

Presque Isle Academy II

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

Year Ended June 30, 2017

Presque Isle Academy II

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June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Presque Isle Academy II

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund information of Presque Isle Academy II, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents. We did not audit the Academy's proportionate share of the net pension liability of the Michigan Public School Employees' Retirement System and the related transactions and disclosures. Those balances and disclosures were audited by the State of Michigan Office of the Auditor General whose report has been furnished to us, and our opinion, insofar as it related to the amounts included for the Academy, is based solely on the report of the State of Michigan Office of the Auditor General.

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 and the report of the State of Michigan Office of the Auditor General, 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 Presque Isle Academy II, as of June 30, 2017, 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 and budgetary comparison information on pages 3–10 and 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2017, on our consideration of 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 Presque Isle Academy II's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Douglas Wohlberg". The signature is written in a cursive, flowing style with a large loop at the end of the last name.

Douglas Wohlberg, CPA
Byron Center, Michigan
October 27, 2017

Presque Isle Academy II

Management's Discussion and Analysis

As management of Presque Isle Academy II (the Academy), we offer readers of the Academy's financial statements this narrative overview and analysis of the financial activities of the Academy for the fiscal year ended June 30, 2017.

Financial Highlights

- The Academy's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$620,506 resulting in a positive *net position*. Of this amount, *unrestricted net position* had a positive balance of \$374,452.
- The Academy's total net position increased by \$22,660 from the June 30, 2016 net position.
- As of the close of the current fiscal year, the Academy's *governmental funds* reported combined ending fund balances of \$423,740, an increase of \$35,471 in comparison with the prior year. See pages 14, 16, and 37 for the exact composition of this net increase. Of the \$423,740, approximately 99.77 percent, or \$422,767 is *available for spending* at the Academy's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$422,767 or 132 percent of total general fund expenditures (including outgoing transfers.)

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Academy's basic financial statements. The Academy's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Academy's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Academy's assets, deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between them reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Academy is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Academy that are principally supported by intergovernmental revenues (*governmental activities*). The governmental activities of the Academy include alternative high school instruction and support services. The Academy has no business-type activities as of and for the year ended June 30, 2017.

Presque Isle Academy II

Management's Discussion and Analysis

The government-wide financial statements can be found on pages 12 - 13 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Academy, like State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Academy maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund which is considered to be a major fund. Data from the other two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Academy adopts an annual appropriated budget for its general and food service funds. Budgetary comparison statements have been provided for the General Fund herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 14, 16 and 36 – 37 of this report.

Presque Isle Academy II

Management's Discussion and Analysis

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18 - 30 of this report.

Other information. The combining statements referred to earlier in connection with non-major governmental funds are presented following the notes to the financial statements. Combining fund statements can be found on pages 36 - 37 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Academy, Assets and deferred outflows exceeded liabilities and deferred inflows by \$620,506 at the close of the most recent fiscal year.

The Academy's net position, apart from the net pension obligation, is primarily comprised of its investment in capital assets (e.g., land, buildings, and equipment) less any related debt used to acquire those assets that is still outstanding. The Academy uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the Academy's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Academy's Net position

	Governmental Activities	
	2017	2016
Assets and Deferred Outflows of Resources		
Current and other assets	\$ 455,858	\$ 414,554
Capital assets, net	350,129	352,616
Total assets	805,987	767,170
Deferred outflows of resources	121,054	99,732
Total assets and deferred outflows of resources	\$ 927,041	\$ 866,902
Liabilities and Deferred Inflows of Resources		
Long-term outstanding	\$ 263,879	\$ 220,443
Other liabilities	32,116	48,231
Total liabilities	295,995	268,674
Deferred inflows of resources	10,540	382
Total liabilities and deferred inflows of resources	\$ 306,535	\$ 269,056
Net position		
Invested in capital assets, net of related debt	245,081	225,474
Restricted	99	98
Assigned	874	874
Unrestricted	374,452	371,400
Total net position	\$ 620,506	\$ 597,846

Presque Isle Academy II

Management's Discussion and Analysis

Other components of the Academy's net position include \$2 for debt service and \$97 for food service. These represent resources that are subject to external restrictions on how they may be used. The component consisting of \$375,326 represents *unrestricted net position*.

