

SUCCESS MILE ACADEMY
FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
YEAR ENDED JUNE 30, 2015

SUCCESS MILE ACADEMY

Contents

	<u>Page No.</u>
Independent Auditor’s Report	i
Management’s Discussion and Analysis	iii
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Position (Deficit)	1
Statement of Activities	2
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	3
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position (Deficit)	4
Statement of Revenue, Expenditures and Changes in Fund Balances	5
Reconciliation of the Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities	6
Statement of Assets & Liabilities – Agency Fund	7
Notes to Financial Statements	8
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	15
Required Supplemental Information	
Budgetary Comparison Schedule – General Fund	18



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Success Mile Academy
Warren, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Success Mile Academy (the Academy) as of and for the year ended June 30, 2015, 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 Responsible 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 of 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 controls relevant to the Academy'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 of the effectiveness of the Academy'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.

Independent Auditor's Report
(Continued)

Auditor's Responsibility (Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Academy as of June 30, 2015 and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplement Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and 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 Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 8, 2015 on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Academy's internal control over financial reporting and compliance.

Alan C. Young & Assoc.

Detroit, Michigan
October 8, 2015

SUCCESS MILE ACADEMY

Management's Discussion and Analysis (MD&A) June 30, 2015

As management of Success Mile Academy (the "Academy"), we offer readers of the Academy's basic financial statements this narrative overview and analysis of the financial activities of the Academy for the years ended June 30, 2015 and 2014.

Management's discussion and analysis is included at the beginning of the Academy's basic financial statements to provide, in layman's terms, the current position of the Academy's financial condition. This summary should not be taken as a replacement for the audit, which consists of the basic financial statements and other supplementary information.

FINANCIAL HIGHLIGHTS

Our basic financial statements provide these insights into the results of this year's operations.

- As of June 30, 2015, the Academy's fund balances were \$10,225 as compared to \$10,225 at June 30, 2014.
- As of June 30, 2015, the Academy had net position (deficit) of \$(61,751) as compared to \$(110,014) at June 30, 2014.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Academy's basic financial statements. The Academy's basic financial statements are comprised of three components: 1) government-wide basic financial statements, 2) fund basic financial statements, and 3) notes to the basic financial statements.

Government-Wide Financial Statements

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

The statement of net position presents information on all of the Academy's assets, liabilities, and deferred inflows/outflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Academy is improving or deteriorating.

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

The government-wide financial statements include all governmental activities that are principally supported by grants and entitlements from the state for full-time equivalent funding. The Academy does not have any business-type activities. The governmental activities of the Academy primarily include instruction and instructional support services.

The government-wide basic financial statements can be found on pages 1 and 2 of this report.

SUCCESS MILE ACADEMY

Management's Discussion and Analysis (MD&A) (Continued) June 30, 2015

Fund Financial Statements

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

Governmental Funds

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

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

The Academy maintains several individual governmental funds. Information is presented in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and change in fund balances. The General Fund and Food Service Fund are considered to be the Academy's major funds.

The Academy adopts an annual budget for its governmental funds. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the budget.

The governmental fund financial statements can be found on pages 3 through 6 of this report.

Agency Fund

In addition, the Academy has one agency fund which is a student activity fund. This fund is formed for educational and Academy purposes.

The Agency Fund financial statement can be found on page 7 of this report. The assets and liabilities of this Fund are not included in the government-wide statement of net position.

Notes to Basic Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found on pages 8 through 14 of this report.

SUCCESS MILE ACADEMY

Management's Discussion and Analysis (MD&A) (Continued) June 30, 2015

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This is the Academy's second year of operations; therefore, comparative government-wide data is presented. The Academy's net position (deficit) was \$(61,751) at June 30, 2015. This amount represents net investment in capital assets (deficit) of \$(64,298) and unrestricted net position of \$2,547. The Academy's net position (deficit) was \$(110,014) at June 30, 2014 and of this amount \$(116,409) represents net investment in capital assets (deficit) and \$6,395 represents unrestricted net position.

Our analysis in the table below focuses on the net position of the Academy's governmental activities:

Governmental Activities

The results of the operations for the Academy as a whole are reported in the statement of activities on page 2. The table below provides a condensed presentation of the Academy's revenues and expenses for the years ended June 30, 2015 and 2014:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Assets		
Current and Other Assets	\$ 1,024,277	\$ 744,973
Capital Assets, Net of Depreciation	413,836	501,528
Total Assets	<u>1,438,113</u>	<u>1,246,501</u>
Liabilities		
Current Liabilities	1,163,217	874,551
Long-term Liabilities	336,647	481,964
Total Liabilities	<u>1,499,864</u>	<u>1,356,515</u>
Net Position		
Net Investment in Capital Assets (Deficit)	(64,298)	(116,409)
Unrestricted	2,547	6,395
Total Net Position (Deficit)	<u>\$ (61,751)</u>	<u>\$ (110,014)</u>

SUCCESS MILE ACADEMY

Management's Discussion and Analysis (MD&A) (Continued) June 30, 2015

Governmental Activities - (Continued)

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Revenue:		
General Revenues	\$ 3,326,539	\$ 2,763,856
Program Revenues	496,491	256,805
Total Revenues	<u>3,823,030</u>	<u>3,020,661</u>
Functions/Program Expenses:		
Instruction	1,450,192	1,104,307
Instruction Support Services	2,324,575	2,026,368
Total Expenses	<u>3,774,767</u>	<u>3,130,675</u>
Change in Net Position (Deficit)	<u>\$ 48,263</u>	<u>\$ (110,014)</u>

GOVERNMENTAL FUND EXPENDