

**LEELANAU MONTESSORI PUBLIC  
SCHOOL ACADEMY**

**REPORT ON FINANCIAL STATEMENTS  
(with required supplementary information)**

**YEAR ENDED JUNE 30, 2019**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Leelanau Montessori Public School Academy

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Leelanau Montessori Public School Academy, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Leelanau Montessori Public School 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Leelanau Montessori Public School Academy, as of June 30, 2019, 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.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary 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 other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2019, on our consideration of Leelanau Montessori Public School 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 solely 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 Leelanau Montessori Public School Academy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering Leelanau Montessori Public School Academy's internal control over financial reporting and compliance.

*Maney Costeiran PC*

September 27, 2019

## MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Leelanau Montessori Public School Academy’s (Academy) annual financial report presents our discussion and analysis of the public school Academy’s financial performance during the fiscal year that ended on June 30, 2019. Please read it in conjunction with the Academy’s financial statements, which immediately follow this section.

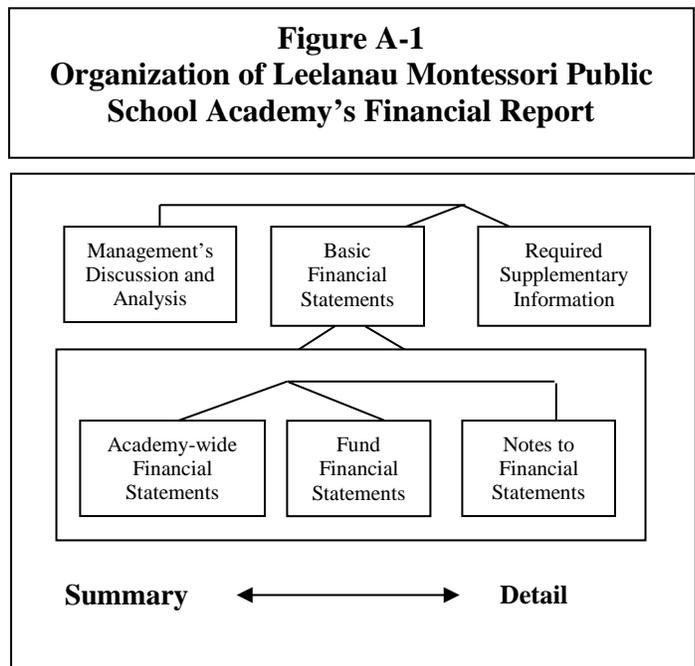
### Financial highlights

- The Academy had an increase in the fund balance in the general fund of \$46,073, compared to a budgeted increase of \$3,628. This gives the Academy a general fund balance of \$115,644.

## 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 Academy:

- The first two statements are Academy-wide *financial statements* that provide both short-term and long-term information about the Academy’s overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Academy, reporting the Academy’s operations in more detail than the Academy-wide statements.
- The *governmental funds* statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
- Fiduciary fund statements provide information about the financial relationships in which the Academy acts solely as a trustee or agent for the benefit of others.



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 Academy’s budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

Figure A-2 summarizes the major features of the Academy’s financial statements, including the portion of the Academy’s 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.

**Figure A-2 Major features of the Academy-wide and fund financial statements**

	Academy-wide statements	Governmental funds	Fiduciary funds
Scope	Entire academy (except fiduciary funds)	All activities of the academy that are not fiduciary	Instances in which the Academy 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 assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	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, the Academy’s funds do not currently contain capital assets, although they can
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

**Academy-wide statements**

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the Academy’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 Academy-wide statements report the Academy’s net position and how they have changed. Net position - the difference between the Academy’s assets and liabilities, is one way to measure the Academy’s financial health or position.

- Over time, increases or decreases in the Academy’s net position is an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy’s enrollment, the condition of school buildings and other facilities, and the Academy’s ability to be competitive with other public school academies and area school districts.

Governmental activities - The Academy's basic services are included here, such as regular and special education and administration. State foundation aid finances most of these activities.

### **Fund financial statements**

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

- Some funds are required by State law and by debt agreements.
- The Academy could establish other funds to control and manage money for particular purposes (like school lunch).

The Academy has two kinds of funds:

All of the Academy'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 Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

Fiduciary funds - the Academy is the trustee, or fiduciary, for assets that belong to others, such as student activity funds. The Academy is responsible for ensuring that the assets reported in these funds are used for the intended purposes and by those to whom the assets belong. We exclude these activities from the Academy-wide financial statements because the Academy cannot use these assets to finance its operations.

