



# WEINLANDER FITZHUGH

BAY CITY ACADEMY  
BAY CITY, MICHIGAN  
FINANCIAL STATEMENTS  
JUNE 30, 2018

TABLE OF  
CONTENTS

Independent Auditor's Report	1 - 3
Management's Discussion and Analysis	4 - 9
Basic Financial Statements	
Academy-wide Financial Statements	
Statement of Net Position	10
Statement of Activities	11
Fund Financial Statements	
Governmental Funds:	
Balance Sheet	12
Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Position	13
Statement of Revenues, Expenditures and Changes in Fund Balance	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	15
Fiduciary Fund:	
Statement of Fiduciary Net Position	16
Notes to Financial Statements	17 - 26
Required Supplemental Information	
Budgetary Comparison Schedule - General Fund	27
Other Supplemental Information	
Balance Sheet - Nonmajor Governmental Fund	28
Statement of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Governmental Fund	29
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	30 - 31
Schedule of Findings and Responses	32 - 35
Summary of Prior Year Findings	36



# WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS  
& CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

October 22, 2018

Board of Directors  
Bay City Academy  
Bay City, Michigan

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, its major fund and the aggregate remaining fund information of Bay City Academy (Academy), as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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 U.S. generally accepted auditing standards 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 Academy'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 Academy'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.



Board of Directors  
Bay City Academy  
October 22, 2018

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, its major fund and the aggregate remaining fund information of Bay City Academy as of June 30, 2018 and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

## ***Emphasis of Matter***

### *Going Concern*

The accompanying financial statements have been prepared assuming that the Academy will continue as a going concern. As discussed in Note 16 to the financial statements, the Academy has incurred a significant operating deficit in 2015 resulting in a cash flow shortage. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding these matters also are described in Note 16. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis and budgetary comparison information as noted 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 U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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



# WEINLANDER FITZHUGH

Board of Directors  
Bay City Academy  
October 22, 2018

The nonmajor fund financial statements 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 U.S. generally accepted auditing standards. In our opinion, the nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2018, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

*Weinlander Fitzhugh*

**BAY CITY ACADEMY**  
Management's Discussion & Analysis  
For the Year Ended June 30, 2018

Our discussion and analysis of Bay City Academy's (Academy) financial performance provides an overview of the Academy's financial activities for the fiscal year ended June 30, 2018.

**Financial Highlights**

The Academy's net position increased by \$96,696. Program revenues were \$656,819 or 21% of total revenues, and general revenues were \$2,424,786 or 79%.

The General Fund reported a negative fund balance of \$(1,165,058). The Food Service Fund reported a positive fund balance of \$37,167.

**Using this Annual Financial Report**

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy financially as a whole. The *Academy-wide Financial Statements* provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Academy's operations in more detail than the Academy-wide financial statements by providing information about the Academy's most significant funds - the General Fund with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net position, presents financial information about activities for which the Academy acts solely as an agent for the benefit of students. The following summarizes the presentation included in this annual financial report.

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

Basic Financial Statements

- Academy-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Budgetary Information for the General Fund (Required Supplemental Information)

Other Supplemental Information

**BAY CITY ACADEMY**  
Management's Discussion & Analysis  
For the Year Ended June 30, 2018

**Reporting the Academy as a Whole**

*The Statement of Net Position and Statement of Activities*

One of the most important questions asked about the Academy's finances is: "Is the Academy better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Academy as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the Academy's net position as a way to measure the Academy's financial position. The change in net position provides the reader a tool to assist in determining whether the Academy's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as student enrollment growth and facility conditions in arriving at their conclusion regarding the overall health of the Academy.

**Reporting the Academy's Most Significant Funds**

*Fund Financial Statements*

The Academy's fund financial statements provide detailed information about the most significant funds - not the Academy as a whole. Some funds are required to be established by State law. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using grants and other sources of revenue. The Academy's two types of funds, governmental and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

*Governmental Funds*

Most of the Academy's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Academy's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the Academy's programs.

*Fiduciary Funds*

The Academy is the trustee, or fiduciary, for its student activity funds and scholarship funds. All of the Academy's fiduciary activities are reported in separate Statement of Fiduciary Net Position. We exclude these activities from the Academy's other financial statements because the assets cannot be utilized by the Academy to finance its operations.

