

PRESQUE ISLE ACADEMY II

Audited Financial Statements and
Other Supplementary Financial Information

Year Ended June 30, 2016

STRALEY LAMP & KRAENZLEIN P.C.

**ANNUAL FINANCIAL REPORT
OF
PRESQUE ISLE ACADEMY II**

**20830 Cedar Street
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Year Ended June 30, 2016

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June 2018

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June 2017

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June 2017

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June 2018

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Position	10
Statement of Activities	11
Fund Financial Statements	
Governmental Fund Financial Statements	
Balance Sheet	12
Reconciliation of Total Governmental Fund Balances to Total Net Position	13
Statement of Revenues, Expenditures, and Changes in Fund Balances	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Notes to Financial Statements	16
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedules	
General Fund	34
Food Service Fund	35
Debt Service Fund	36
Pension Schedules	
Schedule of Presque Isle Academy II's Proportionate Share of the Net Pension Liability of the Michigan Public School Employees Retirement System	37
Schedule of Presque Isle Academy II's Contributions to the Michigan Public School Employees Retirement System	38

CONTENTS

	<u>Page</u>
OTHER SUPPLEMENTAL INFORMATION	
Individual Fund Statements	
General Fund	
Balance Sheet	40
Statement of Revenues, Expenditures, and Fund Balances	41
Food Service Fund	
Balance Sheet	44
Statement of Revenues, Expenditures, and Fund Balances	45
Debt Service Fund	
Balance Sheet	46
Statement of Revenues, Expenditures, and Fund Balances	47
Schedule of Indebtedness	48
Independent Auditors Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	49

Straley Lamp & Kraenzlein P.C.



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Presque Isle Academy II
Onaway, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Presque Isle Academy II, Onaway, Michigan** as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the **Presque Isle Academy II's** basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Presque Isle Academy II**, as of June 30, 2016 and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Presque Isle Academy II's** basic financial statements. The individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund financial statements for the years ended June 30, 2016 and 2015 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements, or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2016, on our consideration of the **Presque Isle Academy II'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 the **Presque Isle Academy II's** internal control over financial reporting and compliance.

Straley Lamp & Kraenzlein P.C.

September 26, 2016

Presque Isle Academy II Management's Discussion and Analysis

The following is management's discussion and analysis of the financial position and results of operations for the fiscal year ended June 30, 2016. Please read it in conjunction with the financial statements and related footnotes, which follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Presque Isle Academy II financially as a whole. The *Government-Wide Financial Statements* provide information about the activities of the whole Charter School, presenting both an aggregate view of the Charter School's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the Charter School's governmental funds. The annual report is arranged as follows:

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Government-Wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary information for General Fund, Debt Service Fund,
Food Service Fund,

Pension Plan Schedules

Other Supplemental Information

Individual Fund Statements

Schedule of Indebtedness

Reporting the Charter School as a Whole – Government-wide Financial Statements

The statement of net position and the statement of activities, which appear first in the Charter School's financial statements, report information about the Charter School as a whole using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. The statement of net position includes all of the Charter School's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

Presque Isle Academy II Management's Discussion and Analysis

These two statements report the Charter School's net position and how they have changed. Net position - the difference between assets and liabilities, as reported in the statement of net position - is one way to measure the Charter School's financial health, or position. Over time, increases or decreases in the Charter School's net position - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Charter School's operating results. However, the Charter School's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools to assess the overall health of the Presque Isle Academy II.

The statement of net position and statement of activities report the governmental activities for the Charter School, which encompass all of the Charter School's services, including instruction, support services, and inter-district transfers. State aid finances these activities.

Reporting the Charter School's Most Significant Funds – Fund Financial Statements

The Charter School's fund financial statements provide detailed information about the most significant funds – not the Charter School as a whole. However, the Charter School may establish other funds to help it control and manage money for a particular purpose or to show that it is meeting its legal responsibilities for using certain taxes, grants, or other money. The governmental funds of the Charter School use the following accounting approach:

Governmental Funds – All of the Charter School's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash.

The governmental fund statements provide a detailed short-term view of the operations of the Charter School and the services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Charter School's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in reconciliation.

**Presque Isle Academy II
Management's Discussion and Analysis**

The Charter School as a Whole

Recall that the statement of net position provides the perspective of the Charter School as a whole. Table 1 provides a summary of the Charter School's net position as of June 30, 2016 and 2015:

TABLE 1

	2016	2015
ASSETS		
Current and other assets	\$ 414,554	\$ 414,498
Property and equipment	352,616	340,357
Total assets	767,170	754,855
DEFERRED OUTFLOWS OF RESOURCES	99,732	6,242
LIABILITIES		
Current liabilities	48,231	41,779
Long-term Liabilities	220,443	132,195
Total liabilities	268,674	173,974
DEFERRED INFLOWS OF RESOURCES	382	559
NET POSITION		
Invested in property and equipment - net of related debt	225,474	192,074
Restricted	98	98
Assigned	874	874
Unrestricted	371,400	393,518
Total net position	\$ 597,846	\$ 586,564

The above analysis focuses on the net position. The change in net position (see Table 2) of the Charter School's governmental activities is discussed below. The Charter School's net position was \$597,846 at June 30, 2016. Capital assets, net of related debt totals \$225,474 and compares the original cost, less depreciation of the Charter School's capital assets to long-term debt used to finance the acquisition of those assets.

The \$371,400 in unrestricted net position of governmental activities represents the *accumulated* results of all past years' operations. The unrestricted net position balance enables the Charter School to meet working capital and cash flow requirements as well as provide for future uncertainties. The recording of the net pension liability under GASB No. 68 has had an impact on this calculation. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

**Presque Isle Academy II
Management's Discussion and Analysis**

The results of this year's operations for the Charter School as a whole are reported in the statement of activities (see Table 2), which shows the changes in net position for fiscal year 2016 as compared to 2015.

TABLE 2

	2016	2015
REVENUE		
Program revenue		
Charges for services	\$ -	\$ 2,050
Operating grants	19,867	19,835
General revenue:		
State aid	245,391	237,833
Investment earnings	365	318
Miscellaneous	716	91
Total revenue	\$ 266,339	\$ 260,127
FUNCTIONS/PROGRAM EXPENSES		
Instruction	\$ 78,056	\$ 68,393
Support services	160,944	94,073
Food sales from patrons	3,267	1,953
Interest on long-term debt	5,200	5,977
Depreciation - unallocated	7,590	7,260
Total expenses	255,057	177,656
INCREASES (DECREASES) IN NET POSITION	\$ 11,282	\$ 82,471

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$255,057. The activities were funded from \$19,867 in operating grants, \$245,391 in state aid, and \$1,081 in miscellaneous revenues (i.e., investment earnings and other general revenues).

The Charter School experienced an increase in net position of \$11,282 which was a difference of \$71,189 from the previous year operations.

As discussed above, the net cost shows the financial burden that was placed on the State and the Charter School's taxpayers by each of these functions. Since unrestricted state aid constitutes the majority of the Charter School operating revenue sources, the Board of Directors and Administration must annually evaluate the needs of the Charter School and balance those needs with State-prescribed available unrestricted resources.

**Presque Isle Academy II
Management's Discussion and Analysis**

The Charter School's Funds

As we noted earlier, the Charter School uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Charter School is being accountable and provide more insight into the Charter School's overall financial health. As the Charter School completed this year, the governmental funds reported a combined fund balance of \$388,269 which is a decrease of \$5,591 from last year.

