

INNOCADEMY
REPORT ON FINANCIAL STATEMENTS
(with required supplemental information)
YEAR ENDED JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Innocademy

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Innocademy, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Innocademy'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, the major fund, and the aggregate remaining fund information of Innocademy as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 October 4, 2017 on our consideration of Innocademy'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 Innocademy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Innocademy's internal control over financial reporting and compliance.

Maney Costeiran PC

October 4, 2017

MANAGEMENT’S DISCUSSION AND ANALYSIS

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

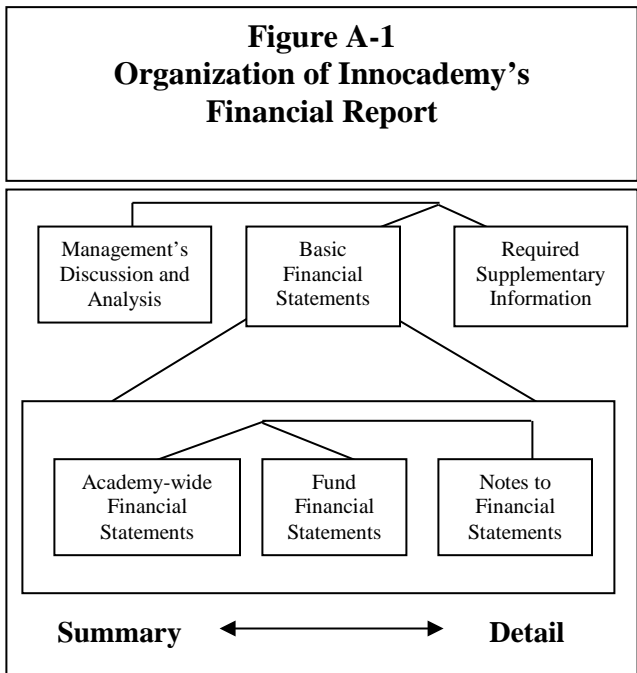
Financial Highlights

- The Academy had an increase in the fund balance in the general fund of \$55,671, compared to a budgeted increase of \$0. This gives the Academy a general fund balance of \$474,362.

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 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, Innacademy 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. The Academy has a general fund and a fiduciary fund.

- 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 \$532,198 increased by \$53,629 during the year. See Figures A-3 and A-4.

The Academy’s total revenue was \$2,589,730.

The total cost of instruction was \$1,505,626. Total cost of support services was \$1,022,605.

**Figure A-3
Innocademy's Net Position**

	2017	2016
Current assets	\$ 559,499	\$ 546,194
Capital assets	57,836	59,878
Total assets	<u>617,335</u>	<u>606,072</u>
Other liabilities	<u>85,137</u>	<u>127,503</u>
Net position:		
Net investments in capital assets	57,836	59,878
Unrestricted	<u>474,362</u>	<u>418,691</u>
Total net position	<u>\$ 532,198</u>	<u>\$ 478,569</u>

**Figure A-4
Changes in Innocademy's Net Position**

	2017	2016
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 161,743	\$ 167,746
Total program revenues	<u>161,743</u>	<u>167,746</u>
General revenues:		
State aid - unrestricted	2,242,854	2,076,045
Incoming transfers	86,680	85,188
Other	98,453	38,620
Total general revenues	<u>2,427,987</u>	<u>2,199,853</u>
Total revenues	<u>2,589,730</u>	<u>2,367,599</u>
Expenses:		
Instruction	1,505,626	1,352,340
Support services	1,022,605	988,043
Unallocated depreciation	7,870	7,481
Total expenses	<u>2,536,101</u>	<u>2,347,864</u>
Change in net position	<u>\$ 53,629</u>	<u>\$ 19,735</u>

Financial analysis of the Academy's funds

The Academy's fund balance in the general fund increased by \$55,671 to \$474,362.

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 changes in both state aid and compensation for staff.

The Academy's final budget for the general fund anticipated revenues would equal expenditures. The actual results for the year showed revenues exceed expenditures by \$55,671.

Actual revenues were \$3,722 less than budgeted, due primarily to the lower than expected state revenues.

Actual expenditures were \$59,393 less than budgeted, primarily due to basic programs, operations and maintenance and instructional staff being under budget.

Capital asset and debt administration

Capital assets

By the end of the year ended June 30, 2017, the Academy had invested \$57,836 in capital assets net of accumulated depreciation as summarized in Figure A-5. This amount represents a decrease of \$2,042 from the beginning of the year. Total depreciation expense for the year was \$7,870. More detailed information about capital assets can be found in Note 4 to the financial statements.