### **Financial analysis of the Academy as a whole**

Net position - the Academy's combined net position of \$276,597 decreased by \$(33,892) during the year. See Figures A-3 and A-4.

The total revenues amounted to \$812,783. The state aid foundation allowance included in revenue from state sources accounts for approximately 64% of the Academy's revenue.

The total cost of instruction amounted to \$426,679. Total support service amounted to \$331,625. Total community service amounted to \$4,128. Other expenses amounted to \$84,243.

**Academy governmental activities**

<b>Figure A-3</b>		
<b>Leelanau Montessori Public School Academy's Net Position</b>		
	2019	2018
Current assets	\$ 249,693	\$ 450,798
Capital assets	1,250,352	880,607
Total assets	<u>1,500,045</u>	<u>1,331,405</u>
Other liabilities	119,748	209,383
Long-term liabilities	1,103,700	811,533
Total liabilities	<u>1,223,448</u>	<u>1,020,916</u>
Net position:		
Net investment in capital assets	158,352	80,887
Unrestricted	118,245	229,602
Total net position	<u>\$ 276,597</u>	<u>\$ 310,489</u>

<b>Figure A-4</b>		
<b>Changes in Leelanau Montessori Public School Academy's Net Position</b>		
	2019	2018
Revenues:		
Program revenues:		
Operating grants	\$ 49,678	\$ 89,014
Charges for services	228,041	84,852
Capital contributions	-	222,500
Total program revenues	<u>277,719</u>	<u>396,366</u>
General revenues:		
State aid - unrestricted	519,559	644,354
Intermediate sources	7,507	7,140
Other	7,998	25,623
Total revenues	<u>812,783</u>	<u>1,073,483</u>
Expenses:		
Instruction	426,679	484,537
Support services	331,625	395,479
Community services	4,128	4,349
Interest on long-term debt	60,936	-
Unallocated depreciation	23,307	1,357
Total expenses	<u>846,675</u>	<u>885,722</u>
Change in net position	<u>\$ (33,892)</u>	<u>\$ 187,761</u>

## Financial analysis of the Academy's funds

The Academy's general fund balance increased by \$46,073. Instruction expenditures amounted to \$429,079 and support service expenditures amounted to \$322,566. Instruction expenditures and support service expenditures decreased from the reduction of 18 students FTE.

### General fund budgetary highlights

Over the course of the year, the Academy revised the general fund annual operating budget when necessary. Changes were made in both revenue and expenditures which reflected anticipated increases in state aid and actual salary figures for staff.

The Academy's final budget for the general fund anticipated revenues would exceed expenditures by \$3,628. The actual results for the year showed revenues over expenditures of \$46,073.

Actual revenues were \$85,742 less than budgeted, due primarily to unspent grants.

Actual expenditures were \$128,187 less than budgeted, due primarily to the unspent grants and savings in instruction.

By the end of the year ended June 30, 2019, the Academy had invested \$1,250,352 in capital assets net of accumulated depreciation as summarized in Figure A-5. This amount represents an increase of \$369,745 from the beginning of the year. Total depreciation expense for the year was \$33,880. More detailed information about capital assets can be found in Note 4 of the financial statements.

The Academy's capital assets are as follows:

	<b>2019</b>		<b>2018</b>	
	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net book value</b>	<b>Net book value</b>
Land	\$ 84,828	\$ -	\$ 84,828	\$ 84,828
Construction in progress	-	-	-	2,100
Building and additions	1,165,372	24,664	1,140,708	762,091
Furniture and Equipment	89,074	64,258	24,816	31,588
Total	<u>\$ 1,339,274</u>	<u>\$ 88,922</u>	<u>\$ 1,250,352</u>	<u>880,607</u>

### Long-term debt

As of June 30, 2019, the Academy has obligations for compensated absences of \$11,700 and \$1,092,000 of building loan. More detailed information about long term debt can be found in Note 5 to the financial statements.

## **Factors bearing on the Academy's future**

At the time these financial statements were prepared and audited, the Academy was aware of existing circumstances that could significantly affect its financial health in the future.

