

Lighthouse  
Academy



Year Ended  
June 30, 2016

Financial  
Statements

# LIGHTHOUSE ACADEMY

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**INDEPENDENT AUDITORS' REPORT**

October 25, 2016

Board of Directors  
Lighthouse Academy  
Grand Rapids, Michigan

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the general fund of *Lighthouse Academy* (the "Academy"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

***Independent Auditors' 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 auditors' 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 and the general fund of Lighthouse Academy as of June 30, 2016, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Restatement of Beginning Fund Balance/Net Position of Governmental Activities**

As described in Note 12 to the financial statements, the beginning fund balance of the food service special revenue fund/net position of the governmental activities was restated (i.e., decreased) by \$20,287 to eliminate the presentation of food service activity outsourced to a third-party. Our opinion is not modified with respect to this matter.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 25, 2016 on our consideration of Lighthouse Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

*Rehmann Lobson LLC*

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

# LIGHTHOUSE ACADEMY

## Management's Discussion and Analysis

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

### Financial Highlights

Key metrics and financial highlights of the Academy for the year ended June 30, 2016 are as follows:

Total net position	\$ 864,580
Unrestricted net position	717,529
Change in net position	6,575
Fund balance, general fund	717,529
Change in fund balance, general fund	47,598
Fund balance, general fund (as percentage of general fund expenditures)	16.8%
Unassigned fund balance, general fund (as percentage of general fund expenditures)	14.6%

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Academy's basic financial statements. The Academy's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements limited to the management's discussion and analysis.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the Academy's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Academy's assets and liabilities, with the difference being net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Academy is improving or deteriorating.

The *statement of activities* presents information showing how the Academy's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused compensated leave).

Both of the government-wide financial statements display functions of the Academy that are principally supported by intergovernmental revenues (*governmental activities*). The activities of the Academy include instruction and supporting services. The Academy had no business-type activities as of and for the year ended June 30, 2016.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Academy, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.



# LIGHTHOUSE ACADEMY

## Management's Discussion and Analysis

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the Academy's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Academy's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Academy maintains one governmental fund. Information is presented in the general fund balance sheet and in the general fund statement of revenues, expenditures and changes in fund balance for the general fund, which is considered to be a major fund.

The Academy adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided herein to demonstrate compliance with that budget.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to this management's discussion and analysis.

### Reporting the Academy as a Whole - Government-wide Financial Statements

The government-wide statements report information about the governmental activities of 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, both short- and long-term, regardless of whether they are "currently available."

# LIGHTHOUSE ACADEMY

## Management's Discussion and Analysis

The statement of net position provides the perspective of the Academy as a whole. The following table shows the condensed statement of net position compared to prior year.

	Net Position	
	2016	2015
<b>Assets</b>		
Current and other assets	\$ 1,192,216	\$ 1,358,209
Capital assets, net	147,051	188,074
<b>Total assets</b>	<b>1,339,267</b>	<b>1,546,283</b>
<b>Liabilities</b>		
Current and other liabilities	474,687	667,991
<b>Net position</b>		
Investment in capital assets	147,051	188,074
Unrestricted	717,529	690,218
<b>Total net position</b>	<b>\$ 864,580</b>	<b>\$ 878,292</b>

The Academy's total net position was \$864,580 at June 30, 2016. The investment in capital assets was \$147,051. The remaining net position at June 30, 2016 of \$717,529 is unrestricted.

The table below presents the revenues and expenses for the current fiscal year compared to prior year for the Academy as a whole.

	Change in Net Position	
	2016	2015
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ -	\$ 97,255
Operating grants and contributions	1,583,283	1,816,187
General revenues:		
Unrestricted State aid	2,697,290	2,944,739
Unrestricted donations	27,597	94,364
Unrestricted interest	6,510	1,547
<b>Total revenues</b>	<b>4,314,680</b>	<b>4,954,092</b>
<b>Expenses</b>		
Instruction	2,499,914	2,498,840
Supporting services	1,755,334	1,954,998
Food service	-	103,524
Depreciation - unallocated	52,857	123,006
<b>Total expenses</b>	<b>4,308,105</b>	<b>4,680,368</b>
<b>Change in net position</b>	<b>6,575</b>	<b>273,724</b>
Net position, beginning of year	878,292	604,568
Restatement for food service activity	(20,287)	-
<b>Net position, end of year</b>	<b>\$ 864,580</b>	<b>\$ 878,292</b>

