

Audited Financial Statements

Merritt Academy

New Haven, Michigan

June 30, 2017

CONTENTS

	<u>Page</u>
Independent Auditor’s Report	i - ii
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	iii - iv
Management’s Discussion and Analysis	v - x
Basic Financial Statements	
Statement of Net Position	1
Statement of Activities	2
Combined Balance Sheet – All Governmental Funds	3
Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities	4
Statement of Revenues, Expenditures and Changes in Fund Balance – All Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	6
Notes to Financial Statements	7 - 18
Supplementary Information	
Budgetary Comparison Schedule – General Fund	19
Schedule of Revenues – General Fund	20
Schedule of Expenditures – General Fund	21 - 22



David M. Croskey, CPA
Thomas B. Lanni, CPA
Carolyn A. Jones, CPA, CFP® MST
Clifton F. Powell Jr., CPA, CFP®, PFS
Roger J. DeJong, CPA
Patrick M. Sweeney, CPA
Leonard A. Geronemus, CPA, PFS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Merritt Academy

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Merritt Academy as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Merritt Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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 Merritt Academy as of June 30, 2017, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

345 Diversion Street • Suite 400
Rochester, Michigan 48307
Phone: 248.659.5300
Fax: 248.659.5305

44725 Grand River Avenue • Suite 204
Novi, Michigan 48375
Phone: 248.659.5300
Fax: 248.659.5305

2505 NW Boca Raton Blvd. • Suite 202
Boca Raton, Florida 33431-6652
Phone: 561.241.1040
Fax: 561.368.4641

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as 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 the 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 Merritt Academy's basic financial statements. The introductory section, combining and individual non-major fund financial statements, and schedules of revenues and expenditures, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statements and the schedules of revenues and expenditures 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 combining and individual non-major fund financial statements and the schedules of revenues and expenditures are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2017, on our consideration of Merritt Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Merritt Academy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Merritt Academy's internal control over financial reporting and compliance.



Croskey Lanni, PC

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 of Merritt Academy

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Merritt Academy, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Merritt Academy's basic financial statements, and have issued our report thereon dated October 31, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in blue ink that reads "Croskey Lanni, PC". The signature is written in a cursive style.

Croskey Lanni, PC

October 31, 2017
Rochester, Michigan

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Merritt Academy’s, annual financial report presents our discussion and analysis of the school’s financial performance during the fiscal year that ended on June 30, 2017. Please read it in conjunction with the school’s financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

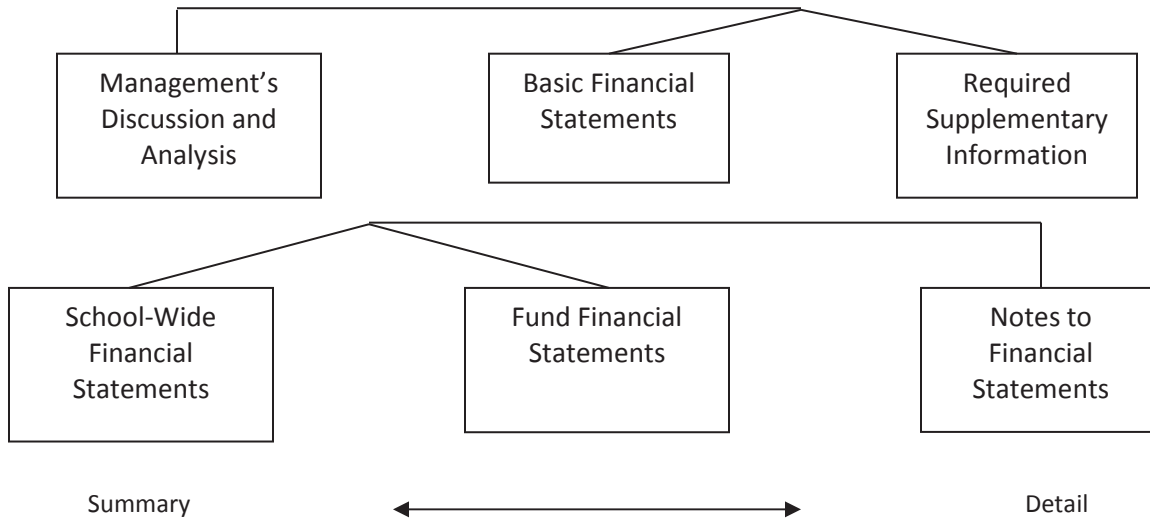
- ❖ The total cost of basic programs was \$2,604,253.
- ❖ Revenues were at \$5,778,555 while expenditures were \$5,044,394 in the General Fund.
 - Blended enrollment used for state aid purposes was 649.03, an increase of 15.3.
- ❖ The school has a positive General Fund balance of \$503,426.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- ❖ The first two statements are school-wide financial statements that provide both short-term and long-term information about the school’s overall financial status.
- ❖ The remaining statements are fund financial statements that focus on individual parts of the school, reporting the schools operations in more detail.
- ❖ The governmental fund statements tell how basic services like regular and special education were financed.
- ❖ Fiduciary funds statements provide information about the financial relationships in which the school acts solely as a trustee or agent for the benefit of others. These consist of student activity funds held by the school on behalf of the student group.

