

**CHARLTON HESTON ACADEMY**

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**Financial Report  
with Supplemental Information  
June 30, 2016**

# CHARLTON HESTON ACADEMY

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# Wilkerson & Associate P.C.

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Charlton Heston Academy

### **Report on Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Charlton Heston 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.

### ***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 evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Charlton Heston Academy as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles accepted in the United States of America.

**Members: A.I.C.P.A. and M.I.C.P.A.**

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison 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 Government Auditing 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Charlton Heston Academy's basic financial statements. The nonmajor funds combining statement of revenues, expenditures, and changes in fund balances – special revenue funds is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2016, on our consideration of Charlton Heston 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 or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering Charlton Heston Academy's internal control over financial reporting and compliance.

*Wilkinson & Associates PC*

October 10, 2016

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

To the Board of Directors of  
Charlton Heston Academy

We have audited the financial statements of Charlton Heston Academy as of and for the year ended June 30, 2016, and have issued our report thereon dated October 10, 2016. 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.

Internal Control Over Financial Reporting

Charlton Heston Academy is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Charlton Heston Academy's internal control over financial reporting 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 Charlton Heston Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Charlton Heston Academy's internal control over financial reporting.

*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 misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Members: A.I.C.P.A. and M.I.C.P.A.**

To the Board of Directors of  
Charlton Heston Academy

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Charlton Heston Academy's financial statements are free of 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*.

This report is intended for the information and use of the Board of Directors, management and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

*Wilkerson & Associate PC*

October 10, 2016

This section of Charlton Heston Academy (the Academy) annual financial report presents discussion and analysis of the Academy's Financial Performance during the year ended June 30, 2016. It should be read in conjunction with the Academy's financial statements, which immediately follow this section.

### Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Charlton Heston Academy financially as a whole. The government-wide financial statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the Academy's operation in more detail than the government-wide financial statements by providing information about the Academy's most significant fund – the General Fund – with all other presented in one column as non-major funds. The components of the annual report are as follows:

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

### Basic Financial Statements

Government – wide Financial Statements - Fund Financial Statements  
Notes to the Basic Financial Statements  
(Required Supplementary Information)  
Budgetary Information for Major Fund  
Other Supplementary Information

### **Reporting the Academy as a Whole – Government – wide Financial Statements**

One of the most important questions asked about the Academy is, “As a whole, what is the Academy's financial condition as a result of the year's activities?” The statement of net assets and the statement of activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Academy's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the Academy's financial position. Over time, increases or decrease in the Academy's net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating.

The relationship between revenues and expenses is the Academy’s operating results. However, the Academy’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school, to assess the overhaul health of the Academy.

The statement of net assets and the statement of activities report the governmental activities for the Academy, which encompass all of the Academy’s services, including instruction, support services, food services, and athletics. Unrestricted state aid (foundation allowance revenue) and state and federal grants finance most of these activities.

**Reporting the Academy’s Governmental Fund – Fund Financial Statements**

The Academy’s fund financial statements provide detailed information about the General Fund – not the Academy as a whole. The government funds of the Academy use the following accounting approach:

**Governmental Funds** – All of the Academy’s services are reported in the governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of operations of the Academy and the services it provides. Governmental fund information 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. We describe the relationship (or difference) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund reconciliations.

**The School District as a Whole**

As discussed above, the Statement of Net Assets provides information of the Academy as a whole. Table 1 provides a summary of Charlton Heston Academy's net assets as of June 30, 2016:

**Table 1-Summary of Charlton Heston Academy's Net Assets**

<u>Assets</u>	<b>Governmental <u>Activities</u></b>
Current and other Assets	<b><u>2016</u></b> \$ 1,168.3
Capital Assets – Net of Accumulated Depreciation	\$ <u>2,736.1</u>
<b>Total Assets</b>	<b>\$ <u>3,904.4</u></b>



<b><u>Liabilities</u></b>	
Current Liabilities	\$1,592.9
Long-Term Liabilities	<u>\$1,709.6</u>
Total Liabilities	<u>\$3,302.5</u>

<b><u>Net Assets</u></b>	
Invested in capital assets	\$ 88.3
Unrestricted	<u>\$ 513.6</u>
<b>Total Net Assets</b>	<b><u>\$ 601.9</u></b>

**Net Assets** – The Academy’s financial position was stable during the current year, with the total net assets of approximately \$601,953.