- The per pupil state aid foundation for 2019-20 is projected to be \$8,111. This amount is an increase of \$240. The Academy's fund balance will continue to be a major focus of the board/administration this year as raising our fund balance will allow us to ensure the necessary programming required for the Academy. Ensuring we have adequate funds for building maintenance and operation is an essential consideration to maintain our fund balance.
- There is a continued commitment to develop board and staff capacity that supports student achievement. The goal is to raise student achievement and further enhance the positive perception of the education the Academy provides area students. This will positively impact student retention and accessions at the Academy.
- The decision by Bay Mills Community College (new authorizer) to grant the Academy an eight-year charter starting July 1<sup>st</sup>, 2018 positively impacts the school. The ability to show families that we will be a viable school choice moving forward will attract new families and support current families, into the future as educational choices are being made by area families.
- The ability to retain qualified teachers will continue to be a focus moving forward. The difficulty in finding a teacher who possesses the appropriate state credentials, along with the Montessori training is challenging.
- The purchase of the Connie Binsfeld building has created our own, independent space for the school. Securing long-term leases with the current tenants creates financial stability and allows the school to continue focusing on student growth.

The Board of Education and management have taken appropriate steps to control cost. Primary consideration was given to maintaining the educational integrity of the program and increasing salaries to align with area school teacher salaries.

## **Contacting the Academy's Financial Management**

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact: Leelanau Montessori Public School Academy, 7401 E. Duck Lake Road, Lake Leelanau, MI 49653. We can be reached by phone at (231) 994-2074.

**BASIC FINANCIAL STATEMENTS**

**LEELANAU MONTESSORI PUBLIC SCHOOL ACADEMY  
STATEMENT OF NET POSITION  
JUNE 30, 2019**

	<u>Governmental activities</u>
<b>ASSETS:</b>	
Cash and cash equivalents	\$ 129,172
Accounts receivable	225
Intergovernmental receivables	119,898
Prepays	398
Capital assets, not being depreciated	84,828
Capital assets, net of accumulated depreciation	<u>1,165,524</u>
<b>TOTAL ASSETS</b>	<u>1,500,045</u>
 <b>LIABILITIES:</b>	
Accounts payable	8,453
Accrued expenditures	58,176
Unearned revenue	53,119
Noncurrent liabilities:	
Due within one year	28,909
Due in more than one year	<u>1,074,791</u>
<b>TOTAL LIABILITIES</b>	<u>1,223,448</u>
 <b>NET POSITION:</b>	
Net investment in capital assets	158,352
Unrestricted	<u>118,245</u>
<b>TOTAL NET POSITION</b>	<u>\$ 276,597</u>

**LEELANAU MONTESSORI PUBLIC SCHOOL ACADEMY  
STATEMENT OF ACTIVITIES  
JUNE 30, 2019**

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program revenues</u>		<u>Governmental activities</u>
		<u>Charges for services</u>	<u>Operating grants</u>	<u>Net (expense) revenue and changes in net position</u>
Governmental activities:				
Instruction	\$ 426,679	\$ 142,487	\$ 36,952	\$ (247,240)
Support services	331,625	78,827	12,726	(240,072)
Community services	4,128	6,727	-	2,599
Interest on long-term debt	60,936	-	-	(60,936)
Unallocated depreciation	23,307	-	-	(23,307)
Total governmental activities	<u>\$ 846,675</u>	<u>\$ 228,041</u>	<u>\$ 49,678</u>	<u>(568,956)</u>
General revenues:				
State sources - unrestricted				519,559
Intermediate sources				7,507
Other				<u>7,998</u>
Total general revenues				<u>535,064</u>
<b>CHANGE IN NET POSITION</b>				(33,892)
<b>NET POSITION, beginning of year</b>				<u>310,489</u>
<b>NET POSITION, end of year</b>				<u>\$ 276,597</u>

See notes to financial statements.

**LEELANAU MONTESSORI PUBLIC SCHOOL ACADEMY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2019**

	<b>General fund</b>	<b>Capital projects</b>	<b>Total governmental funds</b>
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 114,871	\$ 14,301	\$ 129,172
Accounts receivable	225	-	225
Intergovernmental receivables	119,898	-	119,898
Prepays	398	-	398
<b>TOTAL ASSETS</b>	<b>\$ 235,392</b>	<b>\$ 14,301</b>	<b>\$ 249,693</b>
<b>LIABILITIES:</b>			
Accounts payable	\$ 8,453	\$ -	\$ 8,453
Accrued expenditures	58,176	-	58,176
Unearned revenue	53,119	-	53,119
<b>TOTAL LIABILITIES</b>	<b>119,748</b>	<b>-</b>	<b>119,748</b>
<b>FUND BALANCES:</b>			
Nonspendable:			
Prepays	398	-	398
Assigned:			
Capital projects funds	-	14,301	14,301
Unassigned	115,246	-	115,246
<b>TOTAL FUND BALANCES</b>	<b>115,644</b>	<b>14,301</b>	<b>129,945</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 235,392</b>	<b>\$ 14,301</b>	<b>\$ 249,693</b>
<b>Total governmental fund balances</b>			<b>\$ 129,945</b>
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and are not reported in the funds:			
The cost of the capital assets is		\$ 1,339,274	
Accumulated depreciation is		(88,922)	
			1,250,352
Long-term liabilities that are not due and payable in the current period and are not reported in the funds:			
Notes payable			(1,092,000)
Accumulated compensated absences			(11,700)
<b>Net position of governmental activities</b>			<b>\$ 276,597</b>