# LIGHTHOUSE ACADEMY

## Management's Discussion and Analysis

As reported in the statement of activities, the cost of the Academy's governmental activities in 2016 was \$4,308,105. Certain activities were partially or fully funded by other governments and organizations through operating grants and contributions amounting to \$1,583,283. The Academy paid for the remaining public benefit portion of its governmental activities with \$2,731,397 in unrestricted state aid, donations, and interest.

The Academy experienced an increase in net position of \$6,575 in 2016. Details of the primary reasons for the change are described below.

As discussed above, the net cost shows the financial burden that was placed on the Academy by each of these functions. Since unrestricted school aid constitutes the vast majority of Academy operating revenue sources, the Board of Directors and administration must annually evaluate the needs of the Academy and balance those needs with state-prescribed available unrestricted resources.

The \$6,575 increase in net position resulted mainly from good fiscal management.

### The Academy's General Fund

As noted earlier, reviewing the general fund helps the reader consider whether the Academy is being accountable for the resources the State and others provide to it and may provide more insight into the Academy's overall financial health.

At June 30, 2016, the general fund reported a total fund balance of \$717,529, an increase of \$47,598 from the prior year, as compared to the final budgeted change in fund balance amount of (\$183,382). This increase was the result of monitoring and adjusting expenditures as revenue changes. Difference between budget and actual was due to most expenditures being less than budgeted due to the conservative nature of the budget process.

### General Fund Budgetary Highlights

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A statement showing the Academy's original and amended budgets compared with amounts actually paid and received is provided as part of the basic financial statements.

*Revenues.* The original budget for federal revenue was increased by approximately \$153,000 due to an increase in the funds awarded under Title I. The budget for local revenue was decreased by approximately \$89,000 due to donations that were projected but not received.

*Expenditures.* The final amended budget for general fund expenditures was increased from the original budget by approximately \$435,000 (10.4%). This was largely the result of the following items:

An increase in basic instructional (a change of approximately \$72,000), added needs instructional (a change of approximately \$281,000), and instructional staff support services expenses (a change of approximately \$56,000) related to additional staffing as a result of the additional Title I funding, replacement of aging non-functional technology, and higher compensation and benefit costs.

The budget for business support services increased approximately \$86,000 due to an increase in fees paid to the management company. These fees were originally budgeted as part of the general administration.

# LIGHTHOUSE ACADEMY

## Management's Discussion and Analysis

The budget for operations and maintenance support services increased approximately \$92,000 due to higher telephone and internet costs because of E-rate changes and technology upgrades.

The budget for general administration (a change of approximately \$64,000) and school administration (a change of approximately \$72,000) support services decreased due to a reduction in fees paid to the management company. These fees were moved to business support services. Compensation for the Principal role was also reduced as the result of a resignation.

Expenditures were well under budget in most functional areas. This was not a direct result of any specific circumstances, but rather an Academy practice of using a conservative approach to expenditure budgeting using prior years' history combined with current year expenditure activities. The actual amount of pupil transportation support services exceeded budget by approximately \$2,000 due to mid-year change in the transportation provider with higher expenses than anticipated. The actual amount of central support services exceeded the final budget by approximately \$6,000 due to higher technology maintenance costs.

### Capital Assets and Debt Administration

#### *Capital Assets*

As of June 30, 2016, the Academy had approximately \$147,000 invested in capital assets, net of accumulated depreciation.

	Capital Assets	
	2016	2015
Furniture and equipment	\$ 577,827	\$ 565,993
Accumulated depreciation	(430,776)	(377,919)
Total capital assets, net	<u>\$ 147,051</u>	<u>\$ 188,074</u>

Additional information on the Academy's capital assets can be found in Note 5 to the financial statements.

#### *Long-term Debt*

The Academy had no long-term debt outstanding at June 30, 2016 or 2015.

### Economic Factors and Next Year's Budgets and Rates

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

- The Academy is opening two new locations which will result in added costs for the establishment of these locations.
- The uncertainty of State categorical and Section 25 funding.
- Per pupil State aid was increased but is not keeping pace with wages and benefit costs.