The government's net position increased by \$22,660 during the current fiscal year. See subsequent page for the major components of this increase.

Included in the current fiscal year was foundation allowance funding, set by the State of Michigan, of \$7,511 per student.

Within the past decade, the Academy's enrollment has ranged between 30 and 75 students.

Academy's Changes in Net position

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Revenue		
Program revenue		
Charges for services	\$ 48,560	\$ 520
Operating grants/contributions	34,703	39,380
General revenue		
State school aid	263,090	225,878
Unrestricted investment earnings and other	<u>1,247</u>	<u>561</u>
Total Revenue	<u>347,600</u>	<u>266,339</u>
Expenses		
Instruction	172,677	78,056
Supporting services	134,334	160,944
Food services	5,519	3,267
Depreciation – unallocated	8,126	7,590
Interest on long-term debt	<u>4,384</u>	<u>5,200</u>
Total Expenses	<u>324,940</u>	<u>255,057</u>
Increase (decrease) in net position	22,660	11,282
Net position, beginning of year	<u>597,846</u>	<u>586,564</u>
Net position, end of year	\$ <u>620,506</u>	\$ <u>597,846</u>

Presque Isle Academy II

Management's Discussion and Analysis

Governmental activities. Net position increased by \$22,660. Three key elements of this net increase are as follows:

- The \$21,956 *reduction* of 2011 Bonded debt outstanding was offset by \$8,126 of depreciation expense incurred from capital assets by \$13,830. This provided an increase in the equity attributable to the Academy's capital assets.
- Net position decreased by \$32,418 due to the overall net increase in the combination of deferred outflows of resources, deferred inflows of resources and net pension liability.
- Net position (excluding the effect of \$5,639 in capitalized outlays) related to the general fund increased by \$41,110 due to net operating surpluses for the year.

Financial Analysis of the Government's Funds

As noted earlier, the Academy uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Academy's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Academy's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

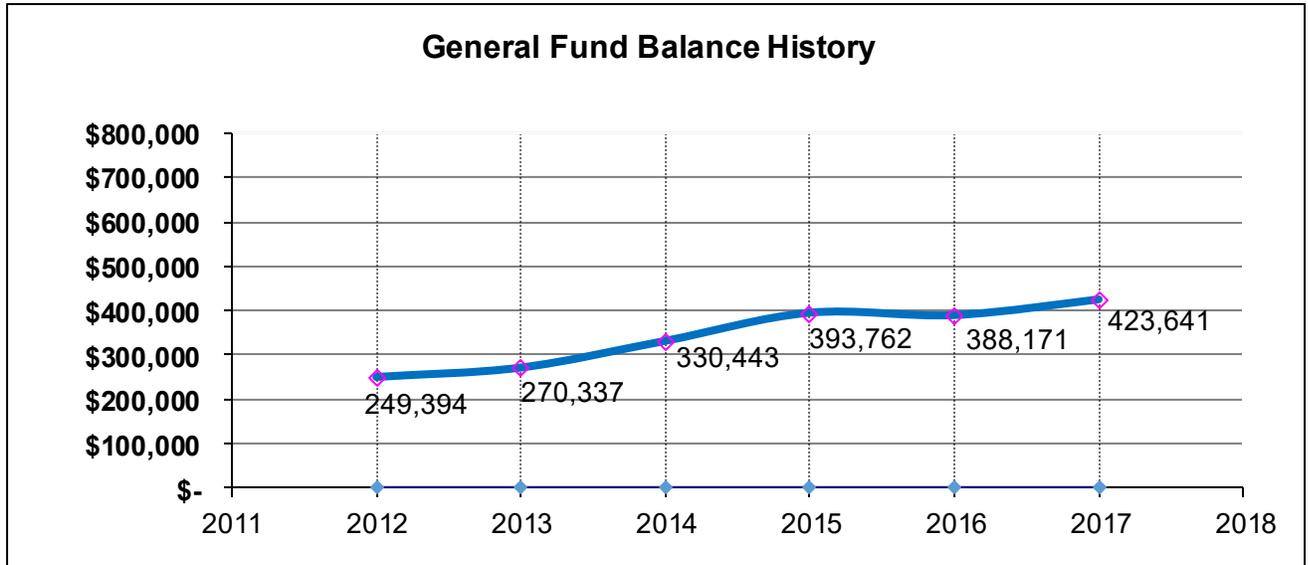
As of the end of the current fiscal year, the Academy's governmental funds reported combined ending fund balances of \$423,740, an increase of \$35,471 in comparison with the prior year. Approximately 99.77 percent of this total amount (\$422,767) constitutes *unassigned fund balance*, which is available for spending at the Academy's discretion. The remainder of fund balance is *non-spendable, restricted* or *assigned* to indicate that it is not available for new spending because the underlying assets are not available for current expenditures. This is because they are included as capital projects, school-based services and debt service fund accounts.