The General Fund balance available to fund general operations costs for administrative and support services remains stable at \$388,171.

General Fund Budgetary Highlights

Over the course of the year, the Charter School performs budget amendments as necessary to reflect changes from the original budget adopted in June of 2015. Those budget amendments reflect changes in enrollment, personnel, and other costs that became more defined during the fiscal year. Two budget amendments were made during the 2015-2016 fiscal year on April 12, 2016 and June 28, 2016. (A schedule showing the Charter School's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements).

A large portion of Charter School funding is in the form of state and federal grants. Generally, the amount of assistance from state aid, state grants and federal grants is not known until the fiscal year has been partially completed. The 2015-16 final state aids foundation grant was \$7,391 per pupil.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2016, the Charter School had \$352,616 invested in capital assets, which consist of buildings and improvements. This amount represents a net increase (including additions, deductions, and depreciation) of approximately \$12,259 from last year.

TABLE 3

	<u>2016</u>	<u>2015</u>
Buildings and improvements	\$ 383,116	\$ 363,267
Total capital assets	383,116	363,267
Less accumulated depreciation	<u>(30,500)</u>	<u>(22,910)</u>
Net capital assets	<u>\$ 352,616</u>	<u>\$ 340,357</u>

Depreciation of \$(7,590) was charged against capital assets.

Presque Isle Academy II Management's Discussion and Analysis

Debt

At the end of this year, the School District had \$127,142 in outstanding bonded debt which changed from the previous year by repayments of \$(21,140).

Economic Factors and Next Year's Budgets and Rates

Our Board of Education and administration consider many factors when setting the Charter School's 2016-17 fiscal year budgets. The 2016-17 fiscal year budgets were adopted in June 2016, based on state revenue estimates available at that time. Charter School funding is heavily dependent on the State's ability to fund local Charter School operations. Once final pupil counts and added cost calculations are made, State law requires the Charter School to amend the budget if actual resources are not sufficient to fund original appropriations.

Since the Charter School's revenue is heavily dependent on State funding and the economic 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 Charter Schools. The state periodically holds a revenue estimating conference to estimate revenues.

Contacting the Charter School's Financial Management

This financial report is designed to provide the Charter School's citizens, taxpayers, customers, investors, and creditors with a general overview of the Charter School's finances and to demonstrate the Charter School's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact:

Amy Karsten, Business Manager
6065 Learning Lane,
Indian River, Michigan 49749
(231)238-9394

BASIC FINANCIAL STATEMENTS

Presque Isle Academy II

STATEMENT OF NET POSITION

June 30, 2016

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 320,603
Due from other governmental units	93,724
Prepaid Expenses	227
Capital assets	383,116
Less: accumulated depreciation	<u>(30,500)</u>
Total Assets	<u>767,170</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>99,732</u>
LIABILITIES	
Accounts payable	5,667
Due to other governmental units	2,847
Payroll deductions and withholdings	425
Accrued expenses	17,346
Noncurrent liabilities:	
Due within one year	21,946
Due in more than one year	105,196
Net pension liability	<u>115,247</u>
Total Liabilities	<u>268,674</u>
DEFERRED INFLOWS OF RESOURCES	<u>382</u>
NET POSITION	
Investment in capital assets, net of related debt	225,474
Restricted for:	
Food service	97
Debt service	1
Assigned	874
Unrestricted	<u>371,400</u>
Total Net Position	<u><u>\$ 597,846</u></u>

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

Presque Isle Academy II

STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES

Year ended June 30, 2016

FUNCTION / PROGRAMS	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants	
Instruction	\$ 78,056	\$ -	\$ 19,867	\$ (58,189)
Supporting services	160,944	-	-	(160,944)
Food sales from patrons	3,267	-	-	(3,267)
Interest on long-term debt	5,200	-	-	(5,200)
Depreciation - unallocated	7,590	-	-	(7,590)
Total Governmental Activities	<u>255,057</u>	<u>-</u>	<u>19,867</u>	<u>(235,190)</u>
General Revenues				
State aid				245,391
Investment earnings				365
Miscellaneous				<u>716</u>
Total General Revenues				<u>246,472</u>
Change in Net Position				11,282
Net position - beginning of the year,				<u>586,564</u>
Net position - end of the year				<u>\$ 597,846</u>

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

Presque Isle Academy II

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2016

	General Fund	Food Service Fund	Debt Service Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 320,505	\$ 97	\$ 1	\$ 320,603
Prepaid Expenses	227	-	-	227
Due from other governmental units	93,724	-	-	93,724
Total assets	\$ 414,456	\$ 97	\$ 1	\$ 414,554
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 5,667	\$ -	\$ -	\$ 5,667
Due to other governmental units	2,847	-	-	2,847
Payroll deductions and withholdings	425	-	-	425
Accrued expenditures	17,346	-	-	17,346
Total liabilities	26,285	-	-	26,285
Fund Balances				
Restricted	-	97	1	98
Assigned	874	-	-	874
Unassigned	387,297	-	-	387,297
Total fund balances	388,171	97	1	388,269
Total liabilities and fund balances	\$ 414,456	\$ 97	\$ 1	\$ 414,554

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

Presque Isle Academy II

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES**

June 30, 2016

Total Governmental Fund Balances		\$	388,269
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 therefore are not reported as assets in governmental funds.			
Capital assets	383,116		
Less: accumulated depreciation	<u>(30,500)</u>		
			352,616
Deferred inflows and outflows between measurement date and reporting date of pension plan:			
Changes of pension plan assumptions	2,838		
Changes in pension plan proportionate share	83,965		
Contributions subsequent to the pension plan measurement date	12,341		
Differences between expected and actual experience	(382)		
Difference between projected and actual earnings on pension plan	<u>588</u>		
			99,350
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore not reported as liabilities in the funds. Long-term liabilities at year end consist of:			
Net pension liability	(115,247)		
Bonds payable - building improvements	<u>(127,142)</u>		
			<u>(242,389)</u>
Total Net Position - Governmental Activities		\$	<u><u>597,846</u></u>

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

Presque Isle Academy II

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
GOVERNMENTAL FUNDS**

Year ended June 30, 2016

	General Fund	Food Service Fund	Debt Service Fund	Total Governmental Funds
REVENUES				
Local sources				
Investment income	\$ 365	\$ -	\$ -	\$ 365
Food sales from patrons	-	-	-	-
Miscellaneous local revenue	196	-	-	196
Other financing sources	520	-	-	520
State sources	245,391	-	-	245,391
Federal sources	19,867	-	-	19,867
	<u>266,339</u>	<u>-</u>	<u>-</u>	<u>266,339</u>
EXPENDITURES				
Instruction	72,769	-	-	72,769
Supporting services	149,706	3,267	-	152,973
Capital outlay	19,848	-	-	19,848
Debt service				
Principal	-	-	21,140	21,140
Interest and fees	-	-	5,200	5,200
	<u>242,323</u>	<u>3,267</u>	<u>26,340</u>	<u>271,930</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>24,016</u>	<u>(3,267)</u>	<u>(26,340)</u>	<u>(5,591)</u>
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	-	3,267	26,340	29,607
Transfers to other funds	(29,607)	-	-	(29,607)
	<u>(29,607)</u>	<u>3,267</u>	<u>26,340</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(5,591)	-	-	(5,591)
FUND BALANCES, beginning of the year	<u>393,762</u>	<u>97</u>	<u>1</u>	<u>393,860</u>
FUND BALANCES, end of the year	<u>\$ 388,171</u>	<u>\$ 97</u>	<u>\$ 1</u>	<u>\$ 388,269</u>

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

Presque Isle Academy II

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

Year ended June 30, 2016

Total net change in fund balances - governmental funds	\$	(5,591)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital asset additions	19,848	
Depreciation expense	<u>(7,590)</u>	
		12,258

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.