The Academy's capital assets are as follows:

	Figure A-5 Innocademy's Capital Assets			
	2017			2016
	Cost	Accumulated depreciation	Net book value	Net book value
Furniture and equipment	\$ 22,313	\$ 8,144	\$ 14,169	\$ 19,609
Leasehold improvements	54,266	10,599	43,667	40,269
Total	<u>\$ 76,579</u>	<u>\$ 18,743</u>	<u>\$ 57,836</u>	<u>\$ 59,878</u>

Long-term debt

The Academy has no long term debt at June 30, 2017.

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 Academy has adopted a general fund budget for 2017/2018 that anticipates revenues being equal to expenditures.

Contacting the Academy's financial management

This financial report is designed to provide our students, parents 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 the Finance Services team at 8485 Homestead, Zeeland, Michigan 49464.

BASIC FINANCIAL STATEMENTS

INNOCADEMY
STATEMENT OF NET POSITION
JUNE 30, 2017

	<u>Governmental activities</u>
ASSETS:	
Cash and cash equivalents	\$ 41,467
Accounts receivable	1,552
Intergovernmental receivable	453,256
Prepays	63,224
Capital assets, net of accumulated depreciation	<u>57,836</u>
TOTAL ASSETS	<u>617,335</u>
 LIABILITIES:	
Accounts payable	21,036
Note payable	62,401
Unearned revenue	<u>1,700</u>
TOTAL LIABILITIES	<u>85,137</u>
 NET POSITION:	
Net investment in capital assets	57,836
Unrestricted	<u>474,362</u>
TOTAL NET POSITION	<u><u>\$ 532,198</u></u>

**INNOCADEMY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

<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	\$ 1,505,626	\$ -	\$ 157,012	\$ (1,348,614)
Support services	1,022,605	-	4,731	(1,017,874)
Depreciation (unallocated)	7,870	-	-	(7,870)
Total governmental activities	<u>\$ 2,536,101</u>	<u>\$ -</u>	<u>\$ 161,743</u>	<u>(2,374,358)</u>
General revenues:				
State sources - unrestricted				2,242,854
Incoming transfer from Ottawa Area ISD				86,680
Other				98,453
Total general revenues				<u>2,427,987</u>
CHANGE IN NET POSITION				53,629
NET POSITION, beginning of year				<u>478,569</u>
NET POSITION, end of year				<u>\$ 532,198</u>

**INNOCADEMY
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2017**

	General fund
ASSETS:	
Cash and cash equivalents	\$ 41,467
Accounts receivable	1,552
Intergovernmental receivables	453,256
Prepays	63,224
TOTAL ASSETS	\$ 559,499
LIABILITIES:	
Accounts payable	\$ 21,036
Note payable	62,401
Unearned revenue	1,700
TOTAL LIABILITIES	85,137
FUND BALANCES:	
Nonspendable:	
Prepays	63,224
Unassigned	411,138
TOTAL FUND BALANCES	474,362
TOTAL LIABILITIES AND FUND BALANCES	\$ 559,499
Total governmental fund balances	\$ 474,362
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	\$ 76,579
Accumulated depreciation is	(18,743)
	57,836
Net position of governmental activities	\$ 532,198

INNOCADEMY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2017

	General fund
REVENUES:	
Local revenue	\$ 98,453
State sources	2,349,854
Federal sources	54,743
Incoming transfers	86,680
Total revenues	2,589,730
EXPENDITURES:	
Current:	
Instruction:	
Basic programs	1,415,040
Added needs	90,586
Total instruction	1,505,626
Support services:	
Pupil	108,947
Instructional staff	173,595
General administration	104,007
School administration	21,691
Business services	26,391
Operation and maintenance	518,646
Pupil transportation	392
Central support services	74,696
Total support services	1,028,365
Community service	68
Total expenditures	2,534,059
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	55,671
FUND BALANCES:	
Beginning of year	418,691
End of year	\$ 474,362

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

Net change in fund balances total governmental funds	\$ 55,671
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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.

Capital outlay	5,828
Depreciation expense	<u>(7,870)</u>

Change in net position of governmental activities	<u><u>\$ 53,629</u></u>
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INNOCADEMY
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2017

	<u>Agency fund</u>
ASSETS	
Cash and cash equivalents	<u>\$ 25,382</u>
LIABILITIES	
Due to student groups	<u>\$ 25,382</u>

INNOCADEMY
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 non-fiduciary 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

Innocademy (the “Academy”) is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Lake Superior State University is the authorizing governing body for the Academy and has contracted with the Academy to charter the public school through June 2022. The Academy’s Board of Directors is approved by the authorizing body and is authorized to manage the Academy and the property and affairs of the Academy. The Academy receives funding from local, state, and federal government 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 accounting principles generally accepted in the United States of America. The Academy’s reporting entity does not contain any component units.