**LEELANAU MONTESSORI PUBLIC SCHOOL ACADEMY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2019**

	<u>General fund</u>	<u>Capital projects</u>	<u>Total governmental funds</u>
<b>REVENUES:</b>			
Local sources	\$ 232,482	\$ -	\$ 232,482
State sources	537,102	-	537,102
Federal sources	30,789	-	30,789
Other	12,508	-	12,508
Total revenues	<u>812,881</u>	<u>-</u>	<u>812,881</u>
<b>EXPENDITURES:</b>			
Current:			
Instruction:			
Basic programs	358,056	-	358,056
Added needs	71,023	-	71,023
Total instruction	<u>429,079</u>	<u>-</u>	<u>429,079</u>
Support services:			
Pupil	725	-	725
Instructional staff	11,819	-	11,819
General administration	36,661	-	36,661
School administration	125,281	-	125,281
Business services	22,101	-	22,101
Operation and maintenance	106,158	-	106,158
Pupil transportation	926	-	926
Central services	18,895	-	18,895
Total support services	<u>322,566</u>	<u>-</u>	<u>322,566</u>
Community service	4,128	-	4,128
Outgoing transfers and other transactions	98	-	98
Debt service	60,936	-	60,936
Capital outlay	5,001	394,823	399,824
Total expenditures	<u>821,808</u>	<u>394,823</u>	<u>1,216,631</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(8,927)</u>	<u>(394,823)</u>	<u>(403,750)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Proceeds from issuance of debt	-	292,280	292,280
Transfer in	55,000	-	55,000
Transfers out	-	(55,000)	(55,000)
Total other financing sources (uses)	<u>55,000</u>	<u>237,280</u>	<u>292,280</u>
<b>NET CHANGE IN FUND BALANCES</b>	46,073	(157,543)	(111,470)
<b>FUND BALANCES:</b>			
Beginning of year	69,571	171,844	241,415
End of year	<u>\$ 115,644</u>	<u>\$ 14,301</u>	<u>\$ 129,945</u>

See notes to financial statements.

**LEELANAU MONTESSORI PUBLIC SCHOOL ACADEMY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2019**

<b>Net change in fund balances total governmental funds</b>	<b>\$ (111,470)</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. In the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Depreciation expense	(33,880)
Capital outlay	403,625
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items and are as follows:	
Proceeds from long-term debt	(292,280)
Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:	
Accumulated compensated absences, beginning of the year	11,813
Accumulated compensated absences, end of the year	<u>(11,700)</u>
<b>Change in net position of governmental activities</b>	<b><u><u>\$ (33,892)</u></u></b>

**LEELANAU MONTESSORI PUBLIC SCHOOL ACADEMY  
STATEMENT OF ASSETS AND LIABILITIES  
FIDUCIARY FUNDS  
JUNE 30, 2019**

	<u>Agency fund</u>
<b>ASSETS:</b>	
Cash and cash equivalents	\$       3,935
<b>LIABILITIES:</b>	
Due to student other groups	\$       3,935

**LEELANAU MONTESSORI PUBLIC SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

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

**A. Description of 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 nonfiduciary activities of the Academy. All fiduciary activities are reported only in the fund financial statements. *Governmental activities* normally are supported by intergovernmental revenues.

**B. Reporting Entity**

Leelanau Montessori Public School Academy (the “Academy”) is a public school academy as part of the Michigan Public School system under Public Act No. 362 of 1993. Beginning July 2018, Bay Mills Community College is the authorizing governing body for the Academy and has contracted with the Academy to charter the public school through June 2026 and The Academy’s Board of Directors is approved by the authorizing body for the Academy and has decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for the fiscal matters. The Academy receives funding from local, state, and federal sources and must comply with all of the requirements of these funding source entities. However, the Academy is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. In addition, the Academy’s reporting entity does not contain any component units as defined in Governmental Accounting Standards Board (GASB) Statements.