The general fund is the chief operating fund of the Academy. At the end of the current fiscal year, unassigned fund balance of the general fund was \$422,767. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents approximately 132 percent of total general fund expenditures (including outgoing transfers.)

Presque Isle Academy II

Management's Discussion and Analysis

The fund balance of the Academy's general fund increased by \$35,470 during the current fiscal year.



The Food Service Fund has a total fund balance of \$97, which has not changed from the previous fiscal year.

The Debt Service fund had a total fund balance of \$2, which increased by \$1 from the previous fiscal year.

Presque Isle Academy II

Management's Discussion and Analysis

General Fund Budgetary Highlights

Significant differences between the original and final amended budgets were partly due to actual enrollments coming in significantly above projections. Additionally, supplemental revenues from services to other charter schools exceeded initial conservative estimates.

Capital Asset and Debt Administration

Capital assets. The Academy's investment in capital assets for its governmental activities as of June 30, 2017, amounted to \$350,129 (net of accumulated depreciation). This investment in capital assets includes land, a building, and a vehicle. The total change in the Academy's investment in capital assets for the current fiscal year (including additions and depreciation) was (\$2,487.)

The major capital asset event during the current fiscal year was the following:

- \$5,639 for a service vehicle. Funding was supported with General Funds.

Academy's Capital Assets (net of depreciation) June 30, 2017

	<u>Governmental Activities</u>
Buildings and building improvements	\$ 344,960
Vehicles	<u>5,169</u>
Total capital assets, net	<u>\$ 350,129</u>

Additional information on the Academy's capital assets can be found in Note 4 on page 24 of this report.

Long-term debt. At the end of the current fiscal year, the Academy had 2011 School Building and Site debt outstanding of \$105,048. This bond issue is a general obligation liability of the Academy.

The Academy's total general obligation bonds payable decreased by \$21,956 during the current fiscal year.

Additional information on the Academy's long-term debt can be found in Note 6 on page 25 of this report.

Presque Isle Academy II

Management's Discussion and Analysis

Factors Bearing on the Academy's Future

The following factors were considered in preparing the Academy's budget for the 2017-18 fiscal year:

- Although currently approved, the State Aid Bill could be subject to adverse revisions later in the year. The ultimate State Aid Bill is expected to provide the Academy with per pupil funding that is materially close to the budget projection.
- Uncertainties related to enrollment counts continue to present budgeting challenges for all Michigan school districts and charter schools. Careful attention to official pupil counts and interim tallies is undertaken to assist with trending projections needed for budget forecasting.
- The continued economic uncertainty affecting the State of Michigan could result in insufficient per-pupil increases in 2018-19. The impact from a funding freeze from 2017-18 levels would present very serious budgetary challenges for all districts and charter schools. Spending decisions for 2017-18 are being made with consideration of potential 2018-19 funding issues.

Requests for Information

This financial report is designed to provide a general overview of the Academy's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Administrative Office, 20830 Cedar Street, Onaway, Michigan 49765.

BASIC FINANCIAL STATEMENTS

Presque Isle Academy II

Statement of Net Position

June 30, 2017

	Governmental Activities
ASSETS	
Cash and investments	\$ 342,656
Accounts receivable (net)	37,760
Due from other governmental units	72,069
Prepaid expenses	3,373
Capital assets less accumulated depreciation of \$38,626	350,129
Total assets	805,987
DEFERRED OUTFLOWS OF RESOURCES	
Pension related	121,054
LIABILITIES	
Accounts payable	2,102
Accrued payroll and other liabilities	30,016
Long-term liabilities:	
Due within one year	21,946
Due in more than one year	83,102
Net pension liability	158,829
Total liabilities	295,995
DEFERRED INFLOWS OF RESOURCES	
Pension related	10,540
NET POSITION	
Investment in capital assets, net of related debt	245,081
Restricted for:	
Food service	97
Debt service	2
Unrestricted	375,326
Total net position	\$ 620,506

The Notes to Financial Statements are an integral part of this statement.

