financial Statement Amounts (continued)

Capital Assets and Depreciation

Capital assets purchased or acquired with an original cost of \$2,500 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The Academy does not possess infrastructure type assets.

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

Computer equipment	3 years
Furniture and Equipment	5-15 years

Accounts Payable

Accounts payable consist of items from which the Academy benefited during the current fiscal year but has not yet paid.

Unearned Revenue

Unearned revenue represents amounts for which the Academy has received or is due to receive but has not yet earned. Unearned revenue is usually caused by the receipt of grant program revenues in excess of expenses/expenditures related to the grant. The unearned revenues are deferred until the proceeds have been fully expensed/expended at which time they will be reclassified to earned revenues. The Academy had no unearned revenue at June 30, 2018.

Due to Management Company

Due to Management Company consists of administrative fees and unreimbursed expenses/expenditures that are due and payable for the current fiscal year.

Inter-fund Activity

Inter-fund activity is reported as transfers and is eliminated upon consolidation.

CANIFF LIBERTY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

In the fund financial statements, governmental funds report the following components of fund balance:

- Nonspendable – Amounts that are not in spendable form or are legally or contractually required to be maintained intact.
- Restricted – Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose.
- Committed – Amounts that have been formally set aside by the Board of the Academy for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Board of the Academy.
- Assigned – Intent to spend resources on specific purposes expressed by the Board of the Academy.
- Unassigned – Amounts that are available for any purpose.

The Academy did not have any nonspendable, restricted, committed, or assigned fund balance as of June 30, 2018.

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 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 – net position to have been depleted before unrestricted – net position is applied.

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.

CANIFF LIBERTY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position/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 had no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position/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 that time. The Academy had no items that qualified for reporting in this category.

Subsequent Events – The financial statements and related disclosures include evaluation of events up through and including October 2, 2018, which is the date the financial statements were available to be issued.

NOTE 2--Stewardship, Compliance, and Accountability

The Academy formally adopted a General Fund and Food Service Fund budget by activity for the year ended June 30, 2018. State law requires the Academy to have its budget in place before July 1. Unexpended appropriations lapse at year-end; encumbrances are not formally recorded.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. Budgeted amounts presented in the financial statements are amended by the Board of Directors.

State law permits Academies to amend their budgets during the year. The budgetary comparison presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. Expenditures in excess of amounts budgeted are a violation of Michigan law.

The Academy's expenditure budget variances are illustrated in the required supplemental information.

CANIFF LIBERTY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3--Deposits and Investments

The Academy is authorized, by the State of Michigan, to deposit its funds in banks, savings and loan associations, or credit unions having a principal office in Michigan.

The Academy is also authorized to invest in the following:

- a. Direct bonds and obligations of the U.S. or agency or instrumentality,
- b. CDs, savings accounts with banks, savings and loan associations, or credit unions which are insured with the applicable federal agency,
- c. Commercial paper – within three highest rate classifications by at least two rating services, maturing not later than 270 days,
- d. U.S. or agency repurchase agreements,
- e. Banker's acceptance of U.S. banks, and
- f. Mutual funds – investments which local unit can make directly.

As of year-end, the carrying amount of the Academy deposits was \$708,287 and the bank balance was \$821,548. All cash is deposited in a federally insured financial institution. The Academy had uninsured bank balances of \$571,548 at June 30, 2018. The Academy has not adopted an investment policy and does not hold any investments.

NOTE 4--Capital Assets and Accumulated Depreciation

Capital asset activity of the Academy was as follows:

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2018</u>
Capital assets subject depreciation				
Equipment and furniture	\$ 230,567	\$ 52,163	\$ -	\$ 282,730
Total Capital Assets	<u>230,567</u>	<u>52,163</u>	<u>-</u>	<u>282,730</u>
Accumulated depreciation				
Equipment and furniture	51,305	27,564	-	78,869
Total Accumulated Depreciation	<u>51,305</u>	<u>27,564</u>	<u>-</u>	<u>78,869</u>
Total Net Capital Assets	<u>\$ 179,262</u>	<u>\$ 24,599</u>	<u>\$ -</u>	<u>\$ 203,861</u>

Depreciation totaling \$27,564 has been allocated to support services \$(26,443) and food service \$(1,121).

CANIFF LIBERTY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5--Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2018, the Academy carried commercial insurance.

NOTE 6--Management Contract

On June 14, 2012, the Academy entered into a management agreement with Education and Management Networks, Inc. (EMAN). The agreement covers five academic years and will end on August 31, 2022. The Academy's Board shall provide notice to EMAN in writing at least 60 days prior to the expiration of the agreement of its intent to terminate or renegotiate the agreement. In the event that the Board does not provide notice to EMAN at least 60 days prior to the expiration of the agreement, the agreement will automatically renew for an additional five year academic period.

Under the direction of the Academy's Board, EMAN is responsible for all of the management, operation, administration, and education at the Academy. EMAN is responsible for the implementation and administration of the educational program; recruiting, hiring and employing the principal, teachers, other professional staff at the Academy; all human resources and professional development for the Academy's staff; and development, review, and implementation of the Academy's curriculum; and all other functions which are typically associated with the operation and administration of a public school and a public school district.

Management fees are calculated based on 12% of all funds received by the Academy either directly or indirectly, attributable to a school year during which EMAN provides services under the management agreement with the exception of donations made to the Academy. The total management fee incurred by the Academy for the year ended June 30, 2018 was \$526,019.