# LIGHTHOUSE ACADEMY

## Management's Discussion and Analysis

### Contacting the Academy's Financial Management

This financial report is designed to provide a general overview of the Academy's finances for all those with an interest in the Academy. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Integrity Educational Services, 3300 36th Street SE, Grand Rapids, MI, 49512.

In addition, the Academy's budget for fiscal year 2017 is presented on its website, which is located at [www.lighthouseacademyschool.org](http://www.lighthouseacademyschool.org).

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## BASIC FINANCIAL STATEMENTS

# LIGHTHOUSE ACADEMY

## Statement of Net Position

June 30, 2016

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 71,064
Receivables	1,026,452
Prepays	94,700
Capital assets being depreciated, net	<u>147,051</u>
<b>Total assets</b>	<u>1,339,267</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	443,195
Unearned revenue	<u>31,492</u>
<b>Total liabilities</b>	<u>474,687</u>
<b>Net position</b>	
Investment in capital assets	147,051
Unrestricted	<u>717,529</u>
<b>Total net position</b>	<u><u>\$ 864,580</u></u>

The accompanying notes are in integral part of these financial statements.



# LIGHTHOUSE ACADEMY

## Statement of Activities

For the Year Ended June 30, 2016

Functions / Programs	Expenses	Program Revenues	
		Operating Grants and Contributions	Net (Expense) Revenue
Governmental activities			
Instruction	\$ 2,499,914	\$ 1,474,007	\$ (1,025,907)
Supporting services	1,755,334	109,276	(1,646,058)
Unallocated depreciation expense	52,857	-	(52,857)
Total governmental activities	<u>\$ 4,308,105</u>	<u>\$ 1,583,283</u>	<u>(2,724,822)</u>
General revenues			
Unrestricted school aid			2,697,290
Unrestricted donations			27,597
Unrestricted interest			6,510
Total general revenues			<u>2,731,397</u>
Change in net position			6,575
Net position, beginning of year, as restated			<u>858,005</u>
Net position, end of year			<u>\$ 864,580</u>

The accompanying notes are in integral part of these financial statements.

# LIGHTHOUSE ACADEMY

## Balance Sheet

General Fund

June 30, 2016

### Assets

Cash and cash equivalents	\$ 71,064
Accounts receivable	183
Due from other governments	1,026,269
Prepays	94,700

### Total assets

\$ 1,192,216

### Liabilities

Accounts payable	\$ 157,398
Accrued liabilities	271,842
Due to other governments	13,955
Unearned revenue	31,492

### Total liabilities

474,687

### Fund balance

Nonspendable	94,700
Unassigned	622,829

### Total fund balance

717,529

### Total liabilities and fund balances

\$ 1,192,216

The accompanying notes are in integral part of these financial statements.

# LIGHTHOUSE ACADEMY

## Reconciliation

Fund Balance for General Fund to Net Position of  
Governmental Activities  
June 30, 2016

Fund balance - general fund	\$	717,529
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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 therefore are not reported in the fund statements.

Capital assets being depreciated, net		<u>147,051</u>
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Net position of governmental activities	\$	<u><u>864,580</u></u>
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The accompanying notes are in integral part of these financial statements.