Net change in pension expense under GASB #68:

Change in pension expense	(16,525)	
Debt service - principal payments	<u>21,140</u>	
		<u>4,615</u>

Change in Net Position of Governmental Activities	\$	<u><u>11,282</u></u>
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Presque Isle Academy II

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SIGNIFICANT ACCOUNTING POLICIES.

The financial statements of **Presque Isle Academy II** (the "Charter School") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the Charter School's accounting policies are described below:

A. Description of Operations and Reporting Entity.

Description of Operations. Presque Isle Academy II was organized Pursuant to MCL 380.1 ct seg. This Law allows for the Charter School to be eligible for state aid and must comply with Michigan School Code. The Charter School was established by the Onaway, Posen and Rogers City School Districts as a Charter School Academy and operates under a charter contract issued by the Cheboygan-Otsego-Presque Isle Educational Service District ("COP-ESD"). COP-ESD may revoke and/or terminate the charter contract upon notice that the Charter School has, among other things, failed to comply with applicable laws and regulations, is insolvent or has filed for bankruptcy, demonstrates insufficient enrollment levels, for fraud, or if the Charter School operates with a fund balance deficit for two or more financial years under guidelines established by the State of Michigan. For fiscal year 2017, the Charter School operates under a charter contract with Bay Mills Community College (BMCC) as noted in Note 13. The Charter School operates under a five-member Board of Directors and provides alternative secondary education services to students deemed to be at risk of dropping out or being dismissed from local school districts.

Reporting Entity. A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure the financial statements are not misleading. The primary government of the Charter School consists of all funds, departments, boards and agencies that are not legally separate from the Charter School. For Presque Isle Academy II, this includes general operations, Debt Service Fund and the Food Service Fund.

Component units are legally separate organizations for which the Charter School is financially accountable. Component units may also include organizations that are fiscally dependent on the Charter School in that the Charter School approves their budget, the issuance of their debt, or the levying of taxes. The Charter School has no component units.

B. Fund Accounting.

Fund Accounting. The accounts of the Charter School are organized on the basis of funds, each of which is considered a separate accounting entity. Major funds are presented individually in the fund-level financial statements. The Charter School's major funds are the General Fund, Debt Fund and Food Service Fund. The non-major funds are combined and presented as one column in the fund-level financial statements. The Charter School has no non-major funds. The financial activities of the Charter School are recorded in the following fund types and individual funds:

Governmental Funds. Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Charter School's major governmental funds:

General Fund - This fund is used to account for financial resources of the Charter School pertaining to education and those transactions not accounted for in another fund. Included are all transactions related to the approved current operating budget.

Presque Isle Academy II

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SIGNIFICANT ACCOUNTING POLICIES (continued)

The expenditures are classified in accordance with the latest revised edition of the *Accounting Manual for Michigan Charter Schools* (Bulletin 1022, as revised) issued by the Michigan Department of Education as follows:

Instruction - Instruction includes the activities dealing directly with the teaching of pupils or the interaction between teacher and pupils. Teaching may be provided for pupils in a school classroom; in another location, such as in a home or hospital; and other learning situations, such as those involving co-curricular activities. It may also be provided through some other approved medium, such as television, radio, telephone, and correspondence. Included here are the activities of aides, assistants of any type, and supplies and machines which assist directly in the instruction process.

Supporting Services - Supporting services are those services which provide administrative, technical (such as guidance and health), and logistical support to facilitate and enhance instruction and, to a lesser degree, community services. Supporting services exist as adjuncts for the fulfillment of the objectives of instruction, rather than as entities within themselves

Special Revenue Funds – Special revenue funds are used to account for the proceeds of specific revenue that are restricted or committed to expenditures for specific purpose other than debt service and capital projects. The special revenue fund of the Charter School is the food service fund. The food service fund provides nutritional meals to students. Major source of funding is comprised of charges for services.

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and for the payment of, general long-term debt principal, interest and related costs.

C. Basis of Presentation.

Government-wide Financial Statements. The statement of net position and the statement of activities display information about the Charter School as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The financial activities of Presque Isle Academy II are all considered governmental and do not reflect any business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Charter School's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Charter School, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Charter School.

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements. Fund financial statements report detailed information about the Charter School. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

D. Basis of Accounting.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

Revenues. Exchange and Non-exchange Transactions: Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Charter School, available means expected to be received within sixty days of the fiscal year-end.

Non-exchange transactions, in which the Charter School receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Charter School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Charter School on a reimbursement basis.

On a modified accrual basis, revenues from non-exchange transactions must also be available before it can be recognized. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available in advance, interest, tuition, grants, student fees and rentals.

Expenses/Expenditures. On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Presque Isle Academy II

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents. Cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash.

During the fiscal year ended June 30, 2016, investments were limited to Money Market accounts. Investments are valued at cost which equals market value. The Charter School had no such investments at June 30, 2016.

Prepaid Expenses. Payments made to vendors for services that will benefit periods beyond June 30, 2016, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Capital Assets. General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Charter School does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and Improvements	50 years

Vacation and sick leave. Charter School policy does not provide for payments of unused sick or vacation pay, therefore, no provision has been recorded.

Accrued Liabilities and Long-term Obligations. All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Presque Isle Academy II

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SIGNIFICANT ACCOUNTING POLICIES (continued)

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

State Categorical Revenue. The Charter School also receives revenue from the state to administer certain categorical education programs. State law requires 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 deferred inflows.

Interfund Activity. Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Economic Dependency. The Charter School receives approximately 91% of their revenue from the Michigan Department of Education. Due to the significance of this revenue source to the Charter School, the Charter School is considered to be economically dependent.

Fund Equity. The Charter School has implemented GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions". This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. 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;
- **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 purpose 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 Charter School 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 the fund. Assigned fund balance is established by the Charter School through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

Presque Isle Academy II

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SIGNIFICANT ACCOUNTING POLICIES (continued)

The Charter School has not established a policy for its use of unrestricted fund balance amounts. Therefore, in accordance with GASB Statement 54, committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Net Position. Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Charter School or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Encumbrances. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Charter School. Commitments outstanding at year end are charged against the subsequent year's appropriation once received and approved.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Reclassification. Certain items reported in the June 30, 2015, financial statements may have been reclassified to conform with the presentation for the current year.

NOTE 2--LEGAL COMPLIANCE.

Budgets and Budgetary Accounting. Prior to adoption of the budgets, the school administration prepares and submits their proposed operating budgets commencing the following July 1. Prior to July 1 the budget is adopted by the Board of Directors. Budgeted amounts are as originally adopted or as amended by the Board of Directors. The budget may be amended during the year with supplemental appropriations and approved prior to June 30. The Charter School does not consider these amendments to be significant. Unused appropriations at June 30 are not carried forward to the following year.