**Figure A-1
Organization of Merritt’s Annual Financial Report**



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the school’s budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-2
Major Features of School-Wide and Fund Financial Statements**

Fund Financial Statements

	School-Wide Statements	Government Funds	Fiduciary Funds
Scope	Entire school (except fiduciary funds)	The activities of the school that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the school administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	*Statement of net position *Statement of activities	*Balance sheet *Statement of revenues, expenditures and changes in fund balances	*Statement of fiduciary net position *Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

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

SCHOOL-WIDE STATEMENTS

The school-wide statements report information about the school as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the 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.

The two school-wide statements report the school's net position and how it has changed. Net position – the difference between the school's assets and liabilities – are one way to measure the school's financial health or position.

- ❖ Over time, increases or decreases in the school's assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- ❖ To assess the overall health of the school, you need to consider additional non-financial factors such as changes in the school's enrollment and the condition of school buildings and other facilities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the school's funds, focusing on its most significant or "major" funds – not the school as a whole. Funds are accounting devices the school uses to keep track of specific sources of funding and spending on particular programs:

- ❖ *Governmental activities* – Most of the school's basic services are included in the general fund, such as regular and special education and administration. State foundation aid finances most of these activities.
- ❖ The school establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues.

The school has one kind of fund:

- ❖ *Governmental funds* – Most of the school's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the school's programs. Because this information does not encompass the additional long-term focus of the school-wide statements, we provide additional information with governmental funds statements that explains the relationship (or differences) between them.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

The school's financial position is the product of many factors.

General Fund Budgetary Analysis

Over the course of the year, the school reviewed and amended the annual operating budget several times.

Financial Outlook

Merritt Academy's financial forecast continues to be optimistic heading into the 2017/2018 school year.

- ❖ Enrollment is expected to be maintained at the current level.

Table A-3
Merritt Academy's Net Position

	2017	2016
Current and other assets	\$ 2,411,438	\$ 2,292,632
Capital assets	<u>5,009,457</u>	<u>5,216,039</u>
Total assets	<u>7,420,895</u>	<u>7,508,671</u>
Long-term debt outstanding	6,600,000	6,850,000
Other liabilities	<u>1,012,491</u>	<u>953,462</u>
Total liabilities	7,612,491	7,803,462
Net position:		
Restricted	(660,676)	(716,860)
Unrestricted	<u>469,080</u>	<u>422,069</u>
Total net position	<u>\$ (191,596)</u>	<u>\$ (294,791)</u>

Table A-4
Changes in Merritt Academy's Net Position

	2017	2016
Revenues:		
Program revenues:		
Charges for services	\$ 93,348	\$ 122,474
Federal and state operating grants	929,218	815,391
General revenues:		
State aid - unrestricted	4,838,537	4,638,648
Miscellaneous	33,367	45,071
Total revenues	5,894,470	5,621,584
Expenses:		
Instruction	3,007,608	2,938,421
Support services and community services	2,093,394	1,900,172
Interest on long-term debt	435,417	451,806
Unallocated depreciation	254,856	252,076
Total expenses	5,791,275	5,542,475
Increase (decrease) in net position	\$ 103,195	\$ 79,109

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2017, the school had invested \$7,765,874 in capital assets, including computers and software. See Table A-5 below for a listing of capital assets, and the accumulated depreciation.