Presque Isle Academy II

Statement of Activities

For the year ended June 30, 2017

	Expenses	Program Revenues		Net (Expense)
		Charges for services	Operating grants and contributions	Revenue and Changes in Net Position
				Governmental activities
Functions/Programs:				
Governmental activities:				
Instruction	\$ 172,677	\$ -	\$ 34,703	\$ (137,974)
Support services	134,334	48,560	-	(85,774)
Food service	5,419	-	-	(5,419)
Interest on long-term debt	4,384	-	-	(4,384)
Depreciation (unallocated)	8,126	-	-	(8,126)
Total governmental activities	\$ 324,940	\$ 48,560	\$ 34,703	(241,677)
General revenues:				
State of Michigan aid, unrestricted				263,090
Interest and investment earnings				367
Other revenues				880
Total general revenues				264,337
Change in net position				22,660
Net position-beginning				597,846
Net position-ending				\$ 620,506

The Notes to Financial Statements are an integral part of this statement.

Presque Isle Academy II

Governmental Funds

Balance Sheet

June 30, 2017

	General	Total Nonmajor Funds	Total Governmental Funds
ASSETS			
Cash and investments	\$ 342,557	\$ 99	\$ 342,656
Accounts receivable, net	37,760	-	37,760
Due from other governmental units	72,069	-	72,069
Prepaid expenditures	3,373	-	3,373
Total assets	\$ 455,759	\$ 99	\$ 455,858
LIABILITIES			
Accounts payable	\$ 2,102	\$ -	\$ 2,102
Accrued payroll and other liabilities	30,016	-	30,016
Total liabilities	32,118	-	32,118
FUND BALANCES			
Restricted:			
Food service	-	97	97
Debt service	-	2	2
Assigned	874	-	874
Unassigned	422,767	-	422,767
Total fund balances	423,641	99	423,740
Total liabilities and fund balances	\$ 455,759	\$ 99	\$ 455,858

The Notes to Financial Statements are an integral part of this statement.

Presque Isle Academy II

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position June 30, 2017

Total fund balances - total governmental funds	\$	423,740
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 in the funds.		350,129
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. Balances at June 30, 2017 were:		
Bonds payable		(105,048)
Net pension liability		(158,829)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:		
Deferred Outflows of Resources:		
Changes in pension assumptions		2,483
Academy pension contributions subsequent to the measurement date		21,873
Net difference between projected and actual earnings on pension plan investments		2,640
Changes in proportion and differences between employer contributions and proportionate share of contributions		92,079
Differences between expected and actual experience		1,979
Deferred Inflows of Resources:		
Academy pension contributions subsequent to the measurement date		(8,849)
Changes in proportion and differences between employer contributions and proportionate share of contributions		(1,315)
Differences between expected and actual experience		(376)
Total net position - governmental activities	\$	620,506

The Notes to Financial Statements are an integral part of this statement.

Presque Isle Academy II

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

For the year ended June 30, 2017

	General	Total Nonmajor Funds	Total Governmental Funds
REVENUES			
Local sources	\$ 1,247	\$ -	\$ 1,247
State sources	286,729	-	286,729
Federal sources	19,913	-	19,913
Incoming transfers and other transactions	48,560	-	48,560
Total revenues	356,449	-	356,449
EXPENDITURES			
Current:			
Instruction	149,248	-	149,248
Support services	139,973	-	139,973
Food services	-	5,419	5,419
Debt service	-	26,339	26,339
Total expenditures	289,221	31,758	320,979
Excess (deficiency) of revenues over expenditures	67,228	(31,758)	35,470
OTHER FINANCING SOURCES (USES)			
Operating transfer in	-	31,759	31,759
Operating transfer out	(31,758)	-	(31,758)
Total other financing sources (uses)	(31,758)	31,759	1
Net change in fund balances	35,470	1	35,471
Fund balances-beginning	388,171	98	388,269
Fund balances-ending	\$ 423,641	\$ 99	\$ 423,740

The 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

For the year ended June 30, 2017

Net change in fund balances - total governmental funds	\$	35,471
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statements of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the capital outlays exceeded depreciation expense in the current period.		(2,487)
Repayments of note and lease principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).		21,956
Governmental funds report pension contributions as expenditures. However, in the statements of activities, the pension expense is determined by the pension plan. This is the amount by which the pension expense exceeded the contributions.		(32,280)
Change in net position of governmental activities	\$	22,660

The Notes to Financial Statements are an integral part of this statement.