The provisions of the Uniform Budgeting and Accounting Act, P.A. 621 became effective in July 1981. The Act provides major revenue categories and expenditure functions that constitute minimal levels. The Presque Isle Academy II's budget was legally enacted on a functional level. Detail at the activity level is presented in the General Fund Statement of Revenues, Expenditures and Fund Balances for the benefit of management.

The budget was amended during the year with supplemental appropriations; the last one was approved June 28, 2016.

During the year ended June 30, 2016, Presque Isle Academy II incurred revenues in certain budgetary funds that were less than the amounts appropriated and expenditures that exceeded the amounts appropriated. P.A. 621 provides that a school district shall not incur expenditures in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section (RSI).

Presque Isle Academy II

NOTES TO FINANCIAL STATEMENTS

NOTE 3--DEPOSITS AND INVESTMENTS.

As of June 30, 2016, the Charter School had the following deposits reported in the basic financial statements as follows:

Cash and cash equivalents:	
Checking/savings accounts	<u>\$ 320,603</u>
	<u><u>\$ 320,603</u></u>

Interest Rate Risk. The Charter School does not have a formal investment policy to manage its exposure to fair value losses arising from interest rates.

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, 2016, the Charter School did not have any investments.

Concentration of Credit Risk. The Charter School will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Charter School'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.

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that, in the event of a bank failure, the Charter School's deposits may not be returned to it. As of June 30, 2016, there was \$75,609 of the Charter School's bank balance of \$325,609 that was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the charter's name.

The Charter School will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the charter will do business.

The Board of Directors authorized the financial institution Citizens National Bank and Awakon Federal Credit Union for the investment of the Charter School's funds for the year ended June 30, 2016.

Foreign Currency Risk. The Charter School is not authorized to invest in investments which have this type of risk.

Presque Isle Academy II

NOTES TO FINANCIAL STATEMENTS

NOTE 4--CAPITAL ASSETS.

Capital assets activity for the fiscal year ended June 30, 2016 was as follows:

	<u>Balances June 30, 15</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balances June 30, 16</u>
Capital assets being depreciated:				
Building and improvements	\$ 363,268	\$ 19,848	\$ -	\$ 383,116
	<u>363,268</u>	<u>19,848</u>	<u>-</u>	<u>383,116</u>
Less accumulated depreciation:				
Building and improvements	(22,910)	(7,590)	-	(30,500)
	<u>(22,910)</u>	<u>(7,590)</u>	<u>-</u>	<u>(30,500)</u>
Net Capital Assets	<u>\$ 340,358</u>	<u>\$ 12,258</u>	<u>\$ -</u>	<u>\$ 352,616</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE 5--LONG-TERM DEBT (including current portions).

The following is a summary of governmental long-term obligations for the Charter School for the year ended June 30, 2016:

	<u>Balances June 30, 2015</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balances June 30, 2016</u>	<u>Due within one year</u>
General Obligation Bonds:					
School Building and Site Bonds, Series 2012 Dated 10/28/2012 Amount of issue - \$219,500 Maturing through 2022 Interest rate - 3.75%					
Principal payment \$ \$2,195	\$ 148,282	\$ -	\$ (21,140)	\$ 127,142	\$ 21,946
Total bond obligations	<u>\$ 148,282</u>	<u>\$ -</u>	<u>\$ (21,140)</u>	<u>\$ 127,142</u>	<u>\$ 21,946</u>

Presque Isle Academy II

NOTES TO FINANCIAL STATEMENTS

NOTE 5--LONG-TERM DEBT (continued).

The annual requirements to pay principal and interest on the obligations outstanding at June 30, 2016 are as follows:

<u>For the year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt</u>
2017	21,946	4,394	26,340
2018	22,784	3,556	26,340
2019	23,653	2,687	26,340
2020	24,549	1,791	26,340
2021	25,493	847	26,340
2022	8,717	65	8,782
	<u>\$ 127,142</u>	<u>\$ 13,340</u>	<u>\$ 140,482</u>

NOTE 6--LEASES.

The Charter School leases a copier system. The lease continues on a month to month basis until either party agrees to terminate. The Charter School spent \$1,200 for year ending June 30, 2016.

NOTE 7--FUND BALANCE RESERVATIONS AND DESIGNATIONS.

Amounts of the various fund balances reserved or designated at June 30 are as follows:

	<u>General Fund</u>	<u>Food Service Fund</u>	<u>Debt Fund</u>	<u>Total Government Funds</u>
Restricted:				
Food Service	\$ -	\$ 97	\$ -	\$ 97
Debt Service	-	-	1	1
Assigned:				
Assigned for classroom account	874	-	-	874
Unassigned:	<u>387,297</u>	<u>-</u>	<u>-</u>	<u>387,297</u>
	<u>\$ 388,171</u>	<u>\$ 97</u>	<u>\$ 1</u>	<u>\$ 388,269</u>

NOTE 8--RELATED PARTIES.

Cheboygan-Otsego-Presque Isle Educational Service District

The Cheboygan-Otsego-Presque Isle Educational Service District (COP-ESD) acts as the fiscal agent for the Charter School. COP-ESD staff is responsible for administering the financial activities of the Charter School. This includes maintaining general ledger accounting records, preparing budgets, collecting revenues and paying disbursements on behalf of the Charter School. For the year ended June 30, 2016, \$18,852 was paid to COP-ESD for oversight and fiscal services.

NOTES TO FINANCIAL STATEMENTS

NOTE 9--SCHOOL FUNDING.

With the passage of Senate Bill 1 in August, 1993, and the subsequent approval of Proposal "A" by Michigan voters, the so-called Bursely funding formula was replaced by a system of base foundation grants per pupil in each local school district in Michigan. The basic foundation allowance is determined annually by the Legislature of the State of Michigan. The 2015-16 state aid foundation grant of \$7,391 per pupil was based on pupil membership counts taken in February and October of 2015 for the school year ending June 30, 2016. This amount was funded by the State of Michigan through State Aid Payments. Future adjustments to the base grant will be based on a revenue index, with districts below the statewide \$5,000 base amount receiving greater increases.

As part of Proposal "A", a two-cent increase in the state sales tax was approved along with several other smaller specific tax increases, while eliminating local school operating property taxes for principal residence, qualified agricultural, and qualified forest property owners. A 6-mill statewide education tax was imposed on all property, with an additional local property tax of 18 mills required on all non-homestead and non-qualified agricultural properties. The 6-mill education tax is not subject to further voter approval, but continuing authorization from local voters for the 18-mill local tax is required. Further authorization was granted to local school districts to secure voter approval for up to 3 enhancement mills for up to three years, beginning with the 1994-95 school year. After the 1996-97 school years, any enhancement mills must be approved on an intermediate school district-wide basis.

NOTE 10--GENERAL INFORMATION ABOUT THE MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION PLAN.

A. Plan Description

The Michigan Public School Employees' Retirement System (System or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members – eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

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

The System's financial statements are available at www.michigan.gov/mpsers-cafr.

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits for are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

Presque Isle Academy II

NOTES TO FINANCIAL STATEMENTS

NOTE 10--GENERAL INFORMATION ABOUT THE MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION PLAN (continued).

A DB member plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Contributions and Funded Status

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2015 valuation will be amortized over a 21 year period for the 2015 fiscal year.

Benefit Structure	Pension Contribution Rates	
	Member	Employer
Basic	0.0 – 4.0%	22.52 – 23.07%
Member Investment Plan	3.0 – 7.0%	22.52 – 23.07%
Pension Plus	3.0 – 6.4%	21.99%
Defined Contribution	0.0%	17.72 – 18.76%

Required contributions to the pension plan from Presque Isle Academy II were \$9,102 for the year ended September 30, 2015.