**BAY CITY ACADEMY**  
**Management's Discussion & Analysis**  
For the Year Ended June 30, 2018

**Academy-wide Financial Analysis**

The statement of net position provides the perspective of the Academy as a whole. Exhibit A provides a summary of the Academy's net position as of June 30, 2018 and 2017:

<b>Exhibit A</b>	Governmental Activities	
	2018	2017
<b>Assets</b>		
Current and other assets	\$ 869,886	\$ 812,638
Capital assets - net of accumulated depreciation	109,708	130,750
Total assets	979,594	943,388
<b>Liabilities</b>		
Current liabilities	2,033,474	2,066,886
Long-term liabilities	50,242	77,320
Total liabilities	2,083,716	2,144,206
<b>Net Position</b>		
Net investment in capital assets	27,256	22,201
Restricted	37,167	37,529
Unrestricted	(1,168,545)	(1,260,548)
Total net position	\$ (1,104,122)	\$ (1,200,818)

The analysis above focuses on net position (see Exhibit A). The Academy's net position of governmental activities was \$(1,104,122) at June 30, 2018. Restricted net position is reported separately to show legal constraints from legislation that limit the Academy's ability to use that net position for day-to-day operations.

The \$(1,168,545) in unrestricted net position of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.



**BAY CITY ACADEMY**  
**Management's Discussion & Analysis**  
For the Year Ended June 30, 2018

The results of this year's operations for the Academy as a whole are reported in the statement of activities. Exhibit B provides a summary of the changes in net position for the years ended June 30, 2018 and 2017.

<b>Exhibit B</b>	Governmental Activities	
	2018	2017
<b>Revenues</b>		
Program revenue:		
Charges for services	\$ 1,112	\$ 0
Grants and categoricals	655,707	584,442
General revenue:		
State aid	2,424,771	2,563,052
Other	15	16
	3,081,605	3,147,510
<b>Function/Program Expenses</b>		
Instruction	1,885,057	2,071,470
Support services	964,552	1,055,527
Food service	110,413	111,610
Interest	3,845	9,758
Depreciation (Unallocated)	21,042	20,758
	2,984,909	3,269,123
<b>Change in Net Position</b>	<b>\$ 96,696</b>	<b>\$ (121,613)</b>

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$2,984,909. Certain activities were partially funded by the other governments and organizations that subsidized certain programs with grants and categoricals of \$655,707. We paid for the remaining "public benefit" portion of our governmental activities with, \$2,424,771 in state aid and with our other revenues, such as interest and entitlements.

The Academy's governmental activities had an increase in net position of \$96,696.

**The Academy's Funds**

The Academy uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Academy is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Academy's overall financial health.

**BAY CITY ACADEMY**  
**Management's Discussion & Analysis**  
**For the Year Ended June 30, 2018**

The Academy's governmental funds reported a combined fund balance of \$(1,127,891), which is above last year's total of \$(1,217,167). The schedule below indicates the fund balance and the total change in fund balances as of June 30, 2018 and 2017.

	Fund Balance 6/30/2018	Fund Balance 6/30/2017	Increase (Decrease)
General	\$ (1,165,058)	\$ (1,254,696)	\$ 89,638
Special Revenue	37,167	37,529	(362)
	\$ (1,127,891)	\$ (1,217,167)	\$ 89,276

- Our General Fund increase is mainly attributable to decreasing expenditures.
- Our Special Revenue Fund had a slight decrease as projected per final amended budget.

**General Fund Budgetary Highlights**

Over the course of the year, the Academy revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

- Budgeted revenues decreased over original budget by \$50,972 because of the decrease in State Aid.
- Budgeted expenditures decreased over original budget by \$181,571 because of a decrease in spending.
- Actual revenues exceeded final budgeted revenues by \$4,167 .
- Actual expenditures exceeded final budgeted expenditures by \$64,474.

**Capital Assets**

At June 30, 2018, the Academy had \$109,708 invested in two school buses.

	Governmental Activities	
	2018	2017
Buses	\$ 168,334	\$ 168,334
Less accumulated depreciation	58,626	37,584
Net capital assets	\$ 109,708	\$ 130,750

The Academy did not have any fixed asset additions as of June 30, 2018.

**BAY CITY ACADEMY**  
Management's Discussion & Analysis  
For the Year Ended June 30, 2018

**Factors Expected to have an Effect on Future Operations**

Our elected Board and Administration consider many factors when setting the Academy's 2019 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The 2019 fiscal year budget was adopted in June 2018, based on an estimate of students that will be enrolled in September 2018. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2018-2019 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2019 fiscal year budget. Once the final student count and related per pupil funding is validated, state law requires the Academy to amend the budget if actual district resources are not sufficient to fund original appropriations.