**C. Basis of Presentation - Government-wide Financial Statements**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

**D. Basis of Presentation - Fund Financial Statements**

The fund financial statements provide information about the Academy’s funds, including its fiduciary funds. Separate statements for each fund category - governmental and fiduciary - are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**LEELANAU MONTESSORI PUBLIC SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

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

**D. Basis of Presentation - Fund Financial Statements (Concluded)**

The Academy reports the following major governmental funds:

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

The *capital projects fund* accounts for the acquisition of capital assets or the construction of major capital projects.

**Fiduciary funds** account for assets held by the Academy in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the Academy under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the Academy holds for others in an agency capacity (primarily student activities).

During the course of operations the Academy has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

**E. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. 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.

**LEELANAU MONTESSORI PUBLIC SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

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

**E. Measurement Focus and Basis of Accounting (Continued)**

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available 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 generally 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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

State and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end).

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the Academy Aid Act and the Academy Code of Michigan. The Michigan Department of Education administers the allocation of state funds to academies based on information supplied by the Academies. For the current year ended, the foundation allowance was based on pupil membership counts.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principle Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The state revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as intergovernmental receivables.

**LEELANAU MONTESSORI PUBLIC SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

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

**E. Measurement Focus and Basis of Accounting (Concluded)**

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 governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received and accrued, which are not expended by the close of the fiscal year are recorded as unearned revenue.

All other revenue items are generally considered to be measurable and available only when cash is received by the Academy.

**F. Budgetary Information**

Budgetary basis of accounting:

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods or services (i.e., purchase orders, contracts, and commitments). The Academy does not utilize encumbrance accounting.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the Academy Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Prior to July 1, the budget is legally adopted by the Academy Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. 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.
3. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Academy Board of Directors.

**LEELANAU MONTESSORI PUBLIC SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

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

**F. Budgetary Information (Concluded)**

4. The budget was amended during the year with supplemental appropriations, the last one approved prior to year-end June 30, 2019. The Academy does not consider these amendments to be significant.

**G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance**

1. 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 original maturities of three months or less from the date of acquisition.

2. Prepays

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

3. Capital assets

Capital assets, which include property, building and technology and equipment as summarized below, are reported in the government-wide financial statements. Capital assets are defined by the Academy as assets with an initial, individual cost of more than \$1,000 and a useful life in excess of one year. Group purchases are evaluated on a case by case basis. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Land and construction in progress, if any, are not depreciated. Capital assets of the Academy are depreciated using the straight line method over the following estimated useful lives:

Capital asset classes	Lives
Building and additions	20 - 50
Furniture and equipment	5 - 20

**LEELANAU MONTESSORI PUBLIC SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

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

**G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)**

4. Deferred outflows/inflows of resources

In addition to assets, the statement of net 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 for reporting in this category.

In addition to liabilities, the statement of net 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 for reporting in this category.

5. Net position flow assumption

Sometimes the Academy will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Academy's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

6. Fund balance flow assumptions

Sometimes the Academy will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Academy's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**LEELANAU MONTESSORI PUBLIC SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

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

**G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Concluded)**

7. Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Academy itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Academy's highest level of decision-making authority. The Board of Directors is the highest level of decision-making authority for the Academy that can, by adoption of a board action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the board action remains in place until a similar action is taken (the adoption of another board action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the Academy for specific purposes but do not meet the criteria to be classified as committed. The board of directors may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**H. Revenues and Expenditures/Expenses**

1. Program revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment. Unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

**LEELANAU MONTESSORI PUBLIC SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

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

**H. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Concluded)**

2. Compensated absences

The Academy's policy permits employees to accumulate earned but unused leave days, which are eligible for payment upon separation from service. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary and related benefits, where applicable.

**NOTE 2 - CASH DEPOSITS - CREDIT RISK**

Cash is held in the name of the Academy. These deposits are subject to custodial credit risk. This is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy minimizes custodial credit risk on deposits by assessing the credit worthiness of the individual institutions in which it deposits funds. The amount of deposits with each institution is assessed to determine the level of risk it may pose to the Academy in relation to deposits in excess of insured amounts. As of June 30, 2019, the Academy's bank balance of \$133,499 was not exposed to additional custodial credit risk as it was fully covered by federal depository insurance.

At June 30, 2019, the carrying amount is as follows:

Cash and cash equivalents - including fiduciary funds of \$3,935	<u><u>\$ 133,107</u></u>
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**NOTE 3 - INTERGOVERNMENTAL RECEIVABLES**

As of June 30, 2019, the Academy had the following amounts due from other governmental units:

Federal	\$ 19,822
State	<u>100,076</u>
	<u><u>\$ 119,898</u></u>

No allowance for doubtful accounts is considered necessary.