Presque Isle Academy II

Notes to Financial Statements

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Presque Isle Academy II (the "Academy") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy.

A. Reporting Entity

The Academy was formed as a charter school academy pursuant to the MCL 380.1 ct seg. This law allows for the Academy to be eligible for state aid and must comply with Michigan School Code. The Academy was established by the Onaway, Posen, and Rogers City School Districts as a Charter School Academy. The Academy operates under a charter contract with Bay Mills Community College. The Academy operates under a five-member Board of Directors and provides alternative secondary education services to students deemed at risk of dropping out or being dismissed from local school districts.

On July 1, 2016 the Academy and Bay Mills Community College entered into a Charter Public School contract under Michigan P.A. 362 of 1993. This charter is through June 30, 2024. The Academy will operate as an independent nonprofit entity while Bay Mills Community College will act as the fiscal agent for the Academy. The Academy will conduct itself as a governmental unit. Bay Mills Community College, as fiscal agent, will review and monitor books and records of financial transactions. For this service, Bay Mills Community College will receive an administrative fee equal to 3% of state school aid.

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the Academy. Based on application of the criteria, the Academy does not contain component units.

B. Academy-wide and Fund Financial Statements

The academy-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy's academy-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the academy-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Presque Isle Academy II

Notes to Financial Statements

June 30, 2017

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

Academy-wide Financial Statements - The academy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenues include all taxes and unrestricted State aid.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Academy.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The Academy reports the following major governmental fund:

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

When both restricted and unrestricted resources are available for use, it is the Academy's policy to use restricted resources first, then unrestricted resources as they are needed.

Presque Isle Academy II

Notes to Financial Statements

June 30, 2017

D. Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - All trade receivables are shown net of an allowance for uncollectible amounts. The Academy considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Inventories - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. The Food Service Fund inventory, when present, consists of food and paper goods.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the academy-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Land improvements	20 years
Transportation equipment	20 years
Furniture and other equipment	5-20 years
Computers and software	5 years

Deferred outflows/inflows of resources--In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Academy has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from two sources: property taxes and state grants. These amounts are deferred and recognized as inflow of resources in the period that the amounts become available.

Long-term Obligations - In the entity-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

Presque Isle Academy II

Notes to Financial Statements

June 30, 2017

Net Position and Fund Equity - The difference between fund assets and liabilities is "Net Position" on the government-wide and fiduciary fund statements and "Fund Balance" on governmental fund statements. Net Position are classified as "Invested in Capital Assets, Net of Related Debt," legally "Restricted" for a specific purpose, or "Unrestricted" and available for appropriation for the general purposes of the fund. In governmental fund financial statements, fund balances are classified as follows:

- Nonspendable--Amounts that cannot be spent either because they are a) not in spendable form or; b) legally or contractually required to be maintained intact.
- Restricted--Amounts with constraints placed on the use of resources are either a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.
- Committed--Amounts that can be used only for specific purposes determined by a formal action by Board of Directors resolution, and that remain binding unless removed in the same manner.
- Assigned--Amounts neither restricted nor committed for which a Academy has a stated intended use as established by the Board of Directors or a body or official to which the Board of Directors has delegated the authority to assign amounts for specific purposes.
- Unassigned--Amounts that cannot be properly classified in one of the other four categories. The General Fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include negative balances in the governmental funds reporting resources restricted for specific programs.

Use of Restricted Resources - When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Academy's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the Academy's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications - committed and then assigned fund balances before using unassigned fund balances.

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 the following: assets and liabilities, 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.