Table A-5
Merritt Academy's Capital Assets

	Balance June 30, 2017	Balance June 30, 2016
Building	\$ 6,671,430	\$ 6,671,430
Equipment and furniture	497,534	497,534
Computers	596,910	548,636
Subtotal	7,765,874	7,717,600
Less: accumulated depreciation	2,756,417	2,501,561
Total net capital assets	\$ 5,009,457	\$ 5,216,039

Long-Term Debt

The Academy had \$6,600,000 outstanding on 2 Certificates of Participation as of June 30, 2017. See Note 8 in the financial statements for additional information on Long-Term Debt.

The Academy Board is actively exploring refunding the 2 Certificates of Participation as of the date of these financial statements. It is anticipated that a refunding could occur prior to the end of the 17-18 fiscal year.

FACTORS BEARING ON THE SCHOOL'S FUTURE

- ❖ Continuation of positive enrollment trends
- ❖ State aid foundation grant stabilization

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our students, parents and creditors with a general overview of the school's finances and to demonstrate the school's accountability for the money it receives. If you have questions about this report or need additional information, contact the management office at:

The Romine Group, 7877 Stead, Utica, MI 48317 (586)731-5300

MERRITT ACADEMY

STATEMENT OF NET POSITION JUNE 30, 2017

ASSETS AND DEFERRED OUTFLOWS

Current Assets

Cash and cash equivalents	\$	182,080
Investments		929,867
Accounts receivable		13,802
Due from other governmental units		1,267,312
Prepaid expenses		18,377
		<hr/>
Total current assets		2,411,438

Capital Assets - Net of Accumulated Depreciation

5,009,457

Total assets and deferred outflows

\$ 7,420,895

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

Current Liabilities

Accounts payable	\$	621,681
Notes payable		146,512
Unearned revenue		12,642
Other accrued expenses		231,656
Long-term debt - current portion		265,000
		<hr/>
Total current liabilities		1,277,491

Long-Term Debt - Long-Term Portion

6,335,000

Net Position

Net investment in capital assets		(1,590,543)
Restricted		929,867
Unrestricted		469,080
		<hr/>
Total net position		(191,596)

Total liabilities, deferred inflows and net position

\$ 7,420,895

See accompanying notes to financial statements

MERRITT ACADEMY

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2017

		Program Revenues		Net (Expense) Revenues and Changes in Net Position
	Expenses	Charges for Services	Operating Grants	Government Type Activities
Functions				
Instruction				
Basic programs	\$ 2,604,253	\$ -	\$ 317,309	\$ (2,286,944)
Added needs	403,355	-	370,792	(32,563)
Support services				
Pupil support services	173,152	-	64,955	(108,197)
Instructional staff support services	37,288	-	11,870	(25,418)
General administration	676,720	-	-	(676,720)
School administration	413,655	-	9,280	(404,375)
Business support services	43,156	-	-	(43,156)
Operations and maintenance	442,148	-	61,514	(380,634)
Pupil transportation services	57,600	-	-	(57,600)
Central support services	14,299	-	-	(14,299)
Athletic activities	104,399	49,543	-	(54,856)
Food services	118,684	21,978	93,498	(3,208)
Community services	12,293	21,827	-	9,534
Unallocated depreciation	254,856	-	-	(254,856)
Unallocated interest	435,417	-	-	(435,417)
Total primary government	\$ 5,791,275	\$ 93,348	\$ 929,218	(4,768,709)
General Purpose Revenues				
State school aid - unrestricted				4,838,537
Miscellaneous revenues				33,367
Total general purpose revenues				4,871,904
Change in net position				103,195
Net position - July 1, 2016				(294,791)
Net position - June 30, 2017				\$ (191,596)

See accompanying notes to financial statements

MERRITT ACADEMY

COMBINED BALANCE SHEET – ALL GOVERNMENTAL FUNDS JUNE 30, 2017

ASSETS

	<u>General</u>	<u>Debt Service</u>	<u>Non-Major Special Revenue</u>	<u>Total</u>
Cash and cash equivalents	\$ 175,225	\$ -	\$ 6,855	\$ 182,080
Investments	19,302	910,565	-	929,867
Accounts receivable	13,802	-	-	13,802
Due from other governmental units	1,267,312	-	-	1,267,312
Prepaid expenses	18,377	-	-	18,377
	<u>\$ 1,494,018</u>	<u>\$ 910,565</u>	<u>\$ 6,855</u>	<u>\$ 2,411,438</u>
Total assets	<u>\$ 1,494,018</u>	<u>\$ 910,565</u>	<u>\$ 6,855</u>	<u>\$ 2,411,438</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE

Liabilities

Accounts payable	\$ 621,681	\$ -	\$ -	\$ 621,681
Notes payable	146,512	-	-	146,512
Unearned revenue	12,642	-	-	12,642
Other accrued expenses	195,955	-	-	195,955
	<u>976,790</u>	<u>-</u>	<u>-</u>	<u>976,790</u>
Total liabilities	976,790	-	-	976,790

Deferred Inflows of Resources -

Unavailable Revenue	13,802	-	-	13,802
---------------------	--------	---	---	--------

Fund Balance

Nonspendable	18,377	-	-	18,377
Restricted	19,302	910,565	6,855	936,722
Unassigned	465,747	-	-	465,747
	<u>503,426</u>	<u>910,565</u>	<u>6,855</u>	<u>1,420,846</u>
Total fund balance	503,426	910,565	6,855	1,420,846
	<u>\$ 1,494,018</u>	<u>\$ 910,565</u>	<u>\$ 6,855</u>	<u>\$ 2,411,438</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 1,494,018</u>	<u>\$ 910,565</u>	<u>\$ 6,855</u>	<u>\$ 2,411,438</u>

See accompanying notes to financial statements

MERRITT ACADEMY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES JUNE 30, 2017

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

Total Governmental Fund Balances	\$ 1,420,846
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$7,765,874 and the accumulated depreciation is \$2,756,417.	5,009,457
Interest is not payable until due in governmental activities and, therefore, is not recorded in the funds.	(35,701)
Deferred inflows of resources (unavailable revenue) not available to benefit the current period and are not reported in the statement of net position.	13,802
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(6,600,000)</u>
Net Position of Governmental Activities	<u>\$ (191,596)</u>

See accompanying notes to financial statements

MERRITT ACADEMY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – ALL GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2017

	General	Debt Service	Non-Major Special Revenue	Total
Revenues				
Local sources	\$ 104,298	\$ 439	\$ 21,978	\$ 126,715
State sources	5,307,876	-	4,101	5,311,977
Federal sources	301,426	-	89,397	390,823
Interdistrict sources	64,955	-	-	64,955
Total governmental fund revenues	5,778,555	439	115,476	5,894,470
Expenditures				
Instruction				
Basic programs	2,604,253	-	-	2,604,253
Added needs	403,355	-	-	403,355
Support services				
Pupil support services	173,152	-	-	173,152
Instructional staff support services	37,288	-	-	37,288
General administration	676,720	-	-	676,720
School administration	413,655	-	-	413,655
Business support services	43,156	-	-	43,156
Operations and maintenance	455,950	-	-	455,950
Pupil transportation services	57,600	-	-	57,600
Central support services	14,299	-	-	14,299
Athletic activities	104,399	-	-	104,399
Food services	-	-	118,684	118,684
Community services	12,293	-	-	12,293
Capital outlay	48,274	-	-	48,274
Debt principal and interest	-	686,818	-	686,818
Total governmental fund expenditures	5,044,394	686,818	118,684	5,849,896
Excess (deficiency) of revenues over expenditures	734,161	(686,379)	(3,208)	44,574
Other Financing Sources (Uses)				
Operating transfers in	-	694,137	-	694,137
Operating transfers out	(694,137)	-	-	(694,137)
Total other financing sources (uses)	(694,137)	694,137	-	-
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	40,024	7,758	(3,208)	44,574
Fund balance - July 1, 2016	463,402	902,807	10,063	1,376,272
Fund balance - June 30, 2017	\$ 503,426	\$ 910,565	\$ 6,855	\$ 1,420,846

See accompanying notes to financial statements

MERRITT ACADEMY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2017

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

Net Change in Fund Balances - Total Governmental Funds	\$	44,574
---	----	--------

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation and amortization expense. This is the amount by which depreciation and amortization exceeded capital outlay in the current period:

Capital outlay	\$ 48,274	
Depreciation and amortization expense	<u>(254,856)</u>	(206,582)

Revenue is reported in the statement of activities when earned, but not reported in the funds until collected or collectible within 60 days of yearend	13,802
--	--------

The governmental funds report loan proceeds as an other financing source, while repayment of loan principal is reported as an expenditure. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of general loan obligations is as follows:

Repayment of loan principal	\$ 250,000	
Interest expense	<u>1,401</u>	<u>251,401</u>

Change in Net Position of Governmental Activities	\$	<u><u>103,195</u></u>
--	----	-----------------------

See accompanying notes to financial statements

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Merritt Academy (the “Academy”) conform to generally accepted accounting principles applicable to public school academies. The following is a summary of the significant accounting policies:

Reporting Entity

Merritt Academy was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, on May 30, 1997, and began operation in July 2002.