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

At June 30, 2016, Presque Isle Academy II reported a liability of \$115,247 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2014. Presque Isle Academy II's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2015, Presque Isle Academy II's proportion was .00047%, which was an increase of .00045 percent from its proportion measured as of September 30, 2014.

Presque Isle Academy II

NOTES TO FINANCIAL STATEMENTS

NOTE 10--GENERAL INFORMATION ABOUT THE MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION PLAN (continued).

For the year ended June 30, 2016, Presque Isle Academy II recognized pension expense of \$32,341. At June 30, 2016 Presque Isle Academy II reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between actual and expected experience	\$ -	\$ 382
Changes of assumptions	2,838	-
Net difference between projected and actual earnings on pension plan investments	588	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	83,965	-
Employer contributions subsequent to the measurement date	12,341	-
Total	<u><u>\$ 99,732</u></u>	<u><u>\$ 382</u></u>

\$6,385 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred (Inflow) and Deferred Outflow of Resources by Year
(To be Recognized in Future Pension Expenses)

<u>Year Ending September 30</u>	<u>Amount</u>
2016	\$ 22,923
2017	\$ 22,923
2018	\$ 22,767
2019	\$ 18,396

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Presque Isle Academy II

NOTES TO FINANCIAL STATEMENTS

NOTE 10--GENERAL INFORMATION ABOUT THE MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION PLAN (continued).

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2014
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return:	
- MIP and Basic Plans (Non-Hybrid):	8.0%
- Pension Plus Plan (Hybrid):	7.0%
Projected Salary Increases:	3.5 – 12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members

Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Notes:

- *Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2015, is based on the results of an actuarial valuation date of September 30, 2014, and rolled forward using generally accepted actuarial procedures, including the experience study.*
- *Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: [4.7158 for non-university employers 1.3923 for university employers].*
- *Recognition period for assets in years is 5.000.*
- *Full actuarial assumptions are available in the 2015 MPSERS Comprehensive Annual Financial Report. (www.michigan.gov/mpsers-cafr)*

Long-Term Expected Return on Plan Assets

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

Presque Isle Academy II

NOTES TO FINANCIAL STATEMENTS

NOTE 10--GENERAL INFORMATION ABOUT THE MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION PLAN (continued).

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.9%
% Alternative Investment Pools	18.0%	9.2%
International Equity	16.0%	7.2%
Fixed Income Pools	10.5%	0.9%
Real Estate and Infrastructure Pools	10.0%	4.3%
Absolute Return Pools	15.5%	6.0%
Short Term Investment Pools	2.0%	0.0%
TOTAL	100.0%	

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

Discount Rate

A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of Presque Isle Academy II's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents Presque Isle Academy II's proportionate share of the net pension liability calculated using the discount rate of 8.0% (7.0% for the Hybrid Plan), as well as what Presque Isle Academy II's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

1% Decrease (Non-Hybrid/Hybrid) 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) 8.0% / 7.0%	1% Decrease (Non-Hybrid/Hybrid) 9.0% / 8.0%
\$ 148,583	\$ 115,247	\$ 87,143

NOTES TO FINANCIAL STATEMENTS

C. Michigan Public School Employees' Retirement System (MPSERS) Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS CAFR. See the 2015 MPSERS CAFR.
(www.michigan.gov/documents/orsschools/MPSERS_CAFR_2015_Final_510211_7.pdf)

NOTE 11--DEFINED BENEFIT PENSION PLAN AND POST-EMPLOYMENT BENEFITS

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, dental and vision coverage under the Michigan Public School Employees' Retirement Act. The System is a qualified pension trust fund under section 401(a) of the Internal Revenue Code.

By statute, employees of K-12 public school districts, public school academies, district libraries, tax-supported community colleges and seven universities may be members. The seven universities are: Eastern Michigan, Central Michigan, Northern Michigan, Western Michigan, Ferris State, Michigan Technological and Lake Superior State. Employees, who first become employed by one of the seven universities on or after January 1, 1996, become members of an alternative plan.

The System's financial statements are included as a pension and other employee benefit trust fund in the State of Michigan Comprehensive Annual financial Report.

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

Presque Isle Academy II

NOTES TO FINANCIAL STATEMENTS

The following chart depicts the possible combinations under the revised system for all members:

Status	E'ee	Type	Plan Combination:		Employee Contributions:				Employer Contributions:		
			Pension	Health	DB Pension	PHF	HCC	DC Pension	DB Pension	PHF	DC Pension
Closed	Basic	DB	Basic	Subsidy	0.00%	N/A	3.0%	N/A	25.78%	N/A	N/A
Closed	Basic	DB	Basic	PHF	0.00%	2.00%	N/A	N/A	25.27%	2.00%	N/A
Closed	Basic	DB	Basic 4%	Subsidy	4.00%	N/A	3.0%	N/A	25.78%	N/A	N/A
Closed	Basic	DB	Basic 4%	PHF	4.00%	2.00%	N/A	N/A	25.27%	2.00%	N/A
Closed	Basic	DC	DC Conv	Subsidy	N/A	N/A	3.0%	0.00%	21.47%	N/A	4.00%
Closed	Basic	DC	DC Conv	PHF	N/A	2.00%	N/A	0.00%	20.96%	2.00%	4.00%
Closed	MIP	DB	Fixed	Subsidy	3.90%	N/A	3.0%	N/A	25.78%	N/A	N/A
Closed	MIP	DB	Fixed	PHF	3.90%	2.00%	N/A	N/A	25.27%	2.00%	N/A
Closed	MIP	DB	Graded	Subsidy	3-4.30%	N/A	3.0%	N/A	25.78%	N/A	N/A
Closed	MIP	DB	Graded	PHF	3-4.30%	2.00%	N/A	N/A	25.27%	2.00%	N/A
Closed	MIP	DB	Plus	Subsidy	3-6.40%	N/A	3.0%	N/A	25.78%	N/A	N/A
Closed	MIP	DB	Plus	PHF	3-6.40%	2.00%	N/A	N/A	25.27%	2.00%	N/A
Closed	MIP	DB	MIP 7%	Subsidy	7.00%	N/A	3.0%	N/A	25.78%	N/A	N/A
Closed	MIP	DB	MIP 7%	PHF	7.00%	2.00%	N/A	N/A	25.27%	2.00%	N/A
Closed	MIP	DC	DC Conv	Subsidy	N/A	N/A	3.0%	0.00%	21.47%	N/A	4.00%
Closed	MIP	DC	DC Conv	PHF	N/A	2.00%	N/A	0.00%	20.96%	2.00%	4.00%
Closed	Pnsn +	Hybrid	Pnsn +	Subsidy	3-6.40%	N/A	3.0%	2.00%	24.70%	N/A	1.00%
Open	Pnsn +	Hybrid	Pnsn +	PHF	3-6.40%	2.00%	N/A	2.00%	24.19%	2.00%	1.00%
Open	DC	DC	DC	PHF	N/A	2.00%	N/A	6.00%	20.96%	2.00%	3.00%

NOTE 12--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.

The Academy is covered under commercial insurance for all risks of loss. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past five fiscal years.

NOTE 13--CONTINGENCIES, CLAIMS AND LITIGATION.