E. 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 (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Presque Isle Academy II

Notes to Financial Statements

June 30, 2017

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan Law. State law permits academies to amend their budgets during the year. During the year, the budgets were amended in a legally permissible manner.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts, etc.) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Presque Isle Academy II

Notes to Financial Statements

June 30, 2017

NOTE 3 - DEPOSITS AND INVESTMENTS

State statutes and the Academy's investment policy authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Academy is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investments pools that are composed of authorized investment vehicles. The Academy's deposits are in accordance with statutory authority.

Deposits are carried at cost. The academy has designated one bank and one credit union for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Academy's deposits and investment policy are in accordance with statutory authority.

Interest Rate Risk - The Academy does not have a formal investment policy to manage the exposure to fair value losses arising from interest rate .

Credit Risk - State law limits investment in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of year end the Academy did not have any investments.

Concentration of Credit Risk - The Academy will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy does not have a deposit policy for custodial credit risk of bank deposits. At year end, the bank balance of the Academy's deposits (checking and money market funds) is \$450,839, of that balance \$355,207 is insured by federal depository insurance and the National Credit Union Administration and \$95,632 is uninsured. The Academy will minimize custodial credit risk by limiting investments to the types of securities allowed by law, prequalifying the financial institutions, broker/dealers, intermediaries and advisors with which the Academy will invest. The Board of Directors authorized Citizens National Bank and Awakon Federal Credit Union for the investment of the Academy's funds for the year.

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

Fair Value Hierarchy - The Academy categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The Academy owns no investments subject to the fair value measurement.

Presque Isle Academy II

Notes to Financial Statements

June 30, 2017

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the Academy's governmental activities was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets being depreciated:				
Buildings and improvements	\$ 383,116	\$ 5,639	\$ -	\$ 388,755
Less accumulated depreciation for:				
Buildings and improvements	30,500	8,126	-	38,626
Net capital assets being depreciated	\$ 352,616	\$ (2,487)	\$ -	\$ 350,129

Depreciation expense was not charged to activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

NOTE 5 - LEASES

The Academy leases a copier system. The lease continues on a month to month basis until either party agrees to terminate. The Academy spent \$1,200 for the year.

Presque Isle Academy II

Notes to Financial Statements

June 30, 2017

NOTE 6 - LONG-TERM DEBT

The Academy issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General Obligation Bonds are direct obligations and pledge the full faith and credit of the Academy.

The following is a summary of long-term debt transactions for the year ended June 30, 2017:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Bond obligations	\$ 127,004	\$ -	\$ 21,956	\$ 105,048	\$ 22,784

The annual requirement to amortize long-term debt outstanding as of June 30, 2017 follows:

Year ended June 30,	Governmental Activities		
	Principal	Interest	Total
2017	\$ 22,784	\$ 3,556	\$ 26,340
2018	23,653	2,687	26,340
2019	24,549	1,791	26,340
2020	25,493	847	26,340
2021	8,569	65	8,634
Totals	\$ 105,048	\$ 8,946	\$ 113,994

Long-term bond obligations were comprised of the following:

School Building and Site Bonds, Series 2011 Dated October 28, 2011, amount issued \$219,000, maturing through 2022, interest rate 3.75%, monthly principal payment \$2,195	\$ 105,048
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NOTE 7 - RISK MANAGEMENT

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

Presque Isle Academy II

Notes to Financial Statements

June 30, 2017

NOTE 8 - GENERAL INFORMATION ABOUT THE MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPERS) PENSION PLAN

Plan Description

The Michigan Public School Employees' Retirement System (System or MPERS) 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/mpers-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.

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, 2016 valuation will be amortized over a 20-year period for the 2016 fiscal year.

Presque Isle Academy II

Notes to Financial Statements

June 30, 2017

The schedule below summarizes pension contribution rates in effect for fiscal year 2016.

Benefit Structure	Pension Contribution Rates		
	Member	Employer	
		Universities	Non-Universities
Basic	0.0 - 4.0 %	22.60 %	18.95 %
Member Investment Plan	3.0 - 7.0 %	22.60 %	18.95 %
Pension Plus	3.0 - 6.4 %	N/A	17.73 %
Defined Contribution	0.0 %	17.73 %	14.56 %

Required contributions to the pension plan from the Academy were \$14,295 for the year ended September 30, 2016

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

At June 30, 2017, the Academy reported a liability of \$158,829 for its proportionate share of the MPERS net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2015. The Academy'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, 2016, the Academy's proportion was 0.00063661 percent, which was an increase of 21.45897802 percent from its proportion measured as of September 30, 2015.

For the year ended June 30, 2017, the Academy recognized pension expense of \$45,844. At June 30, 2017, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,979	\$ 376
Changes of assumptions	2,483	-
Net difference between projected and actual earnings on pension plan investments	2,640	-
Changes in proportion and differences between Academy contributions and proportionate share of contributions	92,079	1,315
Academy contributions subsequent to the measurement date	21,873	8,849
Total	\$ 121,054	\$ 10,540

Presque Isle Academy II

Notes to Financial Statements

June 30, 2017

Contributions subsequent to the measurement date 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, 2018. Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred (Inflows) and Deferred Outflows of Resources by Year (To Be Recognized in Future Pension Expenses)	
Year Ending September 30	Amount
2017	\$ 31,956
2018	31,745
2019	28,093
2020	5,696

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.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2015
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, 2016, is based on the results of an actuarial valuation date of September 30, 2015, 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: 4.6273 for non-university employers 1.2456 for university employers.
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2016 MPERS Comprehensive Annual Financial Report (www.michigan.gov/mpsers-cafr).

Presque Isle Academy II

Notes to Financial Statements

June 30, 2017

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. 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, 2016, 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	-
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 the Academy's proportionate share of the net pension liability to changes in the discount rate

The following presents the Academy'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 the Academy'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% Increase (Non-Hybrid/Hybrid)* 9.0% / 8.0%
\$ 204,532	\$ 158,829	\$ 120,297

Michigan Public School Employees' Retirement System (MPERS) Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS CAFR, available at www.michigan.gov/mpers-cafr.

Presque Isle Academy II

Notes to Financial Statements

June 30, 2017

NOTE 9 - RECENTLY ISSUED ACCOUNTING PRINCIPLES

In March 2016, GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

In March 2017, GASB issued Statement 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
- Reporting amounts previously reported as goodwill and "negative" goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

In June, 2017, GASB issued Statement No. 87, *Leases*. Statement No. 87 requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

REQUIRED SUPPLEMENTAL INFORMATION

Presque Isle Academy II

General Fund

Budgetary Comparison Schedule

For the year ended June 30, 2017

	<u>Budgeted Amounts</u>			Variance with final budget
	Original	Final	Actual	
REVENUES				
Local sources	\$ 1,374	\$ 1,240	\$ 1,247	\$ 7
State sources	244,841	286,729	286,729	-
Federal sources	19,867	19,867	19,913	46
Incoming transfers and other transactions	7,000	46,000	48,560	2,560
Total revenues	273,082	353,836	356,449	2,613
EXPENDITURES				
Current:				
Instruction:				
Basic programs	92,891	149,325	149,248	77
Support services:				
Instructional staff services	2,000	100	100	-
General administration	33,585	23,914	23,213	701
School administration	89,795	77,362	77,308	54
Business services	12,270	5,895	4,492	1,403
Operations and maintenance	26,200	18,200	17,917	283
Pupil transportation	26,500	9,800	9,737	63
Central support services	5,370	7,250	7,206	44
Total expenditures	288,611	291,846	289,221	2,625
Excess (deficiency) of revenues over expenditures	(15,529)	61,990	67,228	5,238
OTHER FINANCING SOURCES (USES)				
Operating transfers out	(55,390)	(31,790)	(31,758)	32
Net change in fund balances	(70,919)	30,200	35,470	5,270
Fund balances-beginning	388,171	388,171	388,171	-
Fund balances-ending	\$ 317,252	\$ 418,371	\$ 423,641	\$ 5,270

Presque Isle Academy II

Required Supplemental Information

June 30, 2017

Schedule of the Reporting Unit's Proportionate Share of the Net Pension Liability

Michigan Public Schools Employees Retirement Plan

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.00063661 %	0.00050000 %	0.00020000 %
Reporting unit's proportionate share of net pension liability	\$ 158,829	\$ 115,247	\$ 5,053
Reporting unit's covered employee payroll	\$ 70,718	\$ 72,268	\$ 3,450
Reporting unit's proportionate share of net pension liability as a percentage of its covered employee payroll (%)	224.59 %	159.47 %	146.46 %
Plan fiduciary net position as a percentage of total pension liability	63.01 %	63.17 %	66.20 %