# LIGHTHOUSE ACADEMY

## Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Local sources	\$ 122,605	\$ 33,819	\$ 34,107	\$ 288
State sources	2,866,119	2,913,265	2,944,464	31,199
Federal sources	1,129,686	1,282,650	1,042,387	(240,263)
Interdistrict sources	240,267	248,301	293,722	45,421
<b>Total revenues</b>	<b>4,358,677</b>	<b>4,478,035</b>	<b>4,314,680</b>	<b>(163,355)</b>
<b>Expenditures</b>				
Current:				
Instructional services:				
Basic programs	1,407,520	1,479,821	1,462,215	(17,606)
Added needs	1,019,920	1,300,433	1,049,533	(250,900)
<b>Total instructional services</b>	<b>2,427,440</b>	<b>2,780,254</b>	<b>2,511,748</b>	<b>(268,506)</b>
Supporting services:				
Pupil support	348,372	296,677	285,865	(10,812)
Instructional staff	39,255	94,885	87,211	(7,674)
General administration	236,814	172,789	147,362	(25,427)
School administration	420,452	348,392	322,394	(25,998)
Business services	263,949	349,935	349,086	(849)
Operations and maintenance	374,562	466,922	424,698	(42,224)
Pupil transportation	15,006	35,005	37,240	2,235
Central services	79,249	95,601	101,478	5,877
<b>Total supporting services</b>	<b>1,777,659</b>	<b>1,860,206</b>	<b>1,755,334</b>	<b>(104,872)</b>
<b>Total expenditures</b>	<b>4,205,099</b>	<b>4,640,460</b>	<b>4,267,082</b>	<b>(373,378)</b>
<b>Revenues over (under) expenditures</b>	<b>153,578</b>	<b>(162,425)</b>	<b>47,598</b>	<b>210,023</b>
<b>Other financing uses</b>				
Transfers out	-	(20,957)	-	(20,957)
<b>Net changes in fund balance</b>	<b>153,578</b>	<b>(183,382)</b>	<b>47,598</b>	<b>189,066</b>
<b>Fund balance, beginning of year</b>	<b>669,931</b>	<b>669,931</b>	<b>669,931</b>	<b>-</b>
<b>Fund balance, end of year</b>	<b>\$ 823,509</b>	<b>\$ 486,549</b>	<b>\$ 717,529</b>	<b>\$ 230,980</b>

The accompanying notes are in integral part of these financial statements.

# LIGHTHOUSE ACADEMY

## Reconciliation

Net Changes in Fund Balance of General Fund to Change in  
Net Position of Governmental Activities  
For the Year Ended June 30, 2016

Net change in fund balance - general fund \$ 47,598

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

Governmental funds report capital outlays as expenditures. However, in the statement  
of activities, the cost of those assets is allocated over estimated useful lives and  
reported as depreciation expense.

Capital assets purchased/constructed	11,834
Depreciation expense	<u>(52,857)</u>

Change in net position of governmental activities \$ 6,575

The accompanying notes are in integral part of these financial statements.

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## NOTES TO FINANCIAL STATEMENTS

# LIGHTHOUSE ACADEMY

## Notes to Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies of Lighthouse Academy (the "Academy") consistently applied in the preparation of the accompanying financial statements, is as follows:

#### The Reporting Entity

The Academy was formed as a public school academy pursuant to Public Act 416 of 1996. The Academy then entered into a contract with Ferris State University to charter the 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 Ferris State University 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 Ferris State University 3% of its discretionary payment and PSA protected State aid funding as administrative fees. The total administrative fees for the year ended June 30, 2016 were \$76,436.

The Academy is governed by a Board of Directors consisting of seven members approved by Ferris State University.

The Board of Directors of the Academy has entered into a services agreement (the "Agreement") with Integrity Educational Services ("IES") which requires IES to provide management and operational services (including the educational program, human resources, administration, operations and maintenance and accounting) to the Academy.

The accompanying basic 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 Academy. Based on application of the criteria, the Academy does not contain any component units.

#### *Government-wide and Fund Financial Statements*

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. *Governmental activities*, which normally are supported by intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The Academy had no business-type activities during the year ended June 30, 2016.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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 or capital requirements of a particular function or segment. Unrestricted State aid and other items not properly included among program revenues are reported instead as *general revenues*.



# LIGHTHOUSE ACADEMY

## Notes to Financial Statements

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

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, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 collected within 60 days of the end of the current fiscal period or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

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.

When both restricted and unrestricted resources are available for use, it is the Academy's policy to use restricted resources first, then unrestricted resources as they are needed.

### *Cash and Cash Equivalents*

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

# LIGHTHOUSE ACADEMY

## Notes to Financial Statements

### *Investments*

Michigan law authorizes the Academy to deposit and invest in:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

At June 30, 2016, the Academy had no investments.

### *Receivables*

The Academy follows the practice of recording revenues that have been earned but not yet received as receivables. Receivables consist primarily of state aid payments from the State of Michigan and federal grant funds earned but not yet collected. No amounts have been identified as potentially uncollectible by management, and therefore, no amount has been recorded as a provision for bad debts.