The Academy has added 10<sup>th</sup> grade at the Bay City campus for the 2017-2018 year. The Academy will continue to add a grade for the next two years. Making the current 10<sup>th</sup> graders the first class to graduate high school from Bay City Academy. The availability of additional grades should allow the Academy to grow and serve its current students needs.

Since the Academy's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates funds are sufficient to fund the appropriation until 2018-2019.

**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 Academy. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Office of the Superintendent  
Bay City Academy  
301 N. Farragut St.  
Bay City, MI 48708

BAY CITY ACADEMY  
Statement of Net Position  
June 30, 2018

	Governmental Activities
<u>Assets</u>	
Cash	\$ 179,169
Accounts receivable	50
Internal balances	3,403
Due from other governmental units	576,141
Prepaid expenses	111,123
Capital assets less accumulated depreciation \$58,626	109,708
Total assets	979,594
<u>Liabilities</u>	
Accounts payable	15,806
Notes payable	1,816,883
Accrued payroll	162,588
Unearned revenue	2,500
Accrued interest payable	3,487
Long-term liabilities:	
Due within one year	32,210
Due in more than one year	50,242
Total liabilities	2,083,716
<u>Net Position</u>	
Net investment in capital assets	27,256
Restricted for food service	37,167
Unrestricted	(1,168,545)
Total net position	\$ (1,104,122)

See accompanying notes to financial statements.

BAY CITY ACADEMY  
Statement of Activities  
For the Year Ended June 30, 2018

	Program Revenues			Governmental Activities
Expenses	Charges for Services	Operating Grants/ Contributions	Net (Expense) Revenue and Changes in Net Position	
<u>Functions/Programs</u>				
Primary government -				
Governmental activities:				
Instruction	\$ 1,885,057	\$ 0	\$ 508,486	\$ (1,376,571)
Support services	964,552	0	38,282	(926,270)
Food service	110,413	1,112	108,939	(362)
Interest	3,845	0	0	(3,845)
Depreciation (Unallocated)	21,042	0	0	(21,042)
Total governmental activities	\$ 2,984,909	\$ 1,112	\$ 655,707	(2,328,090)
General revenues:				
State aid				2,424,771
Interest and investment earnings				15
Total general revenues				2,424,786
Change in net position				96,696
Net position - beginning of year				(1,200,818)
Net position - end of year				\$ (1,104,122)

See accompanying notes to financial statements.

BAY CITY ACADEMY  
 Governmental Funds  
 Balance Sheet  
June 30, 2018

	General	Other Nonmajor Governmental Fund	Total
<u>Assets</u>			
Cash	\$ 177,505	\$ 1,664	\$ 179,169
Receivables - net:			
Accounts receivable	50	0	50
Due from other funds	12,591	26,773	39,364
Due from other governmental units	558,223	17,918	576,141
Prepaid expenditures	111,123	0	111,123
Total assets	\$ 859,492	\$ 46,355	\$ 905,847
<u>Liabilities and Fund Balance</u>			
<u>Liabilities</u>			
Accounts payable	\$ 15,806	\$ 0	\$ 15,806
Due to other funds	26,773	9,188	35,961
Notes payable	1,816,883	0	1,816,883
Accrued payroll	162,588	0	162,588
Unearned revenue	2,500	0	2,500
Total liabilities	2,024,550	9,188	2,033,738
<u>Fund Balance</u>			
Nonspendable - prepaid	111,123	0	111,123
Restricted for food service	0	37,167	37,167
Unassigned	(1,276,181)	0	(1,276,181)
Total fund balance	(1,165,058)	37,167	(1,127,891)
Total liabilities and fund balance	\$ 859,492	\$ 46,355	\$ 905,847

See accompanying notes to financial statements.

BAY CITY ACADEMY  
Reconciliation of Balance Sheet of Governmental Funds  
to the Statement of Net Position  
June 30, 2018

Total fund balance - governmental funds	\$ (1,127,891)
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	
Cost of the capital assets	168,334
Accumulated depreciation	(58,626)
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Notes payable	(82,452)
Accrued interest payable is included as a liability in governmental activities	<u>(3,487)</u>
Total net position - governmental activities	<u>\$ (1,104,122)</u>

See accompanying notes to financial statements.

