

CHARLTON HESTON ACADEMY

**Financial Report
with Supplemental Information**

June 30, 2014

CHARLTON HESTON ACADEMY

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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, 2014, 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, 2014, 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 13, 2014, 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.

Wilkerson & Associate PC

October 13, 2014

Wilkerson & Associate P.C.

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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, 2014, and have issued our report thereon dated October 13, 2014. 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 13, 2014

This section of Charlton Heston Academy (the Academy) annual financial report presents discussion and analysis of the Universal Academy's Financial Performance during the year ended June 30, 2014. 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, 2014:

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

	Governmental <u>Activities</u>
<u>Assets</u>	<u>2014</u>
Current and other Assets	\$ 595.4
Capital Assets – Net of Accumulated Depreciation	<u>\$ 518.8</u>
Total Assets	<u>\$ 1,114.2</u>

<u>Liabilities</u>	
Current Liabilities	\$ 300.0
Long-Term Liabilities	<u>\$ 329.2</u>
Total Liabilities	<u>\$ 629.2</u>
<u>Net Assets</u>	
Invested in capital assets	\$ 153.7
Unrestricted	<u>\$ 331.3</u>
Total Net Assets	<u>\$ 485.0</u>

Net Assets – The Academy’s financial position was stable during the current year, with the total net assets of approximately \$485,025.

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 \$485,025 at June 30, 2014. Capital assets, recorded at historical cost, net of depreciation and related debt, totaled approximately \$518,848. Debt was used to finance the acquisition of those assets. The remaining amount of net assets, approximately \$153,669, was unrestricted.

The approximately \$331,356 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, 2014.

Table 2 – Summary of the Statement of Activities

	Governmental Activities 2014 (in thousands)
	<u>Amount</u>
<u>Revenues</u>	
Program Revenues:	
Charges for Services	\$ 3.6
Operating Grants and Contributions	\$ 449.3

General Revenues:	
State foundation allowance	\$ 2,298.3
Other	<u>\$ 9.6</u>
Total Revenues	<u>\$ 2,760.8</u>
Function/Program Expenses:	
Instruction and instructional staff services	\$ 1,202.9
Support Services	\$ 1,145.0
Athletics	\$ 13.5
Food Services	\$ 263.9
Interest on long –term debt	\$ 16.9
Depreciation	<u>\$ 31.5</u>
Total Expenses	<u>\$ 2,673.7</u>
Increase (Decrease) in Net Assets	<u>\$ 87.1</u>

Increase in Net Assets

As reported in the statement of activities, the cost of all of our governmental activities this year was approximately \$2,673,837. 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 \$449,292. We paid for the remaining “public benefit” portion of our governmental activities with approximately \$2,298,346 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 \$331,356.

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 2013-2014 General Fund original budgets. Budgeted revenues decreased approximately \$150,000 due mainly to not having public donations that were received in the first year of the school opening.

Overall budgeted expenditures increased approximately \$225,000, mainly in instructional expenses and pupil expenses. Variances were caused by unanticipated expenditures and changes which became necessary during the year.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2014, the Academy had approximately \$153,669 invested in net capital assets, including leasehold improvements, furniture, and equipment.

	<u>2014</u>
Building and building improvements	\$ 434.8
Computers, machines, and equipment	\$ 50.1
Furniture and equipment	<u>\$ 33.9</u>
Total Capital Assets	<u>\$ 518.8</u>

Debt

Debt includes mortgage obligations of approximately \$365,179 and contingent long-term liabilities. On June 2012 the Academy entered into a loan with First Bank. 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.

Economic Factors affecting Next Year's Budgets:

The Academy's administration considered many factors when setting the Academy's 2014 fiscal year's budget. One of the most important factors affecting the budget is the Academy's student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for 2014-2015 fiscal year is 10 percent and 90 percent of the February 2014 and September 2014 student counts, respectively. Historically, schools could expect an increase to the foundation allowance yearly. However, this is no longer the case. Currently schools must achieve additional funding through the foundation allowance, based on performance based funding. This type of funding is based on parameters set by the Michigan Department of Education that schools must meet to receive performance based funding. The Academy's plan is to meet these criteria to receive additional state funding. The 2014 budget was adopted in June 2014, based on estimated number of students that will be enrolled in September 2014. Approximately 87 percent of the total General Fund revenue is from the foundation allowance. As a result, the Academy funding is heavily dependent on the State's ability to fund local school operations, thus the Academy is looking for an increase in student enrollment for the 2015 fiscal year of approximately 25 percent through the advertisement of Charlton Heston Academy. In addition, going forward in the 2014-2015 fiscal year, the Academy will look to focus more on curriculum and learning achievement criteria. The Academy is also looking to receive more grants and private revenues. This will allow the Academy to place more funds in the classroom and enhance its financial position.