In June 2007, the Academy entered into a five-year contract with Saginaw Valley State University's Board of Control to charter a public school academy. In May of 2015 the contract has been renewed for five years through June 2020. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State constitution. The University's Board of Control is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays Saginaw Valley State University's Board of Control three percent of state aid as administrative fees. Total administrative fees paid for the year ended June 30, 2017 were approximately \$144,500.

In June 2011, the Academy entered into an agreement with The Romine Group, Inc. In May of 2015 this agreement was renewed for five years through June 2020. Under the terms of this agreement, The Romine Group, Inc. provides a variety of services including financial management, educational programs and consulting, as well as teacher training. The Academy is obligated to pay The Romine Group, Inc. ten percent of its state school aid revenue and all other governmental revenue sources. Total compensation in no event shall be less than \$250,000 and no more than \$800,000 in any fiscal year. The total paid for these services amounted to approximately \$500,000 for the year ended June 30, 2017.

The accompanying 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 public school academy. Based on application of criteria, the Academy does not contain component units.

Fund Financial Statements

Fund financial statements report detailed information about the Academy. 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. Non-major funds are aggregated and presented in a single column.

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Presentation – Fund Accounting

The accounts of the Academy are organized on the basis of funds. The operations of a fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report, into generic fund types in two broad fund categories.

Governmental Funds

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

General Fund - The general fund is used to record the general operations of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Fund - The special revenue fund is used to account for the food service program operations. The special revenue fund is a subsidiary operation and is an obligation of the general fund. Therefore any shortfall in the special revenue fund will be covered by an operating transfer from the general fund.

Debt Service Fund - The debt service fund is used to record certain revenue and the payment of interest, principal and other expenditures on long-term debt.

Capital Projects Fund - The capital projects fund, which the Academy does not currently maintain, accounts for financial resources to be used for the acquisition, construction, or improvement of capital facilities.

Fiduciary Fund - The fiduciary fund, which the Academy does not currently maintain, is used to account for assets held by the Academy in a trustee capacity or as an agent. The agency fund is custodial in nature and does not involve the measurement of results of operations.

Governmental and agency funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within sixty days of the end of the current fiscal period.

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- b. Payments for inventorable types of supplies, which are not significant at year end, are recorded as expenditures at the time of purchase.
- c. Principal and interest of general long-term debt are not recorded as expenditures until their due dates.
- d. The State of Michigan utilizes a foundation allowance funding approach, which provides for specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law. A major portion of the Academy's revenue is derived from this state aid. As such, the Academy is considered to be economically dependent on this aid. The Academy's existence is dependent upon qualification for such aid.

Government-Wide Financial Statements

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationships between the government-wide statements and the statements for governmental funds.

The government-wide Statement of Activities presents a comparison between expenses and program revenues for each segment of the business-type activities of the Academy and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. The Academy does not allocate indirect expenses to programs. In creating the government-wide financial statements the Academy has eliminated inter-fund transactions. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or function is self financing or draws from the general revenues of the Academy. When both restricted and unrestricted resources are available for use, it is the Academy's policy to use restricted resources first.

Net position should be reported as restricted when constraints placed on net position use is either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The Academy first utilizes restricted resources to finance qualifying activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government - wide financial statements.

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition. The Academy reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and GASB No. 40, Deposit and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity. The Academy held investments in mutual funds that invest solely in U.S. Treasury obligations. The funds are held in trust for debt service and capital projects. State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, saving accounts, deposit accounts, and or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Corporation or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or Federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Receivables

Receivables at June 30, 2017 consist primarily of state school aid due from the State of Michigan and the federal government. All receivables are expected to be fully collected in July and August of 2017 and are considered current for the purposes of these financial statements.

Prepaid Assets

Payments made to vendors for services that will benefit periods beyond June 30, 2017, 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 is reported in the year in which services are consumed.