BAY CITY ACADEMY  
 Governmental Funds  
 Statement of Revenues, Expenditures and Changes in Fund Balance  
 For the Year Ended June 30, 2018

	General	Other Nonmajor Governmental Fund	Total
<u>Revenues</u>			
Local	\$ 38,297	\$ 1,112	\$ 39,409
State	2,690,143	4,666	2,694,809
Federal	243,114	104,273	347,387
Total revenues	2,971,554	110,051	3,081,605
<u>Expenditures</u>			
Current:			
Instruction	1,885,057	0	1,885,057
Support services	996,859	0	996,859
Food services	0	110,413	110,413
Total expenditures	2,881,916	110,413	2,992,329
Net change in fund balance	89,638	(362)	89,276
Fund balance - beginning of year	(1,254,696)	37,529	(1,217,167)
Fund balance - end of year	\$ (1,165,058)	\$ 37,167	\$ (1,127,891)

See accompanying notes to financial statements.



**BAY CITY 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, 2018**

Net change in fund balance - total governmental funds	\$	89,276
<p style="margin-left: 20px;">Amounts reported for governmental activities in the statements of activities are different because:</p>		
<p style="margin-left: 40px;">Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation</p>		
Depreciation expense		(21,042)
<p style="margin-left: 20px;">Long-term liabilities are not due and payable in the current period and are not reported in the funds:</p>		
Debt proceeds		(5,132)
Principal payments		31,229
Accrued interest are reported as a reduction in expenditures on the Statement of Activities		2,365
Change in net position of governmental activities	\$	96,696

See accompanying notes to financial statements.

BAY CITY ACADEMY  
Fiduciary Fund  
Statement of Fiduciary Net Position  
June 30, 2018

	<u>Agency Fund</u>
<u>Assets</u>	
Cash	\$ <u>24,014</u>
<u>Liabilities</u>	
Due to student groups	\$ 20,611
Due to other funds	<u>3,403</u>
Total liabilities	<u>\$ 24,014</u>

See accompanying notes to financial statements.

**BAY CITY ACADEMY**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Bay City Academy (Academy) conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy:

**Reporting Entity**

The Academy is governed by an appointed Board of Directors and is authorized by Lake Superior State University. 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 financial relationships that determine which of the governmental organizations are a part of the Academy's reporting entity, and which organizations are legally separate component units of the Academy. The Academy has no component units.

**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 government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes; (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. Taxes, intergovernmental payments and other items are not properly included among program revenues are reported as general revenue.

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

**BAY CITY ACADEMY**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

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

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 revenue includes all taxes and unrestricted state aid.

**Fund-based Statements** - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenue 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 revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The Academy reports the following major 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.

**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** - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

BAY CITY ACADEMY  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Prepaid Items** - Certain payments to vendors reflect costs applicable to future fiscal years and is recorded as prepaid items in both academy-wide and fund financial statements.

**Capital Assets** - Capital assets, which include vehicles, are reported in the applicable governmental activities column in the academy-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and any asset susceptible to theft. 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 lives are not capitalized. The Academy does not have infrastructure-type assets.

Vehicles are depreciated using the straight-line method over the following useful lives:

Buses and other vehicles	8 years
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**Long-term Obligations** - In the academy-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

**Fund Equity** - The fund balance classifications are reported on the extent to which a government is bound to observe constraints imposed on the use of the resources in governmental funds. The fund balances are classified as nonspendable, restricted, committed, assigned and unassigned.

Nonspendable fund balance represents amounts that are not in a spendable form. The Academy's nonspendable fund balance represents prepaid expenditures. In the fund financial statements, governmental funds report restrictions on fund balances for amounts that are legally restricted by outside parties for a specific purpose. Committed fund balance represents funds formally set aside by the Academy for a particular purpose. The use of committed funds would be approved by the Board of Directors through the budget process or official Board action.

Assigned fund balance would represent tentative management plans that are subject to change which at the present time the Academy does not have any assigned fund balance. The Academy's intent would be to spend uncommitted/unassigned funds prior to the use of committed funds. 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.

**Deferred Outflows and Inflows of Resources**

**Deferred outflows** - In addition to assets, the statement 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. The Academy has no items that qualify under this category.

BAY CITY ACADEMY  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Deferred Inflows** - 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 no items that qualify under this category.

