

Audited Financial Statements

KEYS Grace Academy

Madison Heights, Michigan

June 30, 2016

CONTENTS

	<u>Page</u>
Independent Auditor’s Report	i - ii
Independent Auditor’s Report On Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	iii - iv
Management’s Discussion and Analysis	v - x
Basic Financial Statements	
Statement of Net Position	1
Statement of Activities	2
Combined Balance Sheet – All Governmental Funds	3
Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities	4
Statement of Revenues, Expenditures and Changes in Fund Balance	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	6
Notes to Financial Statements	7 - 15
Supplemental Information	
Budgetary Comparison Schedule – General Fund	16
Schedule of Revenues – General Fund	17
Schedule of Expenditures – General Fund	18 – 19
Schedule of Findings and Responses	20

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of KEYS Grace Academy

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of KEYS Grace Academy, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise KEYS Grace 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 an opinion 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 the 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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, each major fund, and the aggregate remaining fund information of KEYS Grace Academy, as of June 30, 2016, 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 budgetary comparison information on pages v – x and 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise KEYS Grace Academy's basic financial statements. The introductory section, combining and individual non-major fund financial statements, statistical section, and schedules of revenues and expenditures are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2016, on our consideration of KEYS Grace 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 KEYS Grace Academy's internal control over financial reporting and compliance.



Croskey Lanni, PC

October 26, 2016
Rochester, Michigan

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

To the Board of Directors of KEYS Grace Academy

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of KEYS Grace Academy, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise KEYS Grace Academy's basic financial statements, and have issued our report thereon dated October 26, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the KEYS Grace 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 questioned costs as items 2016 – 001.

KEYS Grace Academy's Response to Findings

KEYS Grace Academy's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. KEYS Grace 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 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.



Croskey Lanni, PC

October 26, 2016
Rochester, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of KEYS Grace Academy's, "KEYS", annual financial report presents our discussion and analysis of the school's financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the school's financial statements, which immediately follow this section.