There are currently no known legal actions pending against the Charter School that would require recording a liability. It is the policy of Presque Isle Academy II to record a liability for any contingency, claim or lawsuit when the loss is probable and an amount can be reasonably estimated.

Presque Isle Academy II

NOTES TO FINANCIAL STATEMENTS

NOTE 14--SUBSEQUENT EVENTS.

Management has evaluated subsequent events through September 26, 2016 the date on which the financial statements were available to be issued.

On July 1, 2016, Presque Isle Academy II (PIA II) and Bay Mills Community College (BMCC) entered into a Charter Public School contract, under Michigan P.A. 362 of 1993. The charter is up to 8 years. PIA II will operate as an independent nonprofit entity. BMCC will act as the fiscal agent for PIA II. PIA II will conduct itself as a governmental unit. BMCC, as fiscal agent, will maintain books and records of financial transactions. For this service, BMCC will receive an administrative fee equal to 3% of state school aid payments.

REQUIRED SUPPLEMENTARY INFORMATION

Presque Isle Academy II

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

Year ended June 30, 2016

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Local sources				
Interest on investments	\$ 300	\$ 365	\$ 365	\$ -
Miscellaneous	974	200	196	(4)
Other financing sources	-	12,080	520	(11,560)
State sources	230,273	244,843	245,391	548
Federal sources	19,835	19,867	19,867	-
	<u>251,382</u>	<u>277,355</u>	<u>266,339</u>	<u>(11,016)</u>
Total revenues				
EXPENDITURES				
Instruction	86,663	70,950	72,769	(1,819)
Supporting services				
Instructional support staff	2,000	500	809	(309)
General administration	28,858	31,040	30,603	437
School administration	70,185	71,495	74,045	(2,550)
Business services	11,600	13,653	13,653	-
Operations and maintenance	30,700	25,065	23,754	1,311
Transportation	27,500	3,700	2,847	853
Support services - central	4,100	4,886	3,995	891
Capital outlay	19,000	19,849	19,848	1
	<u>280,606</u>	<u>241,138</u>	<u>242,323</u>	<u>(1,185)</u>
Total expenditures				
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(29,224)</u>	<u>36,217</u>	<u>24,016</u>	<u>(12,201)</u>
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	-	-	-	-
Transfers to other funds	(26,340)	(29,607)	(29,607)	-
	<u>(26,340)</u>	<u>(29,607)</u>	<u>(29,607)</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(55,564)</u>	<u>6,610</u>	<u>(5,591)</u>	<u>(12,201)</u>
FUND BALANCES , beginning of the year	<u>387,756</u>	<u>393,762</u>	<u>393,762</u>	<u>-</u>
FUND BALANCES , end of the year	<u>\$ 332,192</u>	<u>\$ 400,372</u>	<u>\$ 388,171</u>	<u>\$ (12,201)</u>

Presque Isle Academy II

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - FOOD SERVICE FUND**

Year ended June 30, 2016

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Local sources				
Food sales from patrons	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-
EXPENDITURES				
OTHER SUPPORT SERVICES				
Food service	-	3,267	3,267	-
Total expenditures	-	3,267	3,267	-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	(3,267)	(3,267)	-
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	-	3,267	3,267	-
Transfers to other funds	-	-	-	-
	-	3,267	3,267	-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	-	-	-	-
FUND BALANCES , beginning of the year	97	97	97	-
FUND BALANCES , end of the year	\$ 97	\$ 97	\$ 97	\$ -

Presque Isle Academy II

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - DEBT SERVICE FUND**

Year ended June 30, 2016

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Local sources				
Interest on investments	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-
EXPENDITURES				
Debt service				
Principal	21,140	21,140	21,140	-
Interest and fees	5,200	5,200	5,200	-
Total expenditures	26,340	26,340	26,340	-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(26,340)	(26,340)	(26,340)	-
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	26,340	26,340	26,340	-
Transfers to other funds	-	-	-	-
	26,340	26,340	26,340	-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	-	-	-	-
FUND BALANCES , beginning of the year	-	-	1	(1)
FUND BALANCES , end of the year	\$ -	\$ -	\$ 1	\$ (1)

Presque Isle Academy II

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PRESQUE ISLE ACADEMY II'S PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY OF THE MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM

Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

	<u>2015</u>	<u>2014</u>
A. Reporting unit's proportion of net pension liability (%)	0.0005%	0.0002%
B. Reporting unit's proportionate share of net pension liability	\$ 115,247	\$ 5,053
C. Reporting unit's covered-employee payroll	\$ 72,268	\$ 3,450
D. Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll (%)	62.71%	68.28%
E. Plan fiduciary net position as a percentage of total pension liability	63.17%	66.20%

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available, beginning with FYE September 30, 2014.

Presque Isle Academy II

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PRESQUE ISLE ACADEMY II'S CONTRIBUTIONS TO THE
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM**

Last 10 District's Fiscal Years (Amounts determined as of 6/30 of each year)

	<u>2016</u>	<u>2015</u>
A. Statutorily required contributions	\$ 12,135	\$ 6,363
B. Contributions in relation to statutorily required contributions*	<u>\$ 12,341</u>	<u>\$ 6,363</u>
C. Contribution deficiency (excess)	<u>\$ (206)</u>	<u>\$ -</u>
D. District's covered-employee payroll	\$ 84,775	\$ 56,858
E. Contributions as a percentage of covered-employee payroll	14.31%	11.19%

*Contributions in relation to statutorily required contributions are the contributions a reporting unit actually made to MPERS, which may differ from the statutorily required contributions.

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available, beginning with FYE June 30, 2015.

OTHER SUPPLEMENTARY INFORMATION

Presque Isle Academy II

**GENERAL FUND
BALANCE SHEET**

	June 30	
	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 320,505	\$ 302,583
Prepaid expenses	227	-
Due from other governmental units	<u>93,724</u>	<u>111,817</u>
Total assets	<u>\$ 414,456</u>	<u>\$ 414,400</u>
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	\$ 5,667	\$ 4,599
Due to other governmental units	2,847	3,693
Payroll deductions and withholdings	425	425
Accrued expenditures	<u>17,346</u>	<u>11,921</u>
Total liabilities	<u>26,285</u>	<u>20,638</u>
Fund Balances		
Assigned	874	874
Unassigned	<u>387,297</u>	<u>392,888</u>
Total fund balances	<u>388,171</u>	<u>393,762</u>
Total liabilities and fund balances	<u>\$ 414,456</u>	<u>\$ 414,400</u>

Presque Isle Academy II

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES

	Year Ended June 30,		
	2016 Final Budget	2016 Actual	2015 Actual
REVENUES			
LOCAL SOURCES			
Interest on investment	\$ 365	\$ 365	\$ 318
Miscellaneous	200	196	91
Total local sources	<u>565</u>	<u>561</u>	<u>409</u>
OTHER FINANCING SOURCES			
Payments received from other schools	12,080	520	-
Total other financing sources	<u>12,080</u>	<u>520</u>	<u>-</u>
STATE SOURCES			
Unrestricted - state aid revenues			
Foundation grant	225,876	225,878	219,205
Restricted - state aid revenues			
147a/c MPSERS UAAL	6,266	6,266	792
22 I Technology	-	235	-
TRIG District Participation	-	310	-
Headlee data collection	765	765	774
At-risk funds	11,937	11,937	17,062
Total state sources	<u>244,844</u>	<u>245,391</u>	<u>237,833</u>
FEDERAL SOURCES			
Small Rural School Achievement Program	19,867	19,867	19,835
Total federal sources	<u>19,867</u>	<u>19,867</u>	<u>19,835</u>
Total revenues	<u>277,356</u>	<u>266,339</u>	<u>258,077</u>
EXPENDITURES			
INSTRUCTION			
High School			
Salaries	39,029	39,030	39,030
Employee benefits	12,478	14,655	13,061
Purchased services	14,185	14,184	12,818
Supplies and materials	2,306	2,235	540
Capital outlay	2,452	2,452	5,227
Other	500	213	218
	<u>70,950</u>	<u>72,769</u>	<u>70,894</u>
Total instruction	<u>70,950</u>	<u>72,769</u>	<u>70,894</u>