**Use of Estimates** - The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**State Aid** - For the fiscal year ended June 30, 2018, the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2018, the foundation allowance was based on the average pupil membership counts taken in February of 2017 and September of 2017.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through payments from October 2017 - August 2018. The local revenue is recognized as outlined in Note 1. Amounts receivable from the State of Michigan at June 30, 2018 relating to state aid is \$488,909.

The Academy also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

**Events Occuring After Reporting Date** - Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying Independent Auditor's Report, which is the date the financial statements were available to be issued.

**BAY CITY ACADEMY**  
**Notes to Financial Statements**  
For the Year Ended June 30, 2018

**NOTE 2 - BUDGETS**

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of school districts and public school academies prior to the expenditure of monies in a fiscal year.

Bay City Academy follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Academy's Superintendent submits to the Board of Directors a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board of Directors throughout the year. Budgets are adopted to the functional level.
4. Appropriations lapse at year-end and therefore cancels all encumbrances. These appropriations are re-established at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Directors) for the General Fund is presented as Required Supplemental Information.

Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the General Fund are noted in the required supplementary information section.

**NOTE 3 - CASH AND INVESTMENTS**

Some 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 investment pools that are composed of authorized investment vehicles. The Academy's deposits are in accordance with statutory authority.

At year-end, the Academy's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and Investments	\$ 179,169	\$ 24,014	\$ 203,183

The breakdown between deposits and investments for the Academy is as follows:

Deposits (checking and savings accounts, certificates of deposit)	\$ 203,183
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**BAY CITY ACADEMY**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2018**

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

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.

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, 2018, the Academy's investment in the investment pool was rated AAA by Standard & Poor's.

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, 2018, \$6,651 of the Academy's bank balance of \$262,759 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Fair Value Measurement

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

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

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

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

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

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



**BAY CITY ACADEMY**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2018**

**NOTE 4 - CAPITAL ASSETS**

A summary of changes in governmental capital assets follows:

	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Disposals and</u> <u>Adjustments</u>	<u>Balance</u> <u>June 30, 2018</u>
Capital assets being depreciated:				
Buses	\$ 168,334	\$ 0	\$ 0	\$ 168,334
Accumulated depreciation:				
Buses	37,584	21,042	0	58,626
Net capital assets being depreciated	<u>130,750</u>	<u>(21,042)</u>	<u>0</u>	<u>109,708</u>
Net capital assets	<u>\$ 130,750</u>	<u>\$ (21,042)</u>	<u>\$ 0</u>	<u>\$ 109,708</u>

Depreciation expense for fiscal year ended June 30, 2018 was \$21,042. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

A summary of inter-fund transfers made during the year ended June 30, 2018 is as follows:

		<u>Payables</u>			
		<u>General</u>	<u>Food Service</u>	<u>Agency</u>	<u>Total</u>
Receivables	General	\$ 0	\$ 9,188	\$ 3,403	\$ 12,591
	Food Service	<u>26,773</u>	<u>0</u>	<u>0</u>	<u>26,773</u>
		<u>\$ 26,773</u>	<u>\$ 9,188</u>	<u>\$ 3,403</u>	<u>\$ 39,364</u>

These interfund receivable and payable balances resulted from the time lag between the dates that: (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. There were no interfund transfers in the current year.

**NOTE 6 - RECEIVABLES**

Receivables at June 30, 2018 consist of state aid and grants.

A summary of the intergovernmental receivables (due from other governmental units) follows:

State aid and grants	\$ 488,909
Federal Grants	<u>87,232</u>
	<u>\$ 576,141</u>

**BAY CITY ACADEMY**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2018**

**NOTE 7 - SHORT-TERM DEBT ACTIVITY**

The Academy issues state aid anticipation notes in advance of State of Michigan state aid payments, depositing the proceeds in its General Fund. These notes are necessary because the Academy's cash flow obligation to operating expenses precede the collection of state aid.

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
Wildfire Credit Union, due in March 2015; interest payable at 3.00%. Extended through August 2018.	\$ 518,361	\$ 0	\$ 13,589	\$ 504,772
First National Bank of Michigan due August 2018; interest payable at 3.00%.	<u>1,330,000</u>	<u>0</u>	<u>17,889</u>	<u>1,312,111</u>
	<u>\$ 1,848,361</u>	<u>\$ 0</u>	<u>\$ 31,478</u>	<u>\$ 1,816,883</u>

The Academy has successfully renegotiated the terms of their short-term debt. Wildfire Credit Union and First National Bank of Michigan will receive 3% interest with an additional 3% to be paid toward the unpaid principal balance with the remainder principal balance to be paid in August 2019.