CHARLTON HESTON ACADEMY
STATEMENT OF NET ASSETS
JUNE 30, 2014

	<u>Governmental Activities</u>
Assets	
Cash and investments	\$ 153,482
Receivables	441,902
Capital assets - Net	<u>518,848</u>
Total assets	1,114,232
Liabilities	
Accounts payable	20,946
Accrued payroll and related liabilities	73,082
State aid note payable	170,000
Noncurrent liabilities	
Due within one year	36,000
Due in more than one year	<u>329,179</u>
Total liabilities	629,207
Net Assets	
Invested in capital assets - Net of related debt	153,669
Unrestricted	<u>331,356</u>
Total net assets	<u><u>\$ 485,025</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, 2014**

<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>
Functions/Programs				
Primary government - Governmental activities:				
Instruction	\$ 1,202,895	\$ -	\$ 193,974	\$ (1,008,921)
Support services	1,145,040	-		(1,145,040)
Athletics	13,523	-	-	(13,523)
Food services	263,926	3,646	245,700	(14,580)
Capital Projects	-		9,618	9,618
Interest	16,933	-	-	(16,933)
Depreciation expense (unallocated)	31,520	-	-	(31,520)
Total governmental activities	<u>\$ 2,673,837</u>	<u>\$ 3,646</u>	<u>\$ 449,292</u>	(2,220,899)
General revenues				
State aid				2,298,346
Other				9,613
				<u>2,307,959</u>
Change in Net Assets				87,060
Net Assets - Beginning of year				<u>397,965</u>
Net Assets - End of year				<u>\$ 485,025</u>

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

**CHARLTON HESTON ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	ASSETS		
	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Cash and investments	\$ 117,033	\$ 36,449	\$ 153,482
Receivables	14,102	-	14,102
Due from other governmental units	427,800	-	427,800
Prepaid expenses	-	-	-
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 558,935</u>	<u>\$ 36,449</u>	<u>\$ 595,384</u>

LIABILITIES AND FUND BALANCES

Liabilities			
Accounts payable	5,000	15,946	20,946
Accrued payroll and benefits	69,681	3,401	73,082
State aid note payable	170,000	-	170,000
	<hr/>	<hr/>	<hr/>
Total liabilities	244,681	19,347	264,028
Fund Balances - Unassigned - reported in			
General Fund	314,254	-	314,254
Special Revenue Funds	-	17,102	17,102
	<hr/>	<hr/>	<hr/>
Total fund balances	314,254	17,102	331,356
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 558,935</u>	<u>\$ 36,449</u>	<u>\$ 595,384</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, 2014**

Total Fund Balances - Governmental Funds	\$	331,356
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p style="padding-left: 40px;">Capital assets used in governmental activities are not financial resources and, therefore, not reported as assets in governmental funds</p>		
Cost of capital assets	\$ 574,269	
Accumulated depreciation	<u>(55,421)</u>	<u>518,848</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	<u>365,179</u>	<u>(365,179)</u>
Total Net Assets - Governmental Activities	\$	<u><u>485,025</u></u>

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, 2014

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Local sources	\$ 9,613	\$ 13,264	\$ 22,877
State sources	2,298,346	-	2,298,346
Federal sources	193,974	245,700	439,674
	<u>2,501,933</u>	<u>258,964</u>	<u>2,760,897</u>
Total revenues			
Expenditures			
Current:			
Instruction	1,214,355	-	1,214,355
Support services	1,149,240	-	1,149,240
Athletics	13,523	-	13,523
Food services	-	263,926	263,926
Capital Projects	-	-	-
Debt service:			
Principal	34,890	-	34,890
Interest	16,933	-	16,933
Capital outlay	-	-	-
	<u>2,428,941</u>	<u>263,926</u>	<u>2,692,867</u>
Total expenditures			
Excess (Deficiency) of Revenues Over Expenditures	72,992	(4,962)	68,030
Other Financing Sources (Uses)			
Transfers in (out)	(18,227)	18,227	-
	<u>(18,227)</u>	<u>18,227</u>	<u>-</u>
Total other financing sources (uses)			
Net Change in Fund Balances	54,765	13,265	68,030
Fund Balances - Beginning of year	<u>259,489</u>	<u>3,837</u>	<u>263,326</u>
Fund Balances - End of year	<u>\$ 314,254</u>	<u>\$ 17,102</u>	<u>\$ 331,356</u>

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, 2014**

Total Net Change in Fund Balances - Governmental Funds \$ 68,030

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	(31,520)	
Capital outlay	<u>15,660</u>	<u>(15,860)</u>

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>34,890</u>
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Change in Net Assets of Governmental Activities \$ 87,060

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

**CHARLTON HESTON ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

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 318 students in grades pre-k through 9.

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 charter will undergo a mid-contract review in 2014-2015. 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, 2013 to the Central Michigan University Board of Trustees were approximately \$43,749.

Administrative Services – Charlton Heston Academy has entered into a management agreement with Midwest Management Group, Inc. through June 30, 2015. 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, 2014 was approximately \$52,979.

CHARLTON HESTON ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014

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 athletic funds.

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, 2014**

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 2014. There are no values to report for 2014.

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, 2014

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 not incur expenditures in the General Fund in excess of the amounts budgeted.