NOTE 7--Due to Management Company

The Academy owed EMAN \$440,823 at June 30, 2018. The amounts owed to the management company are summarized below:

	Balance June 30, 2017
Management fees	\$ 101,322
Accrued expenditures	339,501
Total due to management company	<u>\$ 440,823</u>

CANIFF LIBERTY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8--Lease Commitments

The Academy rents its school building from Princeton Education Management, LLC. The agreement was extended during fiscal 2017 and will be effect until the expiration of the Academy's charter. The Academy pays monthly rent an amount equal to 11.50% of the unrestricted state aid received each month. The Academy incurred rental expense for its building of \$323,112 for the year ended June 30, 2018.

The Academy also leases two copiers. The agreement expires during the 2021/2022 school year. The agreement also includes volume based charges in addition to the base monthly amount. Minimum payments under the lease agreement are illustrated below.

School Year	Payments
2018/19	\$ 4,188
2019/20	4,188
2020/21	4,188
2021/22	3,490
	\$ 16,054

NOTE 9--Capital Lease Obligation

During the year ended June 30, 2016, the Academy entered into a capital lease for lighting improvements in the school building. The lease has a balance of \$15,161, requires monthly payments of \$557, charges 5% interest, and will be paid in full in October 2020. Estimated principal and interest payments are as follows:

Year ended June 30,	Principal	Interest	Total
2019	\$ 6,066	\$ 617	\$ 6,683
2020	6,376	308	6,684
2021	2,719	34	2,753
	\$ 15,161	\$ 959	\$ 16,120

NOTE 10--Grant Programs

All grant programs are subject to a final audit from the grantor agency, the outcome of which may or not result in disallowed costs that the Academy may be required to be paid back.

CANIFF LIBERTY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11--Interfund – Receivables, Payables, and Transfers

Fund	Transfer in	Fund	Transfer out
Food service	\$ 7,362	General	\$ 7,362

The transfer to the food service program was to subsidize that program.

NOTE 12--Long-term Debt

A summary of long-term debt transactions follows:

	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018	Current Portion
Capital lease obligation	\$ 20,932	\$ -	\$ 5,771	\$ 15,161	\$ 6,066

REQUIRED
SUPPLEMENTAL INFORMATION

CANIFF LIBERTY ACADEMY
Budgetary Comparison
For the Year Ended June 30, 2018

	General Fund			Food Service				
	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
Revenue								
Local	\$ 30,000	\$ 48,341	\$ 48,913	\$ 572	\$ -	\$ -	\$ -	\$ -
State	3,487,286	3,627,456	3,623,430	(4,026)	-	3,890	3,890	3,890
Federal	349,286	436,108	436,108	-	380,395	297,086	297,086	3,354
Incoming transfers and other	-	-	-	-	-	7,362	7,362	7,362
Total revenue	<u>3,866,572</u>	<u>4,111,905</u>	<u>4,108,451</u>	<u>(3,454)</u>	<u>380,395</u>	<u>293,732</u>	<u>308,338</u>	<u>14,606</u>
Instruction								
Basic programs	1,185,363	1,184,545	1,076,588	107,957	-	-	-	-
Added needs	467,553	609,258	620,110	(10,852)	-	-	-	-
Support Services								
Pupil services	150,364	149,006	140,577	8,429	-	-	-	-
Staff	109,833	125,777	88,426	37,351	-	-	-	-
General administration	238,865	242,613	237,379	5,234	-	-	-	-
School administration	206,055	209,147	170,099	39,048	-	-	-	-
Business	597,830	635,901	625,531	10,370	-	-	-	-
Operation and maintenance	757,643	728,753	681,789	46,964	-	-	-	-
Transportation	74,442	98,283	81,024	17,259	-	-	-	-
Central services	52,085	68,069	36,992	31,077	-	-	-	-
Outgoing transfers and other	-	25,542	7,362	18,180	-	-	-	-
Food service	-	-	-	-	375,012	310,998	308,338	2,660
Total expenditures	<u>3,840,033</u>	<u>4,076,894</u>	<u>3,765,877</u>	<u>311,017</u>	<u>375,012</u>	<u>310,998</u>	<u>308,338</u>	<u>2,660</u>
Excess (Deficiency) of revenues over expenditures	26,539	35,011	342,574	307,563	5,383	(17,266)	-	17,266
Fund Balance - Beginning of Year	619,501	619,501	619,501	-	-	-	-	-
Fund Balance - End of Year	<u>\$ 646,040</u>	<u>\$ 654,512</u>	<u>\$ 962,075</u>	<u>\$ 307,563</u>	<u>\$ 5,383</u>	<u>\$ (17,266)</u>	<u>\$ -</u>	<u>\$ 17,266</u>

ADDITIONAL
SUPPLEMENTAL INFORMATION



Frederick C. Gardner
Giacamo Provenzano
Heather Thomas-Verhaeghe
Brett A. Luplow

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

October 2, 2018

To the Board of Directors
Caniff Liberty Academy

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, and the remaining fund information as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Caniff Liberty Academy's basic financial statements and have issued our report thereon dated October 2, 2018.

Internal Control Over Financial Reporting

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

To the Board of Directors
Caniff Liberty Academy
Page Two

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 Caniff Liberty 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.

Marlene, Provencano, Thomas & Lupton

Certified Public Accountants