**NOTE 8 - LONG-TERM DEBT**

The following is a summary of governmental long-term obligations for the Academy for the year ended June 30, 2018:

	<u>Balance June 30, 2017</u>	<u>Additions</u>	<u>Retirements and Payments</u>	<u>Balance June 30, 2018</u>	<u>Amount Due Within One Year</u>
Note payable	<u>\$ 108,549</u>	<u>\$ 5,132</u>	<u>\$ 31,229</u>	<u>\$ 82,452</u>	<u>\$ 32,210</u>

Note payable at June 30, 2018 is comprised of the following issues:

\$161,534 for two Blue Bird school buses due in September 2018	<u>\$ 82,452</u>
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The Academy has successfully renegotiated the terms of its bus loan as of September 1, 2018. The new term is in two payments, which one is due in October 2018 with the remainder due in September 2019. Due to the renegotiated terms of the loan, the interest of \$4,225 which was due in September 2018 will be added to the principal amount.

**BAY CITY ACADEMY**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2018**

**NOTE 8 - LONG-TERM DEBT (CONTINUED)**

The annual requirements to amortize the note outstanding as of June 30, 2018, including interest payments are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 32,210	\$ 1,097	\$ 33,307
2020	50,242	968	51,210
	<u>\$ 82,452</u>	<u>\$ 2,065</u>	<u>\$ 84,517</u>

**NOTE 9 - 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.

**NOTE 10 - RETIREMENT PLAN**

All leased employees of the Academy are eligible to participate in a defined contribution retirement plan established by the management company which qualifies under the provision of Section 401(k). Eligible employees may contribute up to 15% of their salaries under the terms of this plan up to prescribed limits. The Academy's contributions to the plan through purchase services for the year ended June 30, 2018 was \$31,238.

**NOTE 11 - GRANTS**

The Academy receives significant financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the Academy's independent auditors and other governmental auditors. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable fund. Based on prior experience, the Academy management believes such disallowance, if any, would be immaterial.

**NOTE 12 - ECONOMIC DEPENDENCY**

The Academy received approximately 91% of their General Fund revenue from the Michigan Department of Education. Due to the significance of this revenue source to the Academy, the Academy is considered to be economically dependent.

**NOTE 13 - LEASE**

The Academy conducts a significant portion of its operations with leased facilities. The lease expense for year ended June 30, 2018 was \$96,000. Minimum future lease payments under noncancelable leases after June 30, 2018 are as follows:

2019	<u>\$ 96,000</u>
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**BAY CITY ACADEMY**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2018**

**NOTE 14 - CONTRACTUAL COMMITMENTS**

The Academy has entered into an agreement with Lake Superior State University's (Lake Superior) Board of Trustees, a public academy authorizing body. Lake Superior exercises oversight functions as authorized by the college board. The amount paid to Lake Superior for oversight functions during the year ended June 30, 2018 was \$80,268.

The Academy entered into a contract with Mitten Educational Management, LLC. Mitten Educational Management LLC provides a variety of services including financial management, leased employees, education programs and consulting as well as teacher training. Management fees paid during the year ended June 30, 2017 was \$266,692.

**NOTE 15 - UPCOMING ACCOUNTING PRONOUNCEMENT**

Governmental Accounting Standards Board (GASB) Statement No. 84, Fiduciary Activities, was issued by GASB in January 2017 and will be effective for the Academy's 2020 year end. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Academics with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

Governmental Accounting Standards Board (GASB) Statement No. 87, Leases, was issued by the GASB in June 2017 and will be effective for the Academy's 2021 year end. The objective of this Statement is to increase the usefulness of governments' financial statements by requiring 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 the 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.

**NOTE 16 - GOING CONCERN**

As of June 30, 2018, the Academy's General Fund liabilities exceeded its assets by \$1,165,058. A plan of action was filed with the State of Michigan. The management team has eliminated several jobs and many other expenditures. The eliminated jobs are being taken over by the management company or will be distributed to other administrative employees. With regard to cutting expenditures, the management company is currently looking to renegotiate the Academy's debt and receive concessions from its current vendors. Expenditures of the Academy are being aggressively bid out in a more formal process.