**LEELANAU MONTESSORI PUBLIC SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - CAPITAL ASSETS**

A summary of changes in the Academy's capital assets follows:

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019
Capital assets not being depreciated:				
Land	\$ 84,828	\$ -	\$ -	\$ 84,828
Construction in progress	2,100	-	(2,100)	-
Total capital assets not being depreciated	<u>86,928</u>	<u>-</u>	<u>(2,100)</u>	<u>84,828</u>
Capital assets being depreciated:				
Buildings and additions	763,448	401,924	-	1,165,372
Furniture and equipment	85,273	3,801	-	89,074
Total capital assets being depreciated	<u>848,721</u>	<u>405,725</u>	<u>-</u>	<u>1,254,446</u>
Accumulated depreciation:				
Buildings and additions	1,357	23,307	-	24,664
Furniture and equipment	53,685	10,573	-	64,258
Total accumulated depreciation	<u>55,042</u>	<u>33,880</u>	<u>-</u>	<u>88,922</u>
Net capital assets being depreciated	<u>793,679</u>	<u>371,845</u>	<u>-</u>	<u>1,165,524</u>
Net governmental capital assets	<u>\$ 880,607</u>	<u>\$ 371,845</u>	<u>\$ (2,100)</u>	<u>\$ 1,250,352</u>

Depreciation for the fiscal year ended June 30, 2019 amounted to \$33,880. \$10,573 was charged to support services and \$23,307 was unallocated.

**LEELANAU MONTESSORI PUBLIC SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - LONG-TERM OBLIGATIONS**

The following is a summary of long-term obligations for the Academy for the year ended June 30, 2019:

	Notes from direct borrowing and direct placements	Compensated absences	Total
Balance July 1, 2018	\$ 799,720	\$ 11,813	\$ 811,533
Additions	292,280	-	292,280
Deletions	-	(113)	(113)
Balance June 30, 2019	1,092,000	11,700	1,103,700
Due within one year	(27,739)	(1,170)	(28,909)
Due in more than one year	<u>\$ 1,064,261</u>	<u>\$ 10,530</u>	<u>\$ 1,074,791</u>

Long-term obligations at June 30, 2019 are comprised of the following issues:

**Notes from direct borrowings and direct placements:**

Building note - June 2018 purchase and renovation of a building. Interest payments due beginning July 22, 2018 for one year and then the loan will be due in monthly installments of \$8,073 beginning July 22, 2019 through June 22, 2038. The maximum principal amount secured by this instrument at any one time will not exceed \$1,092,000. The mortgage bears interest of 3.50% above a United States Treasury 5 year index rate for an actual interest rate of 6.30%. The interest rate will change every five years from the loan anniversary date based on the adjustment of this index.

	<u>\$ 1,092,000</u>
Total notes from direct borrowings	1,092,000
Compensated absences	<u>11,700</u>
Total general long-term obligations	<u><u>\$ 1,103,700</u></u>

The Academy's outstanding notes from direct borrowings and direct placements related to governmental activities of \$1,092,000 contains provisions that in an event of default, either by (1) unable to make principal or interest payments (2) false or misrepresentation is made to the lender (3) become insolvent or make an assignment for the benefit of its creditors (4) if the lender at any time in good faith believes that the prospect of payment of any indebtedness is impaired. Upon the occurrence of any default event, the outstanding amounts, including accrued interest become immediately due and payable.

**LEELANAU MONTESSORI PUBLIC SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - LONG-TERM OBLIGATIONS (Concluded)**

The annual requirements to amortize long-term obligations outstanding exclusive of compensated absences payments as of June 30, 2019, are as follows:

<u>Year ending June 30,</u>	<u>Notes from direct borrowings and direct placements</u>		<u>Compensated absences</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>		
2020	\$ 27,739	\$ 69,139	\$ -	\$ 96,878
2021	29,755	67,123	-	96,878
2022	31,712	65,166	-	96,878
2023	33,798	63,080	-	96,878
2024	35,853	61,025	-	96,878
2025 - 2029	218,709	265,681	-	484,390
2030 - 2034	300,780	183,609	-	484,389
2035 - 2039	413,654	70,734	-	484,388
	<u>1,092,000</u>	<u>845,557</u>	-	<u>1,937,557</u>
Compensated absences	-	-	11,700	11,700
	<u>\$ 1,092,000</u>	<u>\$ 845,557</u>	<u>\$ 11,700</u>	<u>\$ 1,949,257</u>

Interest expense for the year ended June 30, 2019 was approximately \$61,000.