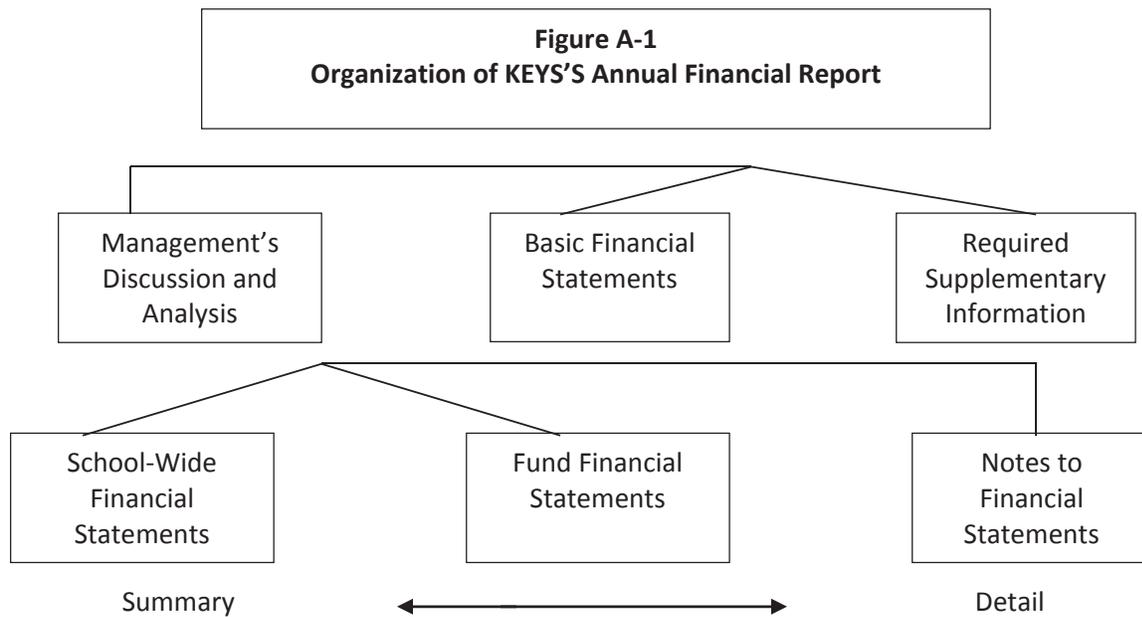
FINANCIAL HIGHLIGHTS

- ❖ The school's general fund balance is positive after the academy's first year of operations.
- ❖ The total cost of basic programs was \$685,651.
- ❖ Revenues were at \$2,201,518 while expenditures were \$2,201,395 in the General Fund.
 - Blended enrollment used for state aid purposes was 262.02.
- ❖ The school has a fund balance in the General Fund of \$123.

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 financial statements include two kinds of statements that present different views of the school:

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



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

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

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

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

SCHOOL-WIDE STATEMENTS

The school-wide statements report information about the school as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the school's assets, deferred outflows, liabilities, and deferred inflows. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

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

FUND FINANCIAL STATEMENTS

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

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

The school has two kinds of funds:

- ❖ *Governmental funds* – Most of the school's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the school's programs. Because this information does not encompass the additional long-term focus of the school-wide statements, we provide additional information with governmental funds statements that explains the relationship (or differences) between them.
- ❖ *Fiduciary funds* – The school is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the school-wide financial statements because the school cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

The school's financial position is the product of many factors. The fiscal year ending June 30, 2016 was the school's first year of operations. Award and receipt of grant funds as well as a generous local contribution resulted in an overall positive net position.

School Governmental

The stability of the school's finances is a result of the following measures:

- ❖ Although KEYS ended the year with a positive net position, maintaining a positive cash flow continues to be a challenge due to timing differences in receipt of revenues and incurring of expenditures.
- ❖ Enrollment at KEYS has grown which will assist in maintaining a balanced budget in future fiscal years.

General Fund Budgetary Analysis

Over the course of the year, the school reviewed the annual operating budget several times and amended it once. The following operational changes were made:

- ❖ Significant changes were made in the fourth quarter to account for final enrollment counts, and changes in assumptions since the original budget was adopted.

Financial Outlook

KEYS Grace Academy's financial forecast is cautiously optimistic heading into the 2016/2017 school year. This is partly due to the following:

- ❖ Enrollment is trending upwards.
- ❖ A stable Administration is now in place.

Figure A-3
KEYS Grace Academy's Net Position

	2016
Current assets	\$ 617,083
Total assets and deferred outflows	617,083
Current liabilities	589,399
Net Position:	
Unrestricted	27,684
Total net position	\$ 27,684

Figure A-4
Changes in KEYS Grace Academy's Net Position

	2016
Revenues:	
Program revenues:	
Federal and state categorical grants	\$ 283,376
Charges for service	-
Total program revenues	283,376
General revenues:	
State aid - unrestricted	1,943,188
Other	2,515
Total general revenues	1,945,703
Total revenues	2,229,079
Expenses:	
Instruction	685,651
Support services	1,515,744
Total expenses	2,201,395
Change in net position	\$ 27,684

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2016, KEYS did not have any capital assets recorded. In order to be capitalized an asset must have an individual cost of more than \$5,000 and a useful life longer than one year. The school's fiscal year 2016 budget anticipates \$0 in capital assets.

Long-Term Debt

At year end the school did not have any long term debt outstanding.