Schedule of the Reporting Unit's Contributions

Michigan Public Schools Employees Retirement Plan

Last 10 Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 26,750	\$ 12,135	\$ 6,363
Contributions in relation to statutorily required contributions	26,750	12,341	6,363
Contribution deficiency (excess)	-	(206)	-
Reporting units covered-employee payroll	\$ 121,123	\$ 84,775	\$ 56,858
Contributions as a percentage of covered-employee payroll	22.08 %	14.56 %	11.19 %

Notes to Required Supplementary Information

Changes of benefit terms: There were no changes of benefit terms during the plan year ending 2016.

Changes of assumptions: There were no changes of benefit assumptions during the plan year ending 2016.

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OTHER SUPPLEMENTAL INFORMATION

Presque Isle Academy II

Nonmajor Governmental Funds

Combining Balance Sheet

June 30, 2017

	Food Service Fund	Debt Service Fund	Total Nonmajor Governmental Funds
ASSETS			
Cash	\$ 97	\$ 2	\$ 99
FUND BALANCES			
Restricted:			
Food service	\$ 97	\$ -	\$ 97
Debt service	-	2	2
Total fund balances	\$ 97	\$ 2	\$ 99

Presque Isle Academy II

Nonmajor Governmental Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

For the year ended June 30, 2017

	Food Service Fund	Debt Service Fund	Total Nonmajor Governmental Funds
EXPENDITURES			
Current:			
Food service	5,419	-	5,419
Principal	-	21,955	21,955
Interest	-	4,384	4,384
Total expenditures	5,419	26,339	31,758
Excess (deficiency) of revenues over expenditures	(5,419)	(26,339)	(31,758)
OTHER FINANCING SOURCES (USES)			
Operating transfer in	5,419	26,340	31,759
Net change in fund balances	-	1	1
Fund balances-beginning	97	1	98
Fund balances-ending	\$ 97	\$ 2	\$ 99

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AUDITORS' REPORT

560 76th Street SW
Byron Center, MI 49315
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Fax (866) 569-0725
Email: doug@wohlbergcpa.com

**AUDITORS' COMMUNICATION OF SIGNIFICANT MATTERS WITH
THOSE CHARGED WITH GOVERNANCE**

October 27, 2017

To the Board of Education
Presque Isle Academy II

We have audited the financial statements of the governmental activities and the major fund information of Presque Isle Academy II for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 23, 2017. 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 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 the year. We noted no transactions entered into by the governmental unit 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 estimate affecting the district's financial statements was:

Management's estimates of the useful lives of capital assets which is based on previous history, management's estimate of the accrued compensated absences is based on current contracts, rates and policies regarding payment of these benefits, and the net pension liability which is based on an actuarial valuation of the entire Michigan Public School Employees Retirement System. We evaluated key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing 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. We identified no misstatements.

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.

AUDITORS' COMMUNICATION OF SIGNIFICANT MATTERS WITH THOSE CHARGED WITH GOVERNANCE (continued)

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 27, 2017.

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 governmental unit'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 governmental unit'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 the budgetary comparison schedule, Schedule of the Reporting Unit's Proportionate share of the Net Pension Liability, Schedule of the Reporting Unit's Contributions, and the Notes to Required Supplementary Information, 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 the combining 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.

Restriction on Use

This information is intended solely for the use of the Board of Education and management of Presque Isle Academy II and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



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

To the Board of Directors
Presque Isle Academy II

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major funds, of Presque Isle Academy II, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Presque Isle Academy II's basic financial statements and have issued our report thereon dated October 27, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 Presque Isle Academy II's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**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 (continued)**

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.

Very truly yours,

A handwritten signature in black ink that reads "Douglas Wohlberg". The signature is written in a cursive, flowing style with a large loop at the end of the last name.

Douglas Wohlberg, CPA
Byron Center, Michigan
October 27, 2017

DOUGLAS WOHLBERG, CPA

Certified Public Accountants

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Byron Center, MI 49315

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Email: doug@wohlbergcpa.com

We did not issue a management letter for Presque Isle Academy II for the year ended June 30, 2017.