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the academy’s governmental activities is discussed below. The Academy’s net assets were approximately \$601,953 at June 30, 2016. Capital assets, recorded at historical cost, net of depreciation and related debt, totaled approximately \$2,736,125. Debt was used to finance the acquisition of those assets. The remaining amount of net assets, approximately \$88,322, was unrestricted.

The approximately \$513,631 in unrestricted net assets of governmental activities represents the accumulated results of all past years’ operations. The unrestricted net assets balance enables the Academy to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year’s operations for the Academy as a whole are reported in the statement of activities (see Table 2), which shows the change in net assets for fiscal ended June 30, 2016.

**Table 2 – Summary of the Statement of Activities**

	<b>Governmental Activities 2016 (in thousands)</b>
	<b><u>Amount</u></b>
<b><u>Revenues</u></b>	
<b>Program Revenues:</b>	
Charges for Services	\$ 0.0
Operating Grants and Contributions	\$ 721.8

**General Revenues:**

State foundation allowance	\$ 4,035.5
Other	\$ <u>45.0</u>

**Total Revenues** **\$ 4,802.4**

**Function/Program Expenses:**

Instruction and instructional staff services	\$ 2,181.7
Support Services	\$ 2,399.7
Athletics	\$ 40.7
Food Services	\$ 412.8
Interest on long -term debt	\$ 92.5
Depreciation	\$ <u>63.3</u>

**Total Expenses** **\$ 5,190.6**

**Increase (Decrease) in Net Assets** **\$ (388.2)**

**Increase in Net Assets**

As reported in the statement of activities, the cost of all of our governmental activities this year was approximately \$5,190,597. Certain activities were partially funded from those who benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions of approximately \$721,831. We paid for the remaining “public benefit” portion of our governmental activities with approximately \$4,035,489 in state foundation allowance and with our other revenues.

As discussed above, the net cost shows the financial burden that was placed on the Academy by each of these functions. Since unrestricted state 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 balanced those needs with state-prescribed available unrestricted resources.

**The Academy’s Funds**

As we noted earlier, the Academy uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Academy is being accountable for the resources the State and others provide to it and may provide insight into the Academy’s overall financial health.

As the Academy completed this year, the governmental funds reported a combined fund balance of approximately \$513,631.

The General Fund is available to fund costs related to school operations.

Our Special Revenue Funds were stable in that they maintain comparable fund balances. Excess expenditures over revenue are funded through a fund balance transfer from the General Fund. Food service, athletics admissions, and fund-raising revenue are not sufficient to completely support these programs.

**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 to be amended to ensure that expenditure do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. A schedule showing the Academy’s original and final budget amounts compared with amounts actually paid and received is provided in the required supplementary information of these financial statements.

There were revisions made to the 2015-2016 General Fund original budgets. Budgeted revenues increased approximately \$34,000 due mainly to more state programs being utilized in the fiscal year. The federal and state programs are expensed and then claimed for reimbursement.

Overall budgeted expenditures decreased approximately \$84,000, mainly in instructional expenses and added need expenses. Variances were caused by reductions in staffing.

**Capital Assets and Debt Administration**

**Capital Assets**

As of June 30, 2016, the Academy had approximately \$88,322 invested in net capital assets, including leasehold improvements, furniture, and equipment.