FACTORS BEARING ON THE SCHOOL'S FUTURE

- ❖ Improvement of enrollment trends
- ❖ State aid foundation stabilized with federal funds
- ❖ Stabilized Staffing
- ❖ Renewed School Purpose

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

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

KEYS Grace Academy, 27321 Hampden Street, Madison Heights, MI 48071

KEYS GRACE ACADEMY

STATEMENT OF NET POSITION
JUNE 30, 2016
See Independent Auditor's Report

ASSETS AND DEFERRED OUTFLOWS

Current Assets

Cash and cash equivalents	\$	79,143
Due from other governmental units		497,597
Prepaid expenses		<u>40,343</u>
Total current assets	\$	<u><u>617,083</u></u>

LIABILITIES, DEFERRED INFLOWS, AND NET POSITION

Current Liabilities

Accounts payable	\$	330,941
Unearned revenue		7,843
Other accrued expenses		<u>250,615</u>
Total current liabilities		589,399

Net Position

Unrestricted		<u>27,684</u>
Total liabilities, deferred inflows and net position	\$	<u><u>617,083</u></u>

See accompanying notes to financial statements

KEYS GRACE ACADEMY

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues Operating Grants</u>	<u>Net (Expense) Revenues and Changes in Net Position Government Type Activities</u>
Functions				
Instruction				
Basic programs	\$ 543,552	\$ -	\$ 40,794	\$ (502,758)
Added needs	142,099	-	133,044	(9,055)
Support services				
Pupil support services	2,520	-	1,394	(1,126)
Instructional staff support services	132,969	-	41,218	(91,751)
General administration	429,002	-	-	(429,002)
School administration	69,330	-	-	(69,330)
Business support services	12,350	-	-	(12,350)
Operations and maintenance	308,722	-	33,266	(275,456)
Pupil transportation services	522,334	-	18,015	(504,319)
Central support services	22,872	-	-	(22,872)
Community services	15,645	-	15,645	-
	<u>\$ 2,201,395</u>	<u>\$ -</u>	<u>\$ 283,376</u>	<u>(1,918,019)</u>
General Purpose Revenues				
State school aid - unrestricted				1,943,188
Miscellaneous revenues				<u>2,515</u>
				<u>1,945,703</u>
Change in net position				27,684
Net position - July 1, 2015				<u>-</u>
Net position - June 30, 2016				<u>\$ 27,684</u>

See accompanying notes to financial statements

KEYS GRACE ACADEMY

COMBINED BALANCE SHEET – ALL GOVERNMENTAL FUNDS

JUNE 30, 2016

See Independent Auditor's Report

ASSETS

	<u>General</u>
Cash and cash equivalents	\$ 79,143
Due from other governmental units	497,597
Prepaid expenses	<u>40,343</u>
Total assets	<u>\$ 617,083</u>

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$ 330,941
Unearned revenue	7,843
Other accrued expenses	<u>250,615</u>
Total liabilities	589,399

Deferred Inflows of Resources - Unavailable Revenue

27,561

Fund Balance

Nonspendable	40,343
Unassigned	<u>(40,220)</u>
Total fund balance	<u>123</u>
Total liabilities and fund balance	<u>\$ 617,083</u>

See accompanying notes to financial statements

KEYS GRACE ACADEMY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION
OF GOVERNMENTAL ACTIVITIES

JUNE 30, 2016

See Independent Auditor's Report

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

Total Governmental Fund Balances	\$ 123
Deferred inflows on resources (unavailable revenue) not available to benefit the current period and are not reported in the statement of net position	<u>27,561</u>
Net Position of Governmental Activities	<u><u>\$ 27,684</u></u>

See accompanying notes to financial statements

KEYS GRACE ACADEMY

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

Revenues

Local sources	\$	2,515
State sources		2,091,195
Federal sources		<u>107,808</u>
Total governmental fund revenues		2,201,518

Expenditures

Instruction		
Basic programs		543,552
Added needs		142,099
Support services		
Pupil support services		2,520
Instructional staff support services		132,969
General administration		429,002
School administration		69,330
Business support services		12,350
Operations and maintenance		308,722
Pupil transportation services		522,334
Central support services		22,872
Community services		<u>15,645</u>
Total governmental fund expenditures		<u>2,201,395</u>
Excess of revenues over expenditures		123
Fund balance - July 1, 2015		<u>-</u>
Fund balance - June 30, 2016	\$	<u><u>123</u></u>