### *Prepays*

Payments to vendors for services that will benefit periods beyond a fund's fiscal year-end are recorded as prepaid items in both the government-wide and fund financial statements.

### *Capital Assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized.

# LIGHTHOUSE ACADEMY

## Notes to Financial Statements

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the Academy are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Furniture and equipment	3-10

### *Accrued Contracted Staffing Costs*

A liability is recorded at June 30 for amounts owed to the Academy's contracted staffing company, for those amounts owed by the staffing company to teachers and other staff members who do not work during the summer but are contracted to have their salaries paid over a twelve-month period. This has the effect of properly charging these contracted staffing costs to expenditures in the fiscal year in which the services are received, even though they are not paid until July and August of the following fiscal year.

The Academy has also recorded accrued contracted staffing costs for amounts to be reimbursed to the staffing company after June 30, 2016, for the post-year-end cost to the staffing company of funding FICA, as well as retirement plan funding, related to the services of Academy staff during the school year and fiscal year ended June 30, 2016.

### *Fund Equity*

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the Board of Directors. A formal resolution of the Board of Directors is required to establish, modify, or rescind a fund balance commitment. The authority to assign fund balance has not been delegated by the Board of Directors. Unassigned fund balance is the residual classification for the general fund.

When the Academy incurs an expenditure for purposes for which various fund balance classifications can be used, it is the Academy's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

### *State of Michigan School Aid*

For the fiscal year ended June 30, 2016, the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2016, the foundation allowance was based on the average pupil membership counts taken in February and October of 2015.

# LIGHTHOUSE ACADEMY

## Notes to Financial Statements

The State portion of the foundation allowance is provided primarily by a State education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The Academy has no local portion of the foundation allowance. The State revenues are recognized during the foundation period (currently the State's fiscal year) and is funded through payments from October - August each fiscal year.

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

The Academy reports State of Michigan school aid in the fiscal year in which the Academy is entitled to the revenue as provided by State of Michigan school aid appropriation acts. State funding represented approximately 68% of the Academy's general fund revenue during the 2016 fiscal year.

### *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## 2. ACCOUNTABILITY AND BUDGETARY COMPLIANCE

### *Budgets and Budgetary Accounting*

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the general fund as required by the State of Michigan Uniform Budgeting and Accounting Act, as amended by Public Act 621 of 1978 ("Public Act 621"). The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The contracted Chief Financial Officer submits to the Board a proposed operating budget for the fiscal year commencing the following July 1.
2. A public hearing is conducted to obtain public comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for the general fund.
5. Adoption and amendments of all budgets used by the Academy are governed by Public Act 621, which was followed for the year ended June 30, 2016. Expenditures may not exceed appropriations at the function code level. The appropriations resolutions are based on the projected expenditures budget developed by the contracted financial service team in collaboration with school leadership and Board of Directors. Any revisions that alter the total expenditures must be approved by the Academy Board of Directors.

# LIGHTHOUSE ACADEMY

## Notes to Financial Statements

The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits academies to amend their budgets during the year. Both the original and final amended budgets are presented in the accompanying financial statements.

### *Excess of Expenditures over Appropriations in Budgetary Funds*

During June 30, 2016, the Academy incurred expenditures in excess of the amount appropriated as follows:

	Final Budget	Actual	Variance
General fund			
Supporting services:			
Pupil transportation	\$ 35,005	\$ 37,240	\$ 2,235
Central services	95,601	101,478	5,877

## 3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following at year-end:

Checking and savings accounts	<u>\$ 71,064</u>
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Cash and cash equivalents are comprised of deposits in one financial institution located in Michigan. All accounts are in the name of the Academy.

*Custodial Credit Risk of Bank Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned. The Academy's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the Academy's deposits for custodial credit risk. At June 30, 2016, the Academy had a balance of \$146,151 in bank deposits (checking account), none of which was exposed to custodial credit risk.