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 two banks 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, 2014

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 \$153,482 had \$0 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, 2014**

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:

	General Fund	Nonmajor Governmental Funds	Total
Receivables - Intergovernmental	\$ 441,902	\$ -	\$ 441,902

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:

	Balance July 1, 2013	Additions/ Transfers	Disposals/ Transfers	Balance June 30, 2014
Governmental Activities				
Capital assets being depreciated:				
Building	270,000	-	-	270,000
Building improvements	192,085	4,200	-	196,285
Computers and software	71,787	-	-	71,787
Furniture and equipment	24,737	11,460	-	36,197
Subtotal	558,609	15,660	-	574,269

**CHARLTON HESTON ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 5 - CAPITAL ASSETS (Continued)

Accumulated depreciation:				
Building	5,400	5,400	-	10,800
Building improvements	10,456	10,255	-	20,711
Computers and software	7,329	14,358	-	21,687
Furniture and equipment	716	1,507	-	2,223
	<u>23,901</u>	<u>31,520</u>	<u>-</u>	<u>55,421</u>
Subtotal	23,901	31,520	-	55,421
Net capital assets being depreciated	<u>\$ 534,708</u>	<u>\$ (15,860)</u>	<u>\$ -</u>	<u>\$ 518,848</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:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Mortgage obligation	<u>\$ 400,069</u>	<u>\$ -</u>	<u>\$ 34,890</u>	<u>\$ 365,179</u>	<u>\$ 36,000</u>
Total governmental activities	<u>\$ 400,069</u>	<u>\$ -</u>	<u>\$ 34,890</u>	<u>\$ 365,179</u>	<u>\$ 36,000</u>

CHARLTON HESTON ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7 - LONG-TERM DEBT (Continued)

Mortgage Obligation – The Academy’s mortgage obligation is with First 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, 2014, the Academy paid its scheduled principal and interest payments totaling \$51,823. The note matures on July 1, 2016.

NOTE 8 - 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 9- SUBSEQUENT EVENTS

On September 1, 2014 the Academy entered into a 2014 State Aid Note (general obligation) in the amount of \$300,000. The interest rate is 2.75% and the note matures on August 31, 2015.

REQUIRED SUPPLEMENTAL INFORMATION

CHARLTON HESTON ACADEMY
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual (GAAP Basis)	Over/(Under)
	Original	Final		Final Budget
Revenues				
Local sources	\$ 201,000	\$ 23,105	\$ 9,613	\$ (13,492)
State sources	2,409,105	2,315,861	2,298,346	(17,515)
Federal sources	460,523	368,381	193,974	(174,407)
Total revenues	3,070,628	2,707,347	2,501,933	(205,414)
Expenditures				
Instruction				
Basic program	789,580	878,499	890,154	11,655
Added needs	122,400	368,308	324,201	(44,107)
Total instruction	911,980	1,246,807	1,214,355	(32,452)
Support services				
Pupil	197,770	69,000	68,790	(210)
Instructional staff	476,937	59,000	76,287	17,287
General administration	80,684	64,391	64,146	(245)
School administration	392,106	484,000	481,194	(2,806)
Business	73,300	88,100	87,683	(417)
Operations and maintenance	246,099	289,999	289,905	(94)
Pupil Transportation	80,400	75,000	74,916	(84)
Central	650	4,500	3,309	(1,191)
Other	-	3,050	3,010	(40)
Total support services	1,547,946	1,137,040	1,149,240	12,200
Athletic Services	45,000	13,500	13,523	23
Debt service:				
Principal	73,000	35,000	34,890	(110)
Interest	26,460	20,960	16,933	(4,027)
Total expenditures	2,604,386	2,453,307	2,428,941	(24,366)
Excess of Revenues Over (Under)				
Expenditures	466,242	254,040	72,992	(181,048)
Other Financing Sources (Uses)				
Operating Transfers - out	(88,019)	(33,500)	(18,227)	15,273
Net Change in Fund Balances	378,223	220,540	54,765	(165,775)
Fund Balances - Beginning of year	259,489	259,489	259,489	-
Fund Balances - End of year	\$ 637,712	\$ 480,029	\$ 314,254	\$ (165,775)

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, 2014**

	Special Revenue Funds		Total Nonmajor Governmental Funds
	Food Service Fund	Capital Projects	
Revenues			
Local sources	\$ 3,646	\$ 9,618	\$ 13,264
State sources	-	-	-
Federal sources	245,700	-	245,700
Total revenues	249,346	9,618	258,964
Expenditures			
Food services	263,926	-	263,926
Capital projects	-	-	-
Total expenditures	263,926	-	263,926
Excess (Deficiency) of Revenues Over Expenditures	(14,580)	9,618	(4,962)
Other Financing Sources (Uses)			
Transfers in/(out)	18,227	-	18,227
Net Change in Fund Balances	3,647	9,618	13,265
Fund Balances - Beginning of year	-	3,837	3,837
Fund Balances - End of year	\$ 3,647	\$ 13,455	\$ 17,102

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