See accompanying notes to financial statements

KEYS GRACE 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, 2016
See Independent Auditor's Report

Net Change in Fund Balances - Total Governmental Funds	\$ 123
Revenue is reported in the statement of activities when earned, but not reported in the funds until collected or collectible within 60 days	<u>27,561</u>
Change in Net Position of Governmental Activities	<u><u>\$ 27,684</u></u>

KEYS GRACE ACADEMY

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

KEYS Grace Academy was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, on June 8, 2015 and began operation in September 2015.

In July 2015, the Academy entered into a five-year contract with the Madison District Public Schools Board of Education to charter a public school academy. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State constitution. The District's Board of Education is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Madison District Public Schools Board of Education three percent of state aid as administrative fees. Total administrative fees paid for the year ended June 30, 2016 were approximately \$58,300.

In July 2015, the Academy entered into a five-year agreement with Kalasho Empowerment of Young Scholars, LLC (KEYS). Under the terms of this agreement, KEYS provides a variety of services including financial management, educational programs and consulting, as well as teacher training. The Academy is obligated to pay KEYS ten (10) percent of the Academy's gross revenues. The gross revenues include all receipts of the Academy, excluding any proceeds from borrowings undertaken by the Academy. The total paid for these services amounted to approximately \$202,500 for the year ended June 30, 2016. KEYS agreed to reduce its contractually obligated management fee by approximately \$18,400 for the year ended June 30, 2016. KEYS will have no further rights to collection of these aforementioned forgiven management fees and are to be used for the continued unrestricted operation of the educational mission.

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

Fund Financial Statements

Fund financial statements report detailed information about the Academy. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

KEYS GRACE ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Presentation – Fund Accounting

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

Governmental Funds

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

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

Special Revenue Fund - The special revenue fund, which the Academy does not currently maintain, is used to account for the food service program operations. The special revenue fund is a subsidiary operation and is an obligation of the general fund. Therefore any shortfall in the special revenue fund will be covered by an operating transfer from the general fund. The special revenue fund does not maintain its own assets and liabilities; accordingly, no balance sheet is presented for this fund.

Debt Service Fund - The debt service fund, which the Academy does not currently maintain, is used to record certain revenue and the payment of interest, principal and other expenditures on long-term debt.

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

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

Activity (Agency) Fund - The Academy presently maintains an activity fund to record the transactions of a student group for school and school-related purposes. The fund is segregated and held in trust for the students.

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

KEYS GRACE ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor’s Report

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within sixty days of the end of the current fiscal period.
- b. Payments for inventorial types of supplies, which are not significant at year end, are recorded as expenditures at the time of purchase.
- c. Principal and interest of general long-term debt are not recorded as expenditures until their due dates.
- d. The State of Michigan utilizes a foundation allowance funding approach, which provides for specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the State’s School Aid Fund and is recognized as revenue in accordance with state law. A major portion of the Academy’s revenue is derived from this state aid. As such, the Academy is considered to be economically dependent on this aid. The Academy’s existence is dependent upon qualification for such aid.

Government-Wide Financial Statements

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

The government-wide Statement of Activities presents a comparison between expenses and program revenues for each segment of the business-type activities of the Academy and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. The Academy does not allocate indirect expenses to programs. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or function is self-financing or draws from the general revenues of the Academy.

KEYS GRACE ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

Cash and Cash Equivalents

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition. The Academy reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and GASB No. 40, Deposit and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity. The Academy held no investments during the year ended June 30, 2016. State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, saving accounts, deposit accounts, and or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Corporation or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or Federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Receivables

Receivables at June 30, 2016 consist primarily of state school aid due from the State of Michigan and the federal government. All receivables are expected to be fully collected in July and August of 2016 and are considered current for the purposes of these financial statements.