Presque Isle Academy II

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES

	Year Ended June 30,		
	2016 Final Budget	2016 Actual	2015 Actual
EXPENDITURES (Continued)			
SUPPORT SERVICES			
INSTRUCTIONAL STAFF			
Improvement of Instruction			
Purchased services	\$ 500	\$ 809	\$ 1,100
	<u>500</u>	<u>809</u>	<u>1,100</u>
Total instructional support staff	<u>500</u>	<u>809</u>	<u>1,100</u>
GENERAL ADMINISTRATION			
Board of Education			
Purchased services	23,695	23,251	8,874
	<u>23,695</u>	<u>23,251</u>	<u>8,874</u>
Executive Administration			
Purchased services	7,345	7,352	7,135
	<u>7,345</u>	<u>7,352</u>	<u>7,135</u>
Total general administration	<u>31,040</u>	<u>30,603</u>	<u>16,009</u>
SCHOOL ADMINISTRATION			
Office of the Principal			
Salaries	47,970	47,970	27,677
Employee benefits	15,525	18,388	7,104
Purchased services	4,390	4,389	4,416
Capital outlay	1,050	1,046	425
	<u>68,935</u>	<u>71,793</u>	<u>39,622</u>
Other School Administration			
Purchased services	445	243	241
Supplies and materials	1,830	1,827	954
Other	285	182	763
	<u>2,560</u>	<u>2,252</u>	<u>1,958</u>
Total school administration	<u>71,495</u>	<u>74,045</u>	<u>41,580</u>
BUSINESS SERVICES			
Fiscal Services			
Purchased services	12,818	12,818	10,895
Supplies and materials	835	835	181
	<u>13,653</u>	<u>13,653</u>	<u>11,076</u>
Total business services	<u>13,653</u>	<u>13,653</u>	<u>11,076</u>

Presque Isle Academy II

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES

	Year Ended June 30,		
	2016 Final Budget	2016 Actual	2015 Actual
EXPENDITURES (Continued)			
OPERATIONS AND MAINTENANCE			
Operating Buildings Services			
Purchased services	\$ 17,245	\$ 16,504	\$ 12,647
Supplies and materials	7,820	7,250	7,680
	<u>25,065</u>	<u>23,754</u>	<u>20,327</u>
Total operations and maintenance	<u>25,065</u>	<u>23,754</u>	<u>20,327</u>
PUPIL TRANSPORTATION SERVICES			
Pupil Transportation Services			
Purchased services	3,700	2,847	3,626
	<u>3,700</u>	<u>2,847</u>	<u>3,626</u>
Total pupil transportation services	<u>3,700</u>	<u>2,847</u>	<u>3,626</u>
SUPPORT SERVICES - CENTRAL			
Technology Services			
Purchased services	4,786	3,960	3,808
Purchased supplies	100	35	-
	<u>4,886</u>	<u>3,995</u>	<u>3,808</u>
Total support services - central	<u>4,886</u>	<u>3,995</u>	<u>3,808</u>
Total support services	<u>150,339</u>	<u>149,706</u>	<u>97,526</u>
CAPITAL OUTLAY			
Building and improvements	19,849	19,848	-
	<u>19,849</u>	<u>19,848</u>	<u>-</u>
Total capital outlay	<u>19,849</u>	<u>19,848</u>	<u>-</u>
Total expenditures	<u>241,138</u>	<u>242,323</u>	<u>168,420</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>36,218</u>	<u>24,016</u>	<u>89,657</u>
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	-	-	-
Transfers to other funds	(29,607)	(29,607)	(26,340)
	<u>(29,607)</u>	<u>(29,607)</u>	<u>(26,340)</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	6,611	(5,591)	63,317
FUND BALANCES, beginning of the year	<u>393,762</u>	<u>393,762</u>	<u>330,445</u>
FUND BALANCES, end of the year	<u>\$ 400,373</u>	<u>\$ 388,171</u>	<u>\$ 393,762</u>

Presque Isle Academy II

**FOOD SERVICE FUND
BALANCE SHEET**

	June 30	
	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	<u>\$ 97</u>	<u>\$ 97</u>
Total assets	<u><u>\$ 97</u></u>	<u><u>\$ 97</u></u>
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	<u>\$ -</u>	<u>\$ -</u>
Total liabilities	<u>-</u>	<u>-</u>
Fund Balances		
Restricted	<u>97</u>	<u>97</u>
Total fund balances	<u>97</u>	<u>97</u>
Total liabilities and fund balances	<u><u>\$ 97</u></u>	<u><u>\$ 97</u></u>

Presque Isle Academy II

**FOOD SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES**

	Year Ended June 30,		
	2016 Final Budget	2016 Actual	2015 Actual
REVENUES			
LOCAL SOURCES			
Food sales from patrons	\$ -	\$ -	\$ 2,050
	<u>-</u>	<u>-</u>	<u>2,050</u>
Total revenues	<u>-</u>	<u>-</u>	<u>2,050</u>
EXPENDITURES			
OTHER SUPPORT SERVICES			
Food services	3,267	3,267	1,953
	<u>3,267</u>	<u>3,267</u>	<u>1,953</u>
Total other support services	<u>3,267</u>	<u>3,267</u>	<u>1,953</u>
Total expenditures	<u>3,267</u>	<u>3,267</u>	<u>1,953</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(3,267)</u>	<u>(3,267)</u>	<u>97</u>
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	3,267	3,267	-
Transfers to other funds	<u>-</u>	<u>-</u>	<u>-</u>
	<u>3,267</u>	<u>3,267</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	-	-	97
FUND BALANCES, beginning of the year	<u>-</u>	<u>97</u>	<u>-</u>
FUND BALANCES, end of the year	<u>\$ -</u>	<u>\$ 97</u>	<u>\$ 97</u>

Presque Isle Academy II

**DEBT SERVICE FUND
BALANCE SHEET**

	June 30	
	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	<u>\$ 1</u>	<u>\$ 1</u>
Total assets	<u><u>\$ 1</u></u>	<u><u>\$ 1</u></u>
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	<u>\$ -</u>	<u>\$ -</u>
Total liabilities	<u>-</u>	<u>-</u>
Fund Balances		
Restricted	<u>1</u>	<u>1</u>
Total fund balances	<u>1</u>	<u>1</u>
Total liabilities and fund balances	<u><u>\$ 1</u></u>	<u><u>\$ 1</u></u>