Capital Assets and Depreciation

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions or retirements during the year. The Academy follows the policy of not capitalizing assets with a useful life of less than one year. The Academy does not possess any infrastructure assets.

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

All reported capital assets, with the exception of land, 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:

Building and improvements	10 – 50 years
Furniture and equipment	5 – 15 years
Computers and software	3 – 10 years

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, the non-current portion of capital leases 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. Other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Net Position

Net position represents the difference between assets, deferred outflows, liabilities, and deferred inflows. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws of regulations of other governments.

Fund Equity

The Academy has adopted GASB 54 as part of its fiscal year reporting. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the Academy's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on those resources.

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. This category typically includes prepaid items and inventories.

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In addition to nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- a. *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. The balances shown as restricted, include \$910,565 of resources held in trust for the payment of revenue bond obligations.
- b. *Committed fund balance* – amounts constrained to specific purposes by the Board; to be reported as committed, amounts cannot be used for any other purpose unless the Board takes action to remove or change the constraint.
- c. *Assigned fund balance* – amounts the Board intends to use for a specific purpose; intent can be expressed by the Board or by an official or committee to which the Board delegates the authority.
- d. *Unassigned fund balance* – amounts that are available for any purpose; these amounts are reported only in the general fund.

The Academy follows the policy that restricted, committed, or assigned amounts will be considered to have been spent when an expenditure is incurred for purposes for which both unassigned and restricted, committed, or assigned fund balances are available. There are no governmental funds with a deficit.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a consistent basis with accounting principles generally accepted in the United States of America and state law for the general fund. All annual appropriations lapse at fiscal year end and encumbrances are not formally recorded.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. The Academy is required by law to adopt general and special revenue fund budgets. During the year ended June 30, 2017 the budget was amended in a legally permissible manner. The Academy incurred expenditures in certain budgetary functions which were insignificantly in excess of the amounts appropriated for the year ended June 30, 2017 as detailed on page 19 of these financial statements however total expenditures were less than total board appropriations.

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 3 - DEPOSITS AND INVESTMENTS

As of June 30, 2017, the Academy had the following investments:

<u>Type</u>	<u>S&P Rating</u>	<u>Maturities</u>	<u>Carrying Value</u>
Deposits:			
Demand deposits			\$ 182,080
Investments:			
U.S. Treasury and agency obligations	AAAm	Various	<u>929,867</u>
Total deposits and investments			<u>\$ 1,111,947</u>

The above amounts are reported in the financial statements as follows:

Deposits:			
Cash - General fund			\$ 175,225
Cash - Special revenue fund			6,855
Investments:			
Investments - General fund			19,302
Investments - Debt service fund			<u>910,565</u>
Total deposits and investments			<u>\$ 1,111,947</u>

Interest Rate Risk

In accordance with its investment policy, the Academy will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Academy's cash requirements.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2017, the Academy's investments were rated AAAM by Standards & Poor's and Aaa by Moody's Investors Service.

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 3 - DEPOSITS AND INVESTMENTS - Continued

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. More than 5% of the Academy's investments are in pooled investment accounts which represent 100% of the Academy's total investments.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2017, none of the Academy's cash was exposed to custodial credit risk because it was uninsured. All cash balances were uncollateralized as of June 30, 2017.

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Academy 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 Academy will do business.

Foreign Currency Risk

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

Fair Value

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Academy has the ability to access.
- b. Level 2 inputs are inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly.

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 3 - DEPOSITS AND INVESTMENTS - Continued

- c. Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The observable inputs should be developed based on the best information available in the circumstances and may include the Academy's own data.)

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

NOTE 4 – DUE FROM OTHER GOVERNMENTAL UNITS

Amounts due from other governmental units consist of the following:

Local sources	\$ 62,024
State sources	1,092,677
Federal sources	<u>112,611</u>
Total	<u>\$ 1,267,312</u>

NOTE 5 - CAPITAL ASSETS

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

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2017</u>
Capital assets subject to depreciation				
Building	\$ 6,671,430	\$ -	\$ -	\$ 6,671,430
Equipment	29,780	-	-	29,780
Furniture	467,754	-	-	467,754
Computer	<u>548,636</u>	<u>48,274</u>	<u>-</u>	<u>596,910</u>
Sub-total	7,717,600	48,274	-	7,765,874
Accumulated depreciation				
Building	1,688,851	168,497	-	1,857,348
Equipment	27,208	551	-	27,759
Furniture	453,835	7,984	-	461,819
Computer	<u>331,667</u>	<u>77,824</u>	<u>-</u>	<u>409,491</u>
Sub-total	<u>2,501,561</u>	<u>254,856</u>	<u>-</u>	<u>2,756,417</u>
Total net capital assets	<u>\$ 5,216,039</u>	<u>\$ (206,582)</u>	<u>\$ -</u>	<u>\$ 5,009,457</u>