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 (if any) 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. Separate statements for each category 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.

The Academy reports the following major governmental fund:

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

INNOCADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Other Nonmajor Funds

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 as 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.

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.

**INNOCADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Concluded)

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, compensated absences are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in the governmental fund.

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 School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school academies based on information supplied by the Academy.

The state portion of the Foundation is provided primarily by a state education property tax millage of 6 mills on Principal 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 an intergovernmental receivable.

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.

INNOCADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 ESP submits to the School 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 School 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 School Board.
4. The budget was amended during the year with supplemental appropriations, the last one approved prior to year end June 30, 2017. The Academy does not consider these amendments to be significant.

**INNOCADEMY
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

1. Cash and cash equivalents

The Academy's cash and cash equivalents are considered to be cash on hand and demand deposits.

2. Prepaids

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 furniture and equipment, 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 \$5,000 and an estimated useful life in excess of two years. 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. The capital assets of the Academy are depreciated using the straight line method over the following estimated useful lives:

Capital asset classes	Lives
Furniture and equipment	3 - 15
Leasehold improvements	15 - 30

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.

**INNOCADEMY
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 (Concluded)

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.

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).

INNOCADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

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

7. Fund balance policies (Concluded)

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 has by resolution authorized the school director and finance support to assign fund balance. 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.

**INNOCADEMY
NOTES TO FINANCIAL STATEMENTS**

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, 2017, the bank balance of the Academy's cash equivalents, including fiduciary funds, was \$89,238. The full amount is covered by federal depository insurance.

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES

Receivables at June 30, 2017 consist of the following:

State aid	\$ 417,995
Ottawa Area Intermediate School District	31,078
Other	4,183
	<u>\$ 453,256</u>

Intergovernmental receivables include amounts due from state and local sources for various projects and programs.

No allowance for doubtful accounts is considered necessary.

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Governmental activities:				
Furniture and equipment	\$ 22,313	\$ -	\$ -	\$ 22,313
Leasehold improvements	48,438	5,828	-	54,266
	<u>70,751</u>	<u>5,828</u>	<u>-</u>	<u>76,579</u>
Accumulated depreciation:				
Furniture and equipment	2,704	5,440	-	8,144
Leasehold improvements	8,169	2,430	-	10,599
	<u>10,873</u>	<u>7,870</u>	<u>-</u>	<u>18,743</u>
Net governmental capital assets	<u>\$ 59,878</u>	<u>\$ (2,042)</u>	<u>\$ -</u>	<u>\$ 57,836</u>

INNOCADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - CAPITAL ASSETS (Concluded)

Depreciation for the fiscal year ended June 30, 2017 amounted to \$7,870. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 5 - NOTE PAYABLE - STATE AID ANTICIPATION NOTE

At June 30, 2017, the Academy had a note payable outstanding totaling \$62,401. The State Aid anticipation note has an interest rate of 4.25% and matures on August 21, 2017. Proceeds of the state aid anticipation note were used to fund school operations. This note is secured by future state school aid payments.

Balance July 1, 2016	Additions	Payments	Balance June 30, 2017
\$ 99,826	\$ 335,000	\$ 372,425	\$ 62,401

NOTE 6 - LEASES

The Academy leases their building under an operating lease expiring June 30, 2020. Minimum rental commitments for all non-cancelable operating leases are as follows:

Year ending June 30	
2018	\$ 320,000
2019	320,000
2020	320,000
	\$ 960,000

The Academy leases two copiers under an operating lease expiring December 31, 2022. Minimum rental commitments for all non-cancelable operating are as follows:

Year ending June 30	
2018	\$ 4,744
2019	4,744
2020	4,744
2021	4,744
2022	2,372
	\$ 21,348

INNOCADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - OVERSIGHT FEES

The Academy pays an administrative oversight fee of 3% of its state school aid to Lake Superior State University. These oversight responsibilities include the approval of Innocademy's operating plan, monitoring compliance with provisions of the charter contract and the selection of members for the Board of Directors. During the year ended June 30, 2017, the Academy incurred expense of \$69,166 for oversight fees.

NOTE 8 - PURCHASED SERVICES

The Academy leases all employee services from Innovative Education Services, Inc. Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of Innovative Education Services, Inc. There was no liability to Innovative Education Services, Inc. at June 30, 2017.