Presque Isle Academy II

**DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES**

	Year Ended June 30,		
	2016 Final Budget	2016 Actual	2015 Actual
REVENUES			
LOCAL SOURCES			
Interest on investments	\$ -	\$ -	\$ -
	-	-	-
Total revenues	-	-	-
EXPENDITURES			
DEBT RETIREMENT			
Bond principal	21,140	21,140	20,363
Interest and fees	5,200	5,200	5,977
	26,340	26,340	26,340
Total debt retirement	26,340	26,340	26,340
Total expenditures	26,340	26,340	26,340
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(26,340)	(26,340)	(26,340)
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	26,340	26,340	26,340
Transfers to other funds	-	-	-
	26,340	26,340	26,340
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	-	-	-
FUND BALANCES, beginning of the year	-	1	1
FUND BALANCES, end of the year	\$ -	\$ 1	\$ 1

Presque Isle Academy II

SCHEDULE OF INDEBTEDNESS

June 30, 2016

	<u>Interest Rate</u>	<u>Fiscal Year of Maturity</u>	<u>Principal Payable</u>	<u>Annual Interest Payable</u>
2011 School Building and Site Bonds	3.750%	2017	\$ 21,946	\$ 4,394
Date of issue: 10/28/2011		2018	22,784	3,556
Amount of issue: \$219,500		2019	23,653	2,687
		2020	24,549	1,791
		2021	25,493	847
		<u>2022</u>	<u>8,717</u>	<u>65</u>
			<u>\$ 127,142</u>	<u>\$ 13,340</u>

Straley Lamp & Kraenzlein P.C.



Certified Public Accountants

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Donald C. Levren

Gordon A. Nethercut, CPA-Retired

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

To the Board of Directors
Presque Isle Academy II
Onaway, Michigan 49765

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, each major fund, and the aggregate remaining fund information of the **Presque Isle Academy II**, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the **Presque Isle Academy II's** basic financial statements and have issued our report thereon dated September 26, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the **Presque Isle Academy II'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 **Presque Isle Academy II's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **Presque Isle Academy II'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 **Presque Isle Academy II's** financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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.

Straley Lamp & Kraenzlein P.C.

September 26, 2016

Straley Lamp & Kraenzlein P.C.



Certified Public Accountants

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Andrew R. Lamp, CPA
Donald C. Levren

Gordon A. Nethercut, CPA-Retired

AUDIT COMMUNICATIONS

To the Board of Directors
Presque Isle Academy II
Onaway, Michigan 49779

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Presque Isle Academy II for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter dated July 12, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Presque Isle Academy II are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2016. We noted no transactions entered into by the Presque Isle Academy II during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Presque Isle Academy II's financial statements were:

Management's estimate of the depreciation expense is based on management's assumptions about the useful lives of its fixed assets. We evaluated the key factors and assumptions used to develop the depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of its pension liability which is based upon actuarial valuations which considers such assumptions as the long-term expected return on plan assets, discount rates, future employee wages, inflation, mortality rates, and cost of living adjustments. We evaluated the key factors and assumptions used to develop the pension liability in determining it is reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. No adjustments were made to the financial statements, or passed but not made, during the audit process.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 26, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Presque Isle Academy II's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Presque Isle Academy II's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to Management's Discussion and Analysis and Budgetary Comparison Schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on combining and individual fund statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Recent Pronouncements

The Governmental Accounting Standards Board and Michigan Department of Education, in its continuing process of updating the accounting principles that all governments must adhere to, has issued the following recent pronouncements that will have an impact on the way the Presque Isle Academy II maintains its financial records:

- A. GASB Statement No. 68, Accounting and Reporting for Pensions.** This statement establishes new accounting and financial reporting requirements for most governments that provide their employees with pension benefits. Statement No. 68 requires employers report net pension benefits as a liability on the Statement of Net Position. The standard requires immediate recognition of the pension expense, including annual service cost and interest, and the effect of changes in benefit terms on the net pension liability. Cost-sharing employers are required to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The Statement also requires expanded note disclosures and required supplementary information covering the past 10 years for the net pension liability. Statement 68 is effective for fiscal years beginning after June 15, 2014. This statement was adopted by the School District with the June 30, 2015 financial statements, therefore, these financial statements mark the second year of implementation of this standard. The contribution rate the School District is required to pay into the Michigan Public School Employee's Retirement System (MPERS) continues to rise. After taking into consideration the categorical aid to help offset the impact of the increase in retirement costs under the State Aid Act, the net effect is that the School District is responsible for approximately a 26 percent contribution of covered payroll to the retirement system.
- B. Summary of Statement No. 72, Fair Value Measurement and Application.** This Statement generally requires investments to be measured at fair value. An *investment* is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. A government is permitted in certain circumstances to establish the fair value of an investment that does not have a readily determinable fair value by using the net asset value per share (or its equivalent) of the investment. At this time, this statement is not expected to impact the School District.

The requirements of this Statement were effective for financial statements for periods beginning after June 15, 2015.

C. Summary of Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

A cost-sharing employer that does not have a special funding situation is required to recognize a liability for its proportionate share of the net OPEB liability (of all employers for benefits provided through the OPEB plan) – the collective net OPEB liability. This statement largely mirrors recent changes to pension accounting and reporting and when implemented, this statement is expected to have a significant effect on the School District's entity-wide financial statements. This Statement is effective for fiscal years beginning after June 15, 2017.

D. Federal Awards Programs. Changes have been made to compliance requirements that must be followed by non-federal entities receiving federal funding. The threshold for a federal awards audit requirement has increased from \$500,000 in annual federal spending to \$750,000. There have also been changes in cash management of federal funds, monitoring of subrecipients, and maintenance of written procedures and policies. The new Uniform Guidance requires certain written board policies and procedures in certain areas that effect federal funds and their administration. The School District must implement these written procedures not later than July 1, 2017. Failure to have written policies in place could exclude the School from future federal grants.

E. New Overtime Regulations. The Department of labor recently released updated overtime regulations that will take effect by December 1, 2016. Under the updated regulations, a white collar employee must earn a salary of at least \$913 per week (\$47,476 per year) and satisfy the duties test in order to be exempt from the overtime pay rules. Any white collar employee making less than \$47,476 will generally be entitled to be paid overtime, regardless of job duties.

An employee is generally entitled to minimum wage and overtime payment unless the employee satisfies a worker exemption. Salaried employees that perform certain duties, such as executive, administrative, and professional employees, are referred to as white collar employees.

The regulations have a special exemption for those that are bona fide teachers, or who have a primary duty of teaching. Teachers are considered to be an exempt professional even though they may not meet the required salary level threshold. In addition, the regulations provide another exemption for academic administrative employees. Depending on the facts and circumstances, an academic administrative employee may include a vice principal of a school or even an academic counselor. Academic administrative employees must be paid a salary that is equal to or greater than the salary for entry-level teachers in the same educational institution in order to be considered an exempt employee. There are likely many employees with duties not unique to an educational setting that may now become eligible for overtime due to the salary level increase, such as managers in food service or transportation areas. We recommend that you evaluate your staff compensation levels to determine which employees may now be subject to the new overtime regulations.

Restriction on Use

This report is intended solely for the information and use of the Presque Isle Academy II Board of Education, Michigan Department of Education, Management, and others within the governmental unit and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank the staff of the Presque Isle Academy II for their assistance during the audit.

We commend the School District for its excellent recordkeeping system and appreciate the opportunity to serve the Presque Isle Academy II. If you have any questions, or if we can be of further service, please do not hesitate to contact us.

Very truly yours,

Straley Lamp & Kraenzlein P.C.

September 26, 2016