	<u>2016</u>
Building and building improvements	\$ 2,682.1
Computers, machines, and equipment	\$ 21.4
Furniture and equipment	<u>\$ 32.6</u>
Total Capital Assets	<b><u>\$2,736.1</u></b>

## **Debt**

Debt includes capital improvement bond obligations of approximately \$2,647,803 and contingent long-term liabilities. On September 2014 the Academy entered into a bond with Robert and Nancy Griffin. The Academy continues to present this obligation as a long-term liability based on the intent and ability to pay debt off during the life of the loan. In December 2015, the Academy entered into a capital improvement bond with Mercantile Bank for \$2,291,647. The obligation had monthly drawdowns in total of \$1,747,803 for fiscal year ending 2016. The initial \$288,315 was used to refinance the existing mortgage obligation with Mercantile Bank. The remaining \$1,459,488 that was drew down from December 2015 to June 2016 was used for capital improvements of the new facility. The Academy anticipates a refinancing of the capital improvement bond obligations in fiscal year 2017.

## **Economic Factors and Next Year's Budget**

One of the most important factors affecting the budget is our student count. The state foundation allowance is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2017 fiscal year is 90 percent of the October 2016 and 10 percent of February 2017 student counts. The original 2017 budget was adopted in June 2016 based on the estimate of 575 students to be enrolled in September 2016. Based on early enrollment data at the start of the 2016-2017 school year, we anticipate that the fall student count will be close to our estimates. Once the final student count and related per pupil funding is validated, state law requires the Academy to amend the budget if actual Academy resources are not sufficient to fund original appropriations.

Since the Academy's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to academies. The State periodically holds a revenue-estimating conference to estimate revenues. If the State estimates that funds are not sufficient to fund the appropriation, the legislature must revise the appropriation and prorating of state aid will occur. The impact on the Academy of a possible State projected revenue shortfall is not known.

**CHARLTON HESTON ACADEMY**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2016**

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and investments	\$ 393,301
Receivables	775,013
Capital assets, net of accumulated depreciation	<u>2,736,125</u>
Total assets	3,904,439
<b>Liabilities</b>	
Accounts payable	154,960
Accrued payroll and related liabilities	96,759
State aid note payable	402,964
Long-term liabilities	
Due within one year	938,216
Due in more than one year	<u>1,709,587</u>
Total liabilities	3,302,486
<b>Net Assets</b>	
Invested in capital assets - Net of related debt	88,322
Unrestricted	<u>513,631</u>
Total net assets	<u><u>\$ 601,953</u></u>

The Notes to Financial Statements are an Integral Part of this Statement.

**CHARLTON HESTON ACADEMY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expenses) Revenues and Changes in Net Assets</u>
<b>Functions/Programs</b>				
Primary government - Governmental activities:				
Instruction	\$ 2,181,702	\$ -	\$ 250,640	\$ (1,931,062)
Support services	2,399,660	-	-	(2,399,660)
Athletics	40,659	-	-	(40,659)
Food services	412,839	20	471,191	58,372
Interest	92,484	-	-	(92,484)
Depreciation (unallocated)	63,253	-	-	(63,253)
	<u>\$ 5,190,597</u>	<u>\$ 20</u>	<u>\$ 721,831</u>	<u>(4,468,746)</u>
	General revenues			
				4,035,489
				<u>45,035</u>
				<u>4,080,524</u>
				(388,222)
				<u>990,175</u>
				<u>\$ 601,953</u>

The Notes to Financial Statements are an Integral Part of this Statement.

**CHARLTON HESTON ACADEMY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2016**

	<b>ASSETS</b>		
	<b>General Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
	<u>          </u>	<u>          </u>	<u>          </u>
Cash and investments	\$ 277,438	\$ 115,863	\$ 393,301
Receivables	38,630	-	38,630
Due from other governmental units	<u>736,383</u>	<u>-</u>	<u>736,383</u>
Total assets	<u>\$ 1,052,451</u>	<u>\$ 115,863</u>	<u>\$ 1,168,314</u>

**LIABILITIES AND FUND BALANCES**

<b>Liabilities</b>			
Accounts payable	127,645	27,315	154,960
Accrued payroll and benefits	93,271	3,488	96,759
State aid note payable	<u>402,964</u>	<u>-</u>	<u>402,964</u>
Total liabilities	623,880	30,803	654,683
<b>Fund Balances - Unassigned - reported in</b>			
General Fund	428,571	-	428,571
Special Revenue Funds	<u>-</u>	<u>85,060</u>	<u>85,060</u>
Total fund balances	<u>428,571</u>	<u>85,060</u>	<u>513,631</u>
Total liabilities and fund balances	<u>\$ 1,052,451</u>	<u>\$ 115,863</u>	<u>\$ 1,168,314</u>

The Notes to Financial Statements are an Integral Part of this Statement.

**CHARLTON HESTON ACADEMY  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2016**

<b>Total Fund Balances - Governmental Funds</b>	\$	513,631
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, not reported as assets in governmental funds</p>		
Cost of capital assets	\$ 2,918,052	
Accumulated depreciation	<u>(181,927)</u>	<u>2,736,125</u>
<p>Long-term liabilities not due and payable in the current period and, therefore are not reported as liabilities in the governmental funds:</p>		
Mortgage note payable	-	
Capital Improvement payable	<u>2,647,803</u>	<u>(2,647,803)</u>
<b>Total Net Assets - Governmental Activities</b>	<b>\$</b>	<b><u><u>601,953</u></u></b>

The Notes to Financial Statements are an Integral Part of this Statement.



**CHARLTON HESTON ACADEMY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>				
Local sources	\$ 45,035	\$ 1,459,547	\$ 20	\$ 1,504,602
State sources	4,035,489	-	-	4,035,489
Federal sources	250,640	-	471,191	721,831
<b>Total revenues</b>	<b>4,331,164</b>	<b>1,459,547</b>	<b>471,211</b>	<b>6,261,922</b>
<b>Expenditures</b>				
Current:				
Instruction	2,181,702	-	-	2,181,702
Support services	2,399,660	-	-	2,399,660
Athletics	40,659	-	-	40,659
Food services	-	-	412,839	412,839
Capital Projects	-	1,587,634	-	1,587,634
Debt service:				
Principal	25,976	-	-	25,976
Interest	92,484	-	-	92,484
<b>Total expenditures</b>	<b>4,740,481</b>	<b>1,587,634</b>	<b>412,839</b>	<b>6,740,954</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(409,317)</b>	<b>(128,087)</b>	<b>58,372</b>	<b>(479,032)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in (out)	81,059	(22,687)	(58,372)	-
<b>Total other financing sources (uses)</b>	<b>81,059</b>	<b>(22,687)</b>	<b>(58,372)</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>(328,258)</b>	<b>(150,774)</b>		<b>(479,032)</b>
<b>Fund Balances - Beginning of year</b>	<b>756,829</b>	<b>173,905</b>	<b>61,929</b>	<b>992,663</b>
<b>Fund Balances - End of year</b>	<b>\$ 428,571</b>	<b>\$ 23,131</b>	<b>\$ 61,929</b>	<b>\$ 513,631</b>

The Notes to Financial Statements are an Integral Part of this Statement.

**CHARLTON HESTON ACADEMY  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016**

**Total Net Change in Fund Balances - Governmental Funds** \$ (479,032)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period:

Depreciation expense	63,253	
Capital outlay	<u>-</u>	63,253

Prior period adjustment		1,581
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Repayment of capital lease principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		<u>25,976</u>
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**Change in Net Assets of Governmental Activities** \$ (388,222)

The Notes to Financial Statements are an Integral Part of this Statement.

**CHARLTON HESTON ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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

The accounting policies of Charlton Heston Academy (the “Academy”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy:

**Reporting Entity**

The Academy was formed as a charter school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy was established on April 27, 2012 as a public school academy. The Academy is located in rural northern Michigan area providing education for approximately 484 students in grades pre-k through 11.