NOTE 9 - 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 10 - SUBSEQUENT EVENT

The Academy has approved borrowing \$384,000 under a state aid anticipation note in August 2017 at 4.75% to be repaid monthly from October 2017 through August 2018.

NOTE 11 - UPCOMING ACCOUNTING PRONOUNCEMENT

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.

REQUIRED SUPPLEMENTARY INFORMATION

INNOCADEMY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2017

	Original budget	Final budget	Actual	Variance with final budget
REVENUES:				
Local sources	\$ 89,320	\$ 94,437	\$ 98,453	\$ 4,016
State sources	2,366,966	2,357,592	2,349,854	(7,738)
Federal sources	60,249	54,743	54,743	-
Incoming transfers	85,188	86,680	86,680	-
Total revenues	<u>2,601,723</u>	<u>2,593,452</u>	<u>2,589,730</u>	<u>(3,722)</u>
EXPENDITURES:				
Instruction:				
Basic programs	1,437,062	1,445,402	1,415,040	30,362
Added needs	96,067	91,486	90,586	900
Total instruction	<u>1,533,129</u>	<u>1,536,888</u>	<u>1,505,626</u>	<u>31,262</u>
Support services:				
Pupil	75,032	107,947	108,947	(1,000)
Instructional staff	173,813	179,231	173,595	5,636
General administration	112,291	108,627	104,007	4,620
School administration	18,100	23,337	21,691	1,646
Business	50,273	31,842	26,391	5,451
Operation and maintenance	535,696	525,606	518,646	6,960
Pupil transportation	-	500	392	108
Central support services	65,579	79,224	74,696	4,528
Total support services	<u>1,030,784</u>	<u>1,056,314</u>	<u>1,028,365</u>	<u>27,949</u>
Community service activities	250	250	68	182
Facility improvements	30,000	-	-	-
Total expenditures	<u>2,594,163</u>	<u>2,593,452</u>	<u>2,534,059</u>	<u>59,393</u>
NET CHANGE IN FUND BALANCE	<u>\$ 7,560</u>	<u>\$ -</u>	55,671	<u>\$ 55,671</u>
FUND BALANCE:				
Beginning of year			<u>418,691</u>	
End of year			<u>\$ 474,362</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
Innocademy

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, the major fund and the aggregate remaining fund information of Innocademy as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Innocademy's basic financial statements and have issued our report thereon dated October 4, 2017.

Internal Control Over Financial Reporting

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

Manes Costeiran PC

October 4, 2017

October 4, 2017

To the Board of Directors
Innocademy

In planning and performing our audit of the financial statements of Innocademy as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered Innocademy'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 controls was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal controls that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal controls and other operational matters that are presented for your consideration. This letter does not affect our report dated October 4, 2017 on the financial statements of Innocademy. We will review the status of these comments during our next audit engagement. Our comments and recommendations, which have been discussed with appropriate members of management, are intended to improve the internal controls 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 this matter, or assist you in implementing the recommendations. Our comments are summarized as follows.

Disaster Recovery Plan

During our audit, we noted that the Academy does not have written disaster recovery procedures in the event of major hardware or software failure. We recommend that management develop a disaster recovery plan that includes, but is not limited to, the following matters:

- Responsibilities of various personnel in an emergency
- Priority of critical application and reporting requirements during the emergency period
- Testing of backed up information on a periodic basis throughout the year

Segregation of Duties

A strong system of internal control provides for a proper segregation of the core accounting functions. The Academy should incorporate additional levels of review during the cash receipts process. We recommend that management review the current process and where possible segregate duties to reduce the risk of errors or fraud.

Approval Documentation

During our audit, we noted that the Academy does not document review and approval of bank statements, bank reconciliations, and invoices. To ensure the important controls are always being performed, we recommend implementing a process where the appropriate individual initials and dates a document to indicate their review before sending the document along to the next step in the workflow.

This report is intended solely for the information and use of 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

October 4, 2017

To the Board of Directors
Innocademy

We have audited the financial statements of Innocademy for the year ended June 30, 2017, and have issued our report thereon dated October 4, 2017. 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 Innocademy. 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 test of Innocademy'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 Innocademy are described in Note 1 to the financial statements. We noted no transactions entered into by the Academy 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 estimate affecting the financial statements was:

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. In addition, certain amounts included in capital assets have been estimated based on an outside appraisal company.

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 October 4, 2017.

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 Innocademy'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 Innocademy'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 Innocademy and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Manes Costeiran PC