## 4. RECEIVABLES AND PAYABLES

Receivables in the government-wide financial statements at June 30, 2016 are as follows:

	Governmental Activities
State aid	\$ 575,574
Federal grants	386,026
Interdistrict revenue	64,669
Miscellaneous local	183
	<hr/>
Total	<u>\$ 1,026,452</u>

# LIGHTHOUSE ACADEMY

## Notes to Financial Statements

Payables in the government-wide financial statements at June 30, 2016 are as follows:

	Governmental Activities
Accounts	\$ 157,398
Accrued contracted staffing costs	271,842
Due to other governments	<u>13,955</u>
<b>Total</b>	<b><u>\$ 443,195</u></b>

## 5. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental activities					
Capital assets being depreciated:					
Furniture and equipment	\$ 565,993	\$ 11,834	\$ -	\$ -	\$ 577,827
Less accumulated depreciation for:					
Furniture and equipment	<u>(377,919)</u>	<u>(52,857)</u>	<u>-</u>	<u>-</u>	<u>(430,776)</u>
Governmental activities capital assets, net	<u>\$ 188,074</u>	<u>\$ (41,023)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 147,051</u>

Depreciation expense for the fiscal year ended June 30, 2016 amounted to \$52,857. The Academy determined that it was impractical to allocate depreciation to the various functions as the assets serve multiple functions.

## 6. SHORT-TERM DEBT/SUBSEQUENT EVENT

The Academy has a bank note payable that allows borrowings up to \$600,000. There were no outstanding borrowings at June 30, 2016. The effective interest rate at June 30, 2016 was 1.99%. The note payable is secured by future state aid revenues of the Academy. Interest paid on this loan for the year ended June 30, 2016 was \$7,639.

	Beginning Balance	Additions	Deletions	Ending Balance
Note payable	<u>\$ 200,000</u>	<u>\$ 400,000</u>	<u>\$ (600,000)</u>	<u>\$ -</u>

On September 9, 2016, the Academy received proceeds of \$600,000 in State of Michigan school aid anticipation notes due On September 1, 2017. The notes bear interest at 1.99%.

# LIGHTHOUSE ACADEMY

## Notes to Financial Statements

### 7. OPERATING LEASES

In June 2015, the Academy entered into a three year lease agreement with a not-for-profit for the rental of a school building at \$12,500 per month payable in advance. The lease automatically renews for one year annually thereafter. Future minimum lease payments are summarized as follows:

Year Ended June 30,	Amount
2017	\$ 150,000
2018	150,000
	<u>\$ 300,000</u>

Total rental expense under this agreement was \$150,000 for the year ended June 30, 2016.

### 8. RETIREMENT PLAN

All leased employees of the Academy are eligible to participate in a retirement plan established by IES. The Academy reimburses to IES a 50% match up to 6% of each employee's salary to a qualified 401(k) plan. Academy contributions for the year ended June 30, 2016 totaled \$31,322.

### 9. RISK MANAGEMENT

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

### 10. OUTSOURCED FOOD SERVICE OPERATIONS

The Academy has contracted with Grand Rapids Public Schools ("GRPS") to provide food services for its students. Under this agreement, GRPS is the direct recipient of all grants and charges for services and has discretionary control over the spending of the funds. As such, any activity is included in Grand Rapids Public Schools' financial statements and therefore has been excluded from this report. If the Academy were to terminate the agreement with GRPS, it would receive a distribution of the balance of the fund maintained by GRPS. As of June 30, 2016, the food service fund balance held by GRPS on behalf of the Academy was \$5,099.

### 11. SUBSEQUENT EVENT

On March 22, 2016, the Board of Directors approved the expansion of Academy operations to two additional locations. Operations at these sites will commence with the 2016-2017 school year.

# LIGHTHOUSE ACADEMY

## Notes to Financial Statements

### 12. RESTATEMENT

The Academy outsources its food service activity to Grand Rapids Public Schools ("GRPS"). The Academy does not have any discretionary control over the funding and charges for service which are received directly by GRPS. Based on guidance provided by the Michigan Department of Education, it has been determined this activity should be excluded from the Academy's general ledger. As a result of this change, beginning fund balance of the general fund has been reduced by \$29,502, to eliminate the effect of interfund activity related to the statement; the nonmajor governmental fund (formerly presented as the food service fund) balance deficit of \$9,215 has been eliminated, resulting in a net beginning fund balance of \$0 and no activity for the current year; and beginning net position of governmental activities has been reduced by \$20,287.