On April 27, 2012, the Academy entered into a five-year contract with the Lake Superior State University Board of Trustees to charter a public school academy. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. The Lake Superior State University Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy’s compliance with the contract and all applicable laws. The Academy pays the Lake Superior State University Board of Trustees 3 percent of State Aid as administrative fees. The total administrative fees for the year ended June 30, 2015 to the Lake Superior State University Board of Trustees were approximately \$93,183.

**Administrative Services** – Charlton Heston Academy has entered into a management agreement with Midwest Management Group, Inc. through June 30, 2016. Under the terms of the management agreement, Midwest Management Group, Inc. provides all the required employee management services for the Academy. Management fees for the year ended June 30, 2016 was approximately \$100,086.

**CHARLTON HESTON ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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

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

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

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

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributors; and (3) capital grants and contributors. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all unrestricted state and federal aid.

**Fund Financial Statements** – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

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

The Academy reports the following major governmental fund:

**General 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.

**CHARLTON HESTON ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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

Additionally, the Academy reports the following fund type:

**Special Revenue Funds** – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes.

The Special Revenue Funds are used to segregate, for administrative purposes, the transactions of particular activities from regular revenue and expenditure accounts. The Special Revenue Funds maintained by the Academy account for food service and capital projects fund.

**Assets, Liabilities, and Net Assets or Equity**

**Cash and Investments** - Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of twelve months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** – In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.”

Accounts receivable are shown net of allowance for uncollectible amounts. Management determines the allowance based on a specific review of items where collectibility is questionable.

**Capital Assets** – Capital assets, which include building improvements, furniture, and equipment, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$1,500 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure-type assets.

**CHARLTON HESTON ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

Building, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and building additions	7 to 50 years
Machines and equipment	10 to 20 years
Computers and software	5 years
Furniture and other equipment	20 years

**MPSERS Liability** – The Academy contracts with an outside company to provide staffing personnel during the year. Consequently, these staffing costs are treated as purchased services in these financial statements. The Academy does not have an obligation to fund the Michigan Public School Employees' Retirement System (MPSERS) for the year 2016. There are no values to report for 2016.

**Long-term Obligations** – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

In the fund financial statements, governmental fund types recognize obligations in the period the obligations mature.

**Fund Equity** – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Comparative Data** – Comparative data is not included in the Academy's financial statements.

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

**CHARLTON HESTON ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information** – Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. 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 districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The Academy increased budgeted amounts during the year in response to changes in enrollment and related revenues and expenditures.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

**Excess of Expenditures Over Appropriations in Budgeted Funds** – During the year, the Academy did incur expenditures in the General Fund in excess of the amounts budgeted. **See page 26 for budget variances.**

**NOTE 3 - DEPOSITS AND INVESTMENTS**

State statutes and the Academy's investment policy authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan; the Academy is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Academy's deposits are in accordance with statutory authority.

The Academy has designated one bank for the deposit of its funds.

The Academy's cash and investments are subject to several types of risks, which are examined in more detail below:

**CHARLTON HESTON ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

**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 to it. 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 year end, the Academy’s deposit balance of \$393,301 had \$143,301 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Academy evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Custodial Credit Risk of Investments** – Custodial credit risk of investments is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Academy does not have an investment policy for custodial credit risk. The Academy does not have investments with custodial risk.

**Interest Rate Risk** – Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Academy’s investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. The Academy does not have a policy for interest rate risk.

**Credit Risk** – State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Academy’s investment policy does not further limit its investment choices.

At year end, the Academy had no investments.

**Concentration of Credit Risk** – The Academy places no limit on the amount the Academy may invest in any one issuer. The Academy does not have a policy to minimize concentration of credit risk.

**Foreign Currency Risk** – Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law and the Academy’s policy prohibit investment in foreign currency.



**CHARLTON HESTON ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 4 – RECEIVABLES AND DEFERRED REVENUE**

Receivables as of year end for the Academy’s individual major funds and the nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Receivables - Intergovernmental	\$ 775,013	\$ -	\$ 775,013

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, there was no deferred revenue.