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 5 - CAPITAL ASSETS - Continued

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

NOTE 6 – NOTES PAYABLE

Notes payable as of June 30, 2017 can be summarized as follows:

Loan Information

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Other</u>
SAAN 15-16	1.85%	August, 2016	Paid in full
SAAN 16-17	1.90%	August, 2017	To provide academy with funds to finance school operations, secured by future state aid payments.

Loan Activity

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Retirements and Payments</u>	<u>Balance June 30, 2017</u>
SAAN 15-16	\$ 165,109	\$ -	\$ 165,109	\$ -
SAAN 16-17	-	800,000	653,488	146,512
	<u>\$ 165,109</u>	<u>\$ 800,000</u>	<u>\$ 818,597</u>	<u>\$ 146,512</u>

NOTE 7 – OTHER ACCRUED EXPENSES

Other accrued expenses may be summarized as follows:

	<u>Net Position</u>	<u>Funds</u>
Purchased services - payroll and benefits	\$ 80,454	\$ 80,454
Management fee	89,219	89,219
University oversight fee	26,282	26,282
Interest	35,701	-
Total other accrued expenses	<u>\$ 231,656</u>	<u>\$ 195,955</u>

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 8 - LONG-TERM OBLIGATIONS PAYABLE

The following is a summary of long-term obligations for the Academy during the year ended June 30, 2017:

Loan Information

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Other</u>
Certificates of Participation 2004	6.25%	December, 2024	Collateralized by a mortgage on the Academy's facility as well as a pledge for 20% of the state school aid payments and funds held in trust for debt service.
Certificates of Participation 2006	7.00%	December, 2036	Collateralized by a mortgage on the Academy's facility as well as a pledge for 20% of the state school aid payments and funds held in trust for debt service.

Loan Activity

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Retirements and Payments</u>	<u>Balance June 30, 2017</u>	<u>Due Within One Year</u>
Certificates of Participation 2004	\$ 2,225,000	\$ -	\$ 145,000	\$ 2,080,000	\$ 155,000
Certificates of Participation 2006	4,625,000	-	105,000	4,520,000	110,000
	<u>\$ 6,850,000</u>	<u>\$ -</u>	<u>\$ 250,000</u>	<u>\$ 6,600,000</u>	<u>\$ 265,000</u>

Following are maturities of long-term obligations for principal and interest for the next five years and in total:

	<u>Principal</u>	<u>Interest</u>
2018	\$ 265,000	\$ 419,494
2019	285,000	400,994
2020	305,000	381,138
2021	325,000	359,925
2022	350,000	337,206
2023-2027	1,875,000	1,271,056
2028-2032	1,175,000	824,219
2033-2037	2,020,000	380,625

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 9 - RETIREMENT PLAN

All employees leased by the Academy are eligible to participate in a retirement plan established by The Romine Group which qualifies under the provisions of Section 401(k) of the Internal Revenue Code. The employer under this plan will contribute 4% of salaries regardless of the amount of the employee contribution. The employer will additionally match up to 4% of employee contributed funds. Eligible employees may contribute up to 15% of their salaries under the terms of this plan.

NOTE 10 - INTERFUND TRANSFERS

During the normal course of the school year the Academy transferred amounts between its major funds as follows:

	<u>General</u>	<u>Debt Service</u>
Transfer In	\$ -	\$ 694,137
Transfer Out	694,137	-

As stipulated by the Academy's revenue bond agreement as described in Note 8, the Academy must transfer 20% of its state aid to a trustee. The trustee retains the required portion for debt service and returns the remainder to the Academy. The general fund also subsidizes the Special Revenue Funds lunch activities. These above transactions account for the major activity in the Academy's interfund transfer accounts.

NOTE 11 - RISK MANAGEMENT

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's 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 have not exceeded the amount of insurance coverage in any of the past three fiscal years.