BAY CITY ACADEMY  
 Required Supplemental Information  
 Budgetary Comparison Schedule - General Fund  
 For the Year Ended June 30, 2018

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Local	\$ 38,550	\$ 46,662	\$ 38,297	\$ (8,365)
State	2,761,735	2,692,607	2,690,143	(2,464)
Federal	218,074	228,118	243,114	14,996
Total revenues	<u>3,018,359</u>	<u>2,967,387</u>	<u>2,971,554</u>	<u>4,167</u>
<u>Expenditures</u>				
Instruction:				
Basic programs	2,013,255	1,845,430	1,885,057	(39,627)
Support services:				
Instructional staff	26,791	30,400	24,885	5,515
General administrative	355,228	380,107	383,899	(3,792)
Business services	173,005	146,866	163,223	(16,357)
Operations and maintenance	298,291	298,083	305,773	(7,690)
Transportation	62,616	51,928	58,937	(7,009)
Support other	37,520	32,321	27,835	4,486
Principal	31,229	31,229	31,229	0
Interest	1,078	1,078	1,078	0
Total expenditures	<u>2,999,013</u>	<u>2,817,442</u>	<u>2,881,916</u>	<u>(64,474)</u>
Net change in fund balance	19,346	149,945	89,638	(60,307)
Fund balance - beginning of year	<u>(1,254,696)</u>	<u>(1,254,696)</u>	<u>(1,254,696)</u>	<u>0</u>
Fund balance - end of year	<u>\$ (1,235,350)</u>	<u>\$ (1,104,751)</u>	<u>\$ (1,165,058)</u>	<u>\$ (60,307)</u>

**BAY CITY ACADEMY**  
**Other Supplemental Information**  
**Balance Sheet**  
**Nonmajor Governmental Fund**  
June 30, 2018

		<u>Special Revenue Fund</u> <u>Food Service</u>
<u>Assets</u>		
Cash	\$	1,664
Receivables - net:		
Due from other funds		26,773
Due from other governmental units		<u>17,918</u>
Total assets		<u>\$ 46,355</u>
<u>Liabilities and Fund Balance</u>		
<u>Liabilities</u>		
Due to other funds	\$	<u>9,188</u>
<u>Fund Balance</u>		
Restricted for food service		<u>37,167</u>
Total liabilities and fund balance		<u>\$ 46,355</u>

**BAY CITY ACADEMY**  
**Other Supplemental Information**  
**Statement of Revenues, Expenditures**  
**and Changes in Fund Balance - Nonmajor Governmental Fund**  
**For the Year Ended June 30, 2018**

	<u>Special</u> <u>Revenue Fund</u> <u>Food Service</u>
<u>Revenues</u>	
Local	\$ 1,112
State	4,666
Federal	<u>104,273</u>
Total revenues	110,051
 <u>Expenditures</u>	
Current:	
Food services	<u>110,413</u>
Net change in fund balance	(362)
Fund balance - beginning of year	<u>37,529</u>
Fund balance - end of year	<u><u>\$ 37,167</u></u>



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

October 22, 2018

Board of Directors  
Bay City Academy  
Bay City, Michigan

We have audited, in accordance with U.S. generally accepted auditing standards 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 Bay City Academy (Academy), as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise Bay City Academy's basic financial statements and have issued our report thereon dated October 22, 2018.

### Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 have not been identified. However, as described in the accompanying schedule of findings and responses we identified certain deficiency in internal control that we consider to be a material weakness and a significant deficiency.

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 Academy's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness: 2018-002.





Board of Directors  
Bay City Academy  
October 22, 2018

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. We consider the deficiency in the accompanying schedule of findings and responses to be a significant deficiency: 2018-001.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Bay City 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2018-003 and 2018-004.

### **Response to Findings**

Bay City Academy's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Bay City Academy's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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 Academy'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 Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Weinlander Fitzhugh*

BAY CITY ACADEMY  
Schedule of Findings and Responses  
For the Year Ended June 30, 2018

**2018-001 (Repeat Finding 2017-001)**

Criteria or Specific Requirement

The preparation of financial statements is the responsibility of the Academy management and requires internal controls over both; (1) recording, processing and summarizing financial data (i.e., maintaining internal books and records) and (2) reporting this financial data in the form of financial statements, including all related footnote disclosures (i.e., external financial reporting).

Condition

As is the case with many small schools, the Academy is relying on their independent external auditors to assist with preparation of the financial statements and related note disclosures as part of its external financial reporting process.