**NOTE 5 - CAPITAL ASSETS**

Capital assets activity of the Academy’s governmental activities was as follows:

	<u>Balance July 1, 2015</u>	<u>Additions/ Transfers</u>	<u>Disposals/ Transfers</u>	<u>Balance June 30, 2016</u>
<b>Governmental Activities</b>				
Capital assets being depreciated:				
Building	270,000	-	-	270,000
Building improvements	950,142	1,587,634	-	2,537,776
Computers and software	71,787	-	-	71,787
Furniture and equipment	38,489	-	-	38,489
Subtotal	1,330,418	1,587,634	-	2,918,052

**CHARLTON HESTON ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 5 - CAPITAL ASSETS (Continued)**

Building improvements	62,377	41,666	-	104,043
Computers and software	36,045	14,358	-	50,403
Furniture and equipment	<u>4,052</u>	<u>1,829</u>	-	<u>5,881</u>
Subtotal	118,674	63,253	-	181,927
Net capital assets being depreciated	<u>\$ 1,211,744</u>	<u>\$ 1,524,381</u>	<u>\$ -</u>	<u>\$ 2,736,125</u>

Depreciation expense was not charged to activities, as the Academy considers its assets to impact multiple activities and allocation is not practical.

**NOTE 6 - LONG-TERM DEBT**

The Academy issues notes, capital leases, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. Notes and installment purchase agreements are also general obligations of the Academy.

Long-term obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>					
Mortgage obligation	\$ 309,556	\$ -	\$ 309,556	\$ -	\$ -
Capital Improvement obligation	<u>900,000</u>	<u>1,747,803</u>	<u>-</u>	<u>2,647,803</u>	<u>900,000</u>
Total governmental activities	<u>\$ 1,209,556</u>	<u>\$ 1,747,803</u>	<u>\$ 309,556</u>	<u>\$ 2,647,803</u>	<u>\$ 900,000</u>

**Mortgage Obligation** – The Academy’s mortgage obligation is with Mercantile Bank. The payable monthly principal installments including interest equal approximately \$4,329.34. The effective interest rate is equal to 4%. Under the terms of the mortgage obligation, substantially all of the Academy’s improvements, fixtures, and all real and personal property located on the mortgaged premises are deemed secured by the bank in the event of default. During the year ended June 30, 2016, the Academy paid its scheduled principal and interest payments totaling \$314,291. The Academy paid the mortgage obligation on December 30, 2015.

**CHARLTON HESTON ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 6 - LONG-TERM DEBT (Continued)**

**Capital Improvement Bond Obligation** - The Academy has two capital improvement bond obligations. The first capital improvement bond obligation is with Robert and Nancy Griffin. The obligation is for \$900,000. The payable monthly interest installment is approximately \$5,250. The effective interest rate is equal to 7%. During the year ended June 30, 2016, the Academy paid its scheduled interest payments totaling \$63,000. The note matures on September 1, 2016.

The Academy's second capital improvement bond obligation is with Mercantile Bank. The capital improvement bond obligation is for \$2,291,447, in which the Academy completes drawdowns monthly for the construction and improvement of the new facility. The Academy drew down \$1,747,803 for the fiscal year that ended on June 30, 2016. The Academy refinanced the initial mortgage obligation from 2012 with the second capital improvement bond, which \$288,315 was used in the refinancing of the initial mortgage obligation. The remaining \$1,459,488 was used for capital improvements for the fiscal year ending June 30, 2016.

**NOTE 7 - RISK MANAGEMENT**

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The risk of employee injuries and medical benefits for employees of the management company are covered by insurance held by the management company. The Academy has purchased commercial insurance for all other claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since inception.