**NOTE 6 - TRANSFERS**

Transfers between the governmental funds were as follows:

<u>Fund</u>	<u>Transfers out</u>	<u>Transfers in</u>
General fund	\$ -	\$ 55,000
Capital projects fund	55,000	-
	<u>\$ 55,000</u>	<u>\$ 55,000</u>

The transfer from the capital projects fund to the general fund was to pay for building expenditures made by the general fund.

**LEELANAU MONTESSORI PUBLIC SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - OPERATING LEASE**

The Academy leased classroom space and shares costs of custodial services and utilities with Suttons Bay Public Schools. The lease ended December 31, 2018. Under the lease, the Academy paid \$4,269 per month, which is reconciled quarterly based on actual costs of utilities. At the conclusion of this lease, the Academy relocated to its newly purchased and renovated location.

Rental expense was \$27,774 for the year ended June 30, 2019.

**NOTE 8 - OVERSIGHT FEES**

The Academy pays an administrative oversight fee of 3% of its state school aid to the Bay Mills Community College, as set forth by contract, to reimburse Bay Mills Community College for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2019, the Academy incurred expense of \$16,500 for oversight fees.

**NOTE 9 - MANAGEMENT AGREEMENT**

The Academy had entered into an annual (renewable at the end of each twelve month period) management agreement with Traverse City Area Public Schools for operations of the Academy. Under the terms of the management agreement, TCAPS' compensation for operating the Academy was \$15,000 for the fiscal year 2019.

**NOTE 10 - RISK MANAGEMENT**

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. To minimize the risk, the Academy carries commercial insurance.

**NOTE 11 - CONTINGENT LIABILITIES**

Amounts received or receivable from grant agencies are subject to audit and adjustments by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Academy expects such amounts, if any, to be immaterial.

**LEELANAU MONTESSORI PUBLIC SCHOOL ACADEMY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 12 - UPCOMING ACCOUNTING PRONOUNCEMENTS**

Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, was issued by the 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. Academies 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.

**REQUIRED SUPPLEMENTARY INFORMATION**

**LEELANAU MONTESSORI PUBLIC SCHOOL ACADEMY  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED JUNE 30, 2019**

	Original budget	Final budget	Actual	Variance with final budget
<b>REVENUES:</b>				
Local sources	\$246,000	\$231,945	\$232,482	\$ 537
State sources	630,842	567,419	537,102	(30,317)
Federal sources	40,500	65,759	30,789	(34,970)
Other	6,500	33,500	12,508	(20,992)
Total revenues	<u>923,842</u>	<u>898,623</u>	<u>812,881</u>	<u>(85,742)</u>
<b>EXPENDITURES:</b>				
Instruction:				
Basic programs	368,363	377,122	358,056	19,066
Added needs	74,600	114,042	71,023	43,019
Total instruction	<u>442,963</u>	<u>491,164</u>	<u>429,079</u>	<u>62,085</u>
Support services:				
Pupil	1,250	1,250	725	525
Instructional staff	16,000	26,783	11,819	14,964
General administration	39,331	38,002	36,661	1,341
School administration	169,693	128,219	125,281	2,938
Business	23,814	24,250	22,101	2,149
Operation and maintenance	141,514	123,319	106,158	17,161
Pupil transportation	6,500	2,000	926	1,074
Central services	22,500	21,000	18,895	2,105
Total support services	<u>420,602</u>	<u>364,823</u>	<u>322,566</u>	<u>42,257</u>
Community services	4,758	6,110	4,128	1,982
Outgoing transfers and other transactions	1,000	1,000	98	902
Debt service	54,374	61,898	60,936	962
Capital outlay	-	25,000	5,001	19,999
Total expenditures	<u>923,697</u>	<u>949,995</u>	<u>821,808</u>	<u>128,187</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>145</u>	<u>(51,372)</u>	<u>(8,927)</u>	<u>42,445</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	55,000	55,000	-
Total other financing sources (uses)	<u>-</u>	<u>55,000</u>	<u>55,000</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 145</u>	<u>\$ 3,628</u>	<u>46,073</u>	<u>\$ 42,445</u>
<b>FUND BALANCE:</b>				
Beginning of year			<u>69,571</u>	
End of year			<u>\$115,644</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**

To the Board of Directors  
Leelanau Montessori Public School Academy

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Leelanau Montessori Public School Academy as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Leelanau Montessori Public School Academy’s basic financial statements and have issued our report thereon dated September 27, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Leelanau Montessori Public School 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 Leelanau Montessori Public School Academy’s internal control. Accordingly, we do not express an opinion on the effectiveness of Leelanau Montessori Public School 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 Leelanau Montessori Public School 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.