Prepaid Assets

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

KEYS GRACE ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor’s Report

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital Assets and Depreciation

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

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

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

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the non-current portion of capital leases that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Net Position

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

Fund Equity

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

KEYS GRACE ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor’s Report

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Equity

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

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

- a. *Restricted fund balance* – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- b. *Committed fund balance* – amounts constrained to specific purposes by the Board; to be reported as committed, amounts cannot be used for any other purpose unless the Board takes action to remove or change the constraint.
- c. *Assigned fund balance* – amounts the Board intends to use for a specific purpose; intent can be expressed by the Board or by an official or committee to which the Board delegates the authority.
- d. *Unassigned fund balance* – amounts that are available for any purpose; these amounts are reported only in the general fund.

The Academy follows the policy that restricted, committed, or assigned amounts will be considered to have been spent when an expenditure is incurred for purposes for which both unassigned and restricted, committed, or assigned fund balances are available.

Estimates

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

KEYS GRACE ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. The Academy is required by law to adopt general and school service fund budgets. During the year ended June 30, 2016 the budget was amended in a legally permissible manner. The Academy had expenditures in certain budgetary functions that were insignificantly in excess of the amounts appropriated for the year ended June 30, 2016 as detailed on page 16 of these financial statements.

NOTE 3 - DEPOSITS AND INVESTMENTS

Interest Rate Risk

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

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2016, the Academy did not hold any investments.

Concentration of Credit Risk

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

Custodial Credit Risk - 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, 2016, the Academy's cash was not exposed to custodial credit risk because it was uninsured. All cash balances were uncollateralized as of June 30, 2016.

Custodial Credit Risk - Investments

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

KEYS GRACE ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor’s Report

NOTE 3 - DEPOSITS AND INVESTMENTS – Continued

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

Foreign Currency Risk

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

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

Amounts due from other governmental units consist of the following:

State sources	\$ 381,814
Federal sources	<u>115,783</u>
Total	<u><u>\$ 497,597</u></u>

NOTE 5 - ACCRUED EXPENSES

Accrued expenses may be summarized as follows:

Purchased services - payroll and benefits	\$ 177,990
Management fee	62,021
University oversight fee	<u>10,604</u>
Total accrued expenses	<u><u>\$ 250,615</u></u>

KEYS GRACE ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

NOTE 6 - OPERATING LEASES

Lease Information

	<u>Maturity Date</u>	<u>Approximate Payment</u>	<u>Other</u>
School bus lease	August, 2017	\$500,000 annually	Related party lease whereas the Academy will pay a reasonable administrative fee which increases on a yearly basis and actual costs for the equipment. Automatically renews on a yearly basis if not terminated by either party within 60 days prior to the applicable term
Facilities	June, 2020	\$1 annually	Building lease is with the Academy's authorizer and is a "triple net" lease whereas the Academy is responsible for all maintenance, utilities, and any property taxes associated with the facility.

The approximate amount of lease obligations coming due during the next five years:

2017	\$	500,000
2018		500,000
2019		500,000
2020		500,000
2021		500,000

Total lease expense for the year ended June 30, 2016 amounted to approximately \$522,300.

NOTE 7 - RISK MANAGEMENT

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

NOTE 8 – RELATED PARTY TRANSACTIONS

In addition The Academy had entered into various leases and contracts for services with parties related to the ownership of the management company, Kalasho Empowerment of Young Scholars, LLC (KEYS). Payables to these parties totaled approximately \$140,000 at June 30, 2016. Expenditures of approximately \$760,000 were incurred under service and lease agreements with these organizations during the year ended June 30, 2016.