Cause/Effect

This condition was caused by the Academy's decision that it is more cost effective to outsource the preparation of its annual financial statements to auditors than to incur the time and expense to obtain the necessary training and expertise required by the Academy to perform this task internally. The Academy's ability to adjust its books and records and prepare financial statements is based, in part, on its reliance on its external auditors who cannot, by definition, be considered a part of the Academy's internal control.

Recommendation

We recommend the Board review this decision annually and evaluate the cost effectiveness of outsourcing the preparation process to determine if this function can be implemented internally.

Views of the Responsible Officials and Planned Corrective Action

We have determined the cost of completing GAAP basis financial statements internally outweighs the benefit to be received. Refer to our corrective action plan for additional information.

BAY CITY ACADEMY  
Schedule of Findings and Responses  
For the Year Ended June 30, 2018

**2018-002 (Repeat Finding 2017-002)**

Criteria or Specific Requirement

The State of Michigan requires Michigan School Districts to maintain appropriate controls over expenditures so that disbursements do not exceed budgeted amounts.

Condition

The Academy incurred unfavorable variances in a number of its General Fund expenditure accounts. These variances resulted in a violation of the Uniform Accounting and Budgeting and Budgeting Act, Michigan Public Act of 1978 (Act).

Cause/Effect

The Academy did not appropriately monitor actual expenditures and budget amounts so that disbursements were within the approved budget.

Recommendation

We recommend the Academy should implement measures to monitor its financial activity and amend its budgets when necessary, in accordance with requirements of the Act.

Views of the Responsible Officials and Planned Corrective Action

The management team will monitor the budget and make sure that actual expenditures do not exceed the budgeted expenditures. Refer to our corrective action plan for additional information.

**BAY CITY ACADEMY**  
**Schedule of Findings and Responses**  
**For the Year Ended June 30, 2018**

**2018-003 (Repeat Finding 2017-003)**

Criteria or Specific Requirement

The Uniform Accounting and Budgeting Act, Michigan Public Act of 1978, does not allow a local unit of government to have a deficit fund balance.

Condition

As of June 30, 2018, the General Fund has an unassigned deficit fund balance.

Cause/Effect

Lack of adequate budgetary controls in 2015 contributed to the significant accumulated deficit at June 30, 2018. The Academy is not in compliance with the Michigan Uniform Accounting and Budgeting Act for its General Fund.

Recommendation

We recommend that management and the Board of Directors review the 2018-2019 fiscal year budget and continue to work with the State of Michigan to develop a plan to eliminate the unassigned deficit in the General Fund.

Views of the Responsible Officials and Planned Corrective Action

A plan of action filed with the State of Michigan. The management team has eliminated several jobs and many other expenses. The eliminated jobs are being taken over by the new management company or distributed to other administrative employees. With regard to cutting expenditures, the new management company has renegotiated the Academy's debt and received concessions from current vendors. Expenditures of the Academy are being aggressively bid out in a more formal process. Refer to our corrective action plan for additional information.

BAY CITY ACADEMY  
Schedule of Findings and Responses  
For the Year Ended June 30, 2018

**2018-004 (Repeat Finding 2017-004)**

Criteria or Specific Requirement

The Uniform Accounting and Budgeting Act, Michigan Public Act 621 of 1978, does not allow a local unit of government to adopt a budget projecting an overall deficit in its fund balance at year end.

Condition

The final approved budget adopted for the General Fund for the 2017-2018 reflected a deficit fund balance at year end.

Cause/Effect

Lack of adequate budgetary controls in 2015 contributed to the significant accumulated deficit at June 30, 2017. The Academy is not in compliance with the Michigan Uniform Accounting and Budgeting Act for its General Fund.

Recommendation

We recommend that management and the Board of Directors review the General Fund budget for 2018-2019 and modify expected revenues and expenditures to work toward a balanced budget.

Views of the Responsible Officials and Planned Corrective Action

The management team and the Board of Directors will be working to closely monitor the Academy's budget as it pertains to the actual expenditures. Refer to our corrective action plan for additional information.

BAY CITY ACADEMY  
Summary Schedule of Prior Year Findings  
For the Year Ended June 30, 2018

**2017-001, 002, 003 and 004**

Audit Finding

All audit findings listed above are repeat findings in the current year.

Corrective Action Taken

Corrective action plans were not implemented.