*Maney Costeiran PC*

September 27, 2019

September 27, 2019

To the Board of Directors  
Leelanau Montessori Public School Academy

In planning and performing our audit of the financial statements of Leelanau Montessori Public School Academy as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered Leelanau Montessori Public School Academy's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated September 27, 2019 on the financial statements of Leelanau Montessori Public School Academy. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies.

We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

### **Repeat Comments**

#### **Positive Pay Service**

The Academy should consider implementing a positive pay service from their bank. Positive pay is a fraud deterrent service offered by banks that allows commercial customers to monitor and control the payment of checks. It also provides assurance that presented items have not been altered. The customer provides the bank with an electronic listing of all disbursements. Each check presented for payment is compared to this database (check number, amount, payee, date, etc.), and any checks that do not match exactly are placed on an exception listing. The exceptions are available for review daily, usually online, so the customer may make a final determination of payment. More information about this service is available from most commercial banks.

We noted that certain employees in the business office can initiate and release electronic transactions without a second review or approval. We recommend the Academy implement controls over transfers and ACH transactions that require a dual approval process.

#### **Review of Vendors**

During our review of the cash disbursements process, we noted a few items that would help improve internal controls in this area. First, when a new vendor is added to the system, a search for the vendor should be performed on the website [www.sam.gov](http://www.sam.gov) which contains all of the federal debarred vendors. Second, the vendor list should be reviewed at least annually in order to search for any unusual or improper vendors.

## **Long Range Plan and Disaster Recovery Plan**

The Academy has network backup and recovery procedures. We recommend the Academy leverage these procedures and develop a more comprehensive written disaster recovery plan. The time to make contingency plans is before disaster strikes, so that all personnel will be aware of their responsibilities in the event of an emergency situation that precludes the use of the existing procedures. We suggest that management develop a disaster recovery plan that includes, but is not limited to, the following matters:

- Location of, and access to, off-site storage.
- A listing of all data files that would have to be obtained from the off-site storage location.
- Identification of a back-up location (name and telephone number) with similar or compatible equipment for emergency processing (management should make arrangements for such back-up with another company, a computer vendor, or a service center; the agreement should be in writing).
- Responsibilities of various personnel in an emergency.
- Priority of critical applications and reporting requirements during the emergency period.
- Documentation of personnel assignments and manual alternative procedures to be implemented until the automated systems can be brought back online.

## **Policies and Procedures**

We noted that the Academy does not have a formal accounting procedures manual. Written procedures, instructions, and assignments of duties will prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records.

A well-devised accounting manual can also help to ensure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form desired by management. A good accounting manual should aid in the training of new employees and possibly allow for delegation to other employees of some accounting functions management performs. We recommend the Academy implement a formal accounting policies and procedures manual detailing the process each business services employee completes when performing their job functions.

We also recommend that the Academy implement written policies and procedures for their federal programs, investments, and documented fixed asset capitalization policy. The MDE website has several templates available to assist districts in improving their federal policies and procedures. For investments, we recommend implementing a policy to be in compliance with GASB Statement #40. A capitalization policy provides clear guidelines on which expenditures should be added as fixed assets.

### **Payroll Procedures**

During our review of payroll procedures, we noted an instance where internal controls could be improved. The payroll register should be reviewed by someone who does not have the authority to tell Axios to add an employee or change an employee's wage rate. This review should be performed with each payroll and should be documented by initialing the payroll register.

This report is intended solely for the information and use of Leelanau Montessori Public School Academy, management, and others within the Academy, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

*Maney Costeiran PC*

September 27, 2019

To the Board of Directors  
Leelanau Montessori Public School Academy

We have audited the financial statements of Leelanau Montessori Public School Academy for the year ended June 30, 2019, and have issued our report thereon dated September 27, 2019. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Leelanau Montessori Public School Academy. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Leelanau Montessori Public School Academy's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

## Significant Audit Findings

### *1. Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Leelanau Montessori Public School Academy are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2019. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

Management's estimate in calculating the liability for employee compensated absences:

We evaluated the key factors and assumptions used to develop the balance of employee compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's determination of the estimated life span of the capital assets:

We evaluated the key factors and assumptions used by management to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

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

We did not identify any sensitive disclosures.

### *2. Difficulties Encountered in Performing the Audit*

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

### *3. Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

4. *Disagreements with Management*

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

5. *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 27, 2019.

6. *Management Consultations with Other Independent Accountants*

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

7. *Other Audit Findings or Issues*

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

8. *Other Matters*

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

This information is intended solely for the use of the Board of Education and management of Leelanau Montessori Public School Academy and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Maney Costeiran PC*