**NOTE 8 - SUBSEQUENT EVENTS**

Subsequent events have been evaluated through October 10, 2016 which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

**REQUIRED SUPPLEMENTAL INFORMATION**

**CHARLTON HESTON ACADEMY**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual (GAAP Basis)	Over/(Under)
	Original	Final		Final Budget
<b>Revenues</b>				
Local sources	\$ 13,015	\$ 42,550	\$ 45,035	\$ 2,485
State sources	4,066,137	4,093,763	4,035,489	(58,274)
Federal sources	307,951	285,200	250,640	(34,560)
Total revenues	4,387,103	4,421,513	4,331,164	(90,349)
<b>Expenditures</b>				
Instruction				
Basic program	1,690,468	2,107,480	2,071,271	(36,209)
Added needs	183,753	158,783	110,431	(48,352)
Total instruction	1,874,221	2,266,263	2,181,702	(84,561)
Support services				
Pupil	67,000	86,240	86,834	594
Instructional staff	112,409	193,137	214,543	21,406
General administration	109,257	113,930	93,183	(20,747)
School administration	472,955	700,045	699,034	(1,011)
Business	132,400	153,725	152,492	(1,233)
Operations and maintenance	443,948	864,955	876,501	11,546
Pupil Transportation	268,000	273,405	275,393	1,988
Central	1,000	1,500	1,680	180
Other	3,050	3,050	-	(3,050)
Total support services	1,610,019	2,389,987	2,399,660	9,673
Athletic Services	58,500	40,729	40,659	(70)
Debt service:				
Principal	32,000	26,000	25,976	(24)
Interest	149,625	87,500	92,484	4,984
Total expenditures	3,724,365	4,810,479	4,740,481	(69,998)
<b>Excess of Revenues Over (Under)</b>				
Expenditures	662,738	(388,966)	(409,317)	(20,351)
<b>Other Financing Sources (Uses)</b>				
Operating Transfers - in/out	108,896	56,356	81,059	24,703
<b>Net Change in Fund Balances</b>	771,634	(332,610)	(328,258)	4,352
<b>Fund Balances - Beginning of year</b>	756,829	756,829	756,829	-
<b>Fund Balances - End of year</b>	\$ 1,528,463	\$ 424,219	\$ 428,571	\$ 4,352

The Notes to Financial Statements are an Integral Part of this Statement.

**OTHER SUPPLEMENTAL INFORMATION**

**CHARLTON HESTON ACADEMY  
SPECIAL REVENUE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Special Revenue Funds</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Food Service Fund</u>	
<b>Revenues</b>		
Local sources	\$ 20	\$ 20
State sources	-	-
Federal sources	<u>471,191</u>	<u>471,191</u>
Total revenues	471,211	471,211
<b>Expenditures</b>		
Food services	412,839	412,839
Capital projects	<u>-</u>	<u>-</u>
Total expenditures	<u>412,839</u>	<u>412,839</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	58,372	58,372
<b>Other Financing Sources (Uses)</b>		
Transfers in/(out)	<u>(58,372)</u>	<u>(58,372)</u>
<b>Net Change in Fund Balances</b>	-	-
<b>Fund Balances - Beginning of year</b>	<u>61,929</u>	<u>61,929</u>
<b>Fund Balances - End of year</b>	<u>\$ 61,929</u>	<u>\$ 61,929</u>

The Notes to Financial Statements are an Integral Part of this Statement.

**CHARLTON HESTON ACADEMY  
REPORT TO THE BOARD OF DIRECTORS**

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**JUNE 30, 2016**



# Wilkerson & Associate P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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3 PARKLANE BLVD. SUITE 612  
DEARBORN, MICHIGAN 48126  
313-982-4340 FAX 313-982-4342

LARRY WILKERSON, C.P.A.  
THOMAS E. WILKERSON, C.P.A.