SUPPLEMENTARY INFORMATION

MERRITT ACADEMY

REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Local sources	\$ 104,000	\$ 105,518	\$ 104,298	\$ (1,220)
State sources	5,210,055	5,310,897	5,307,876	(3,021)
Federal sources	271,000	305,054	301,426	(3,628)
Other sources	65,000	65,000	64,955	(45)
Total general fund revenues	5,650,055	5,786,469	5,778,555	(7,914)
Expenditures				
Instruction				
Basic programs	2,569,529	2,614,458	2,604,253	(10,205)
Added needs	519,328	410,507	403,355	(7,152)
Support services				
Pupil support services	124,341	167,709	173,152	5,443
Instructional staff support services	27,900	41,108	37,288	(3,820)
General administration	665,120	677,311	676,720	(591)
School administration	422,830	415,621	413,655	(1,966)
Business support services	41,700	44,500	43,156	(1,344)
Operations and maintenance	378,600	493,642	455,950	(37,692)
Pupil transportation services	55,000	60,000	57,600	(2,400)
Central support services	23,000	19,500	14,299	(5,201)
Athletic activities	60,000	100,680	104,399	3,719
Community services	13,115	12,435	12,293	(142)
Capital outlay	-	12,000	48,274	36,274
Total general fund expenditures	4,900,463	5,069,471	5,044,394	(25,077)
Excess (deficiency) of revenues over expenditures	749,592	716,998	734,161	17,163
Other Financing Sources (Uses)				
Operating transfers out	(696,000)	(696,000)	(694,137)	1,863
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	53,592	20,998	40,024	19,026
Fund balance - July 1, 2016	463,402	463,402	463,402	-
Fund balance - June 30, 2017	<u>\$ 516,994</u>	<u>\$ 484,400</u>	<u>\$ 503,426</u>	<u>\$ 19,026</u>

MERRITT ACADEMY

SCHEDULE OF REVENUES – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2017

Local Sources

Authorizer grant	\$	762
Student activities		60,632
Other local revenues		<u>42,904</u>
Total local sources		104,298

State Sources

At risk		124,363
Great start readiness program		264,164
Special education		80,812
State aid		<u>4,838,537</u>
Total state sources		5,307,876

Federal Sources

IDEA		140,938
Title I		100,859
Title II A		8,300
Other program revenue		<u>51,329</u>
Total federal sources		301,426

Interdistrict Sources

		<u>64,955</u>
Total general fund revenues	\$	<u><u>5,778,555</u></u>

MERRITT ACADEMY

SCHEDULE OF EXPENDITURES – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2017

Basic Programs

Purchased services	\$ 2,466,993
Supplies and materials	115,029
Other expenditures	<u>22,231</u>
Total basic programs	2,604,253

Added Needs

Purchased services	399,999
Supplies and materials	<u>3,356</u>
Total added needs	403,355

Pupil Support Services

Guidance services	74,649
Psychological services	6,210
Speech pathology and audiology	54,939
Social work services	<u>37,354</u>
Total pupil support services	173,152

Instructional Staff Support Services

Purchased services	23,499
Supplies and materials	<u>13,789</u>
Total instructional staff support services	37,288

General Administration

Purchased services	31,220
Management fees	500,000
University oversight	144,488
Other expenditures	<u>1,012</u>
Total general administration	676,720

School Administration

Purchased services	398,995
Supplies and materials	5,320
Other expenditures	<u>9,340</u>
Total school administration	413,655

MERRITT ACADEMY

SCHEDULE OF EXPENDITURES – GENERAL FUND - CONTINUED FOR THE YEAR ENDED JUNE 30, 2017

Business Support Services

Purchased services	22,664
Other expenditures	<u>20,492</u>
Total business support services	43,156

Operations and Maintenance

Purchased services	23,759
Repairs and maintenance	362,499
Other purchased services	125
Supplies and materials	69,487
Other expenditures	<u>80</u>
Total operations and maintenance	455,950

Pupil Transportation Services

Other expenditures	57,600
--------------------	--------

Central Support Services

Other expenditures	14,299
--------------------	--------

Athletic Activities

Purchased services	27,439
Other expenditures	<u>76,960</u>
Total athletic activities	104,399

Community Services

Purchased services	11,254
Other expenditures	<u>1,039</u>
Total community services	12,293

Capital Outlay

	<u>48,274</u>
Total general fund expenditures	<u><u>\$ 5,044,394</u></u>