SUPPLEMENTAL INFORMATION

KEYS GRACE ACADEMY

REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor’s Report

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Local sources	\$ 150,000	\$ 1,100	\$ 2,515	\$ 1,415
State sources	3,695,500	2,099,039	2,091,195	(7,844)
Federal sources	325,200	207,881	107,808	(100,073)
Total governmental fund revenues	4,170,700	2,308,020	2,201,518	(106,502)
Expenditures				
Instruction				
Basic programs	1,500,000	538,256	543,552	5,296
Added needs	-	257,412	142,099	(115,313)
Support services				
Pupil support services	240,000	2,667	2,520	(147)
Instructional staff support services	12,000	147,371	132,969	(14,402)
General administration	830,000	219,072	429,002	209,930
School administration	298,000	68,353	69,330	977
Business support services	95,000	227,579	12,350	(215,229)
Operations and maintenance	295,500	254,313	308,722	54,409
Pupil transportation services	750,000	470,497	522,334	51,837
Central support services	28,000	8,775	22,872	14,097
Community services	10,000	18,095	15,645	(2,450)
Total governmental fund expenditures	4,058,500	2,212,390	2,201,395	(10,995)
Excess (deficiency) of revenues over expenditures	112,200	95,630	123	(95,507)
Fund balance - July 1, 2015	-	-	-	-
Fund balance - June 30, 2016	\$ 112,200	\$ 95,630	\$ 123	\$ (95,507)

KEYS GRACE ACADEMY

SCHEDULE OF REVENUES – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor’s Report

Local Sources

Other local revenues	\$ 2,515
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State Sources

At risk	148,007
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State aid	<u>1,943,188</u>
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Total state sources	2,091,195
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Federal Sources

IDEA	7,132
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Title I	100,026
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Title II A	<u>650</u>
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Total federal sources	<u>107,808</u>
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Total general fund revenues	<u>\$ 2,201,518</u>
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KEYS GRACE ACADEMY

SCHEDULE OF EXPENDITURES – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor’s Report

Basic Programs

Purchased services	\$ 475,796
Rentals	8,099
Supplies and materials	<u>59,657</u>
Total basic programs	543,552

Added Needs

Purchased services	133,983
Supplies and materials	<u>8,116</u>
Total added needs	142,099

Pupil Support Services

Health services	1,126
Social work services	<u>1,394</u>
Total pupil support services	2,520

Instructional Staff Support Services

Purchased services	122,401
Supplies and materials	<u>10,568</u>
Total instructional staff support services	132,969

General Administration

Purchased services	423,359
Supplies and materials	4,261
Other expenditures	<u>1,382</u>
Total general administration	429,002

KEYS GRACE ACADEMY

SCHEDULE OF EXPENDITURES - GENERAL FUND - Continued
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

School Administration	
Purchased services	69,330
Business Support Services	
Purchased services	12,350
Operations and Maintenance	
Purchased services	228,093
Repairs and maintenance	16,344
Supplies and materials	<u>64,285</u>
Total operations and maintenance	308,722
Pupil Transportation Services	
Purchased services	522,334
Central Support Services	
Purchased services	22,872
Community Services	
Supplies and materials	<u>15,645</u>
Total general fund expenditures	<u>\$ 2,201,395</u>

KEYS GRACE ACADEMY

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2016

Reference Number

Findings

2016-001

Finding Type – Noncompliance

Criteria – The Michigan Public School Accounting Manual, Section IV, indicates that, when used appropriately, a budget provides the school board and administration with the ability to control and evaluate the use of the Academy's funds.

Condition – Actual revenues in excess of expenditures were less than budgeted by \$95,507.

Cause / Effect – The budget while amended during the year, did not accurately reflect actual final expenditures. The effect was a violation of state law.

Recommendation – The Academy should fully review actual and anticipated revenues and expenditures and in response amend the budget accordingly in order to comply with state law.

Auditee Response – The auditee agrees with the finding. The Academy has reviewed and revised its accounting procedures to ensure actual results are properly and timely reviewed resulting in budget amendments throughout the year.