To the Board of Directors  
Charlton Heston Academy

We have recently completed our audit of the basic financial statements of Charlton Heston Academy (the "Academy") as of and for the year ended June 30, 2016. In addition to our audit report, we are providing the following required audit communication, recommendations, and informational items which impact the Academy:

	<u>Page(s)</u>
<b>Results of Audit</b>	<b>2-5</b>
<b>Recommendations</b>	<b>6</b>
<b>Informational Items</b>	<b>6</b>

We are grateful for the opportunity to be of service to Charlton Heston Academy. Should you have any questions regarding the comments in this report, please do not hesitate to call.

*Wilkerson & Associate PC*

October 10, 2016

**Members: A.I.C.P.A. and M.I.C.P.A.**

To the Board of Directors  
Charlton Heston Academy  
October 10, 2016

## **Results of the Audit**

We have audited the financial statements of Charlton Heston Academy (the “Academy”) as of and for the year ended June 30, 2016 and have issued our report thereon dated October 10, 2016. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated March 2, 2016, 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 U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Academy. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Our audit of the Academy’s financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of the Academy’s compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated October 10, 2016 regarding our consideration of the Academy’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

To the Board of Directors  
Charlton Heston Academy  
October 10, 2016

We are also obligated to communicate certain matters related to our audit of those responsible for the governance of the Academy, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* require disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters during the preliminary audit phase.

### **Significant Audit Findings**

#### ***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 the Academy are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2016.

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. There were no significant estimates included in this year's financial statements.

To the Board of Directors  
Charlton Heston Academy  
October 10, 2016

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statements disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive disclosures included in the financial statements.

***Difficulties Encountered in Performing the Audit***

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

***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. There were no such misstatements identified.

***Disagreements with Management***

For the purpose 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 statement or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated October 10, 2016.

***Management Consultants 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 consultant involves application of an accounting principle to the Academy's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultants with other accountants.

To the Board of Directors  
Charlton Heston Academy  
October 10, 2016

***Other Audit Findings or Issues***

In the normal course of our professional association with the Academy, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Academy, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the Academy's auditors.

**Other Information in Documents Containing Audited Financial Statements**

Our responsibility for other information in documents containing the Academy's financial statements and report does not extend beyond the financial statements. We do not have an obligation to determine whether or not such information is properly stated. However, we read the management's discussion and analysis and budgetary comparison schedule and nothing came to our attention that caused us to believe that such information, or its manner of presentation is materially inconsistent with the information or manner of its presentation in the financial statements.

In addition to the comments and recommendations in this letter, our observations and comments regarding the Academy's internal controls, including any significant deficiencies or material weaknesses that we identified, have been reported to you in the 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*.

This information is intended solely for the use of the board of directors and management of Charlton Heston Academy and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Wilkerson & Associate PC*

Larry D. Wilkerson, CPA

To the Board of Directors  
Charlton Heston Academy  
October 10, 2016

## Recommendations

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### CHARLTON HESTON ACADEMY RECOMMENDATIONS

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As a result of auditing standards required to be implemented last year, the audit continues to require a strong emphasis to be placed on the Academy's internal control systems. The primary goal of internal controls is to provide a reasonable (as opposed to absolute) protection to the Academy and its assets and financial information. During this year's audit process, we noted no items that required management to make changes; therefore, no recommendations are made for this year.

## Informational Items

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### CHARLTON HESTON ACADEMY Informational Item

#### **EARLY WARNING INDICATORS**

Early Warning Legislation was enacted July 7, 2015 to address districts and Public School Academies with early warning indicators of financial stress. This legislation included five legislative bills that address any district or PSA with a general fund balance of less than 5% of the general fund revenue in either of the two most recent fiscal years. These schools are required to send budgetary assumptions to the Center for Educational Performance and Information (CEPI). The MDE and Department of Treasury analyze and review this information in an effort to make determinations of potential financial stress. The Office of State Aid and School Finance worked collaboratively with the Department of Treasury to help those districts identified as being in financial stress either through an administrative review conducted by the school district's ISD or the academy's authorizer or through increased reporting to the Department of Treasury. The goal is to prevent districts or academies from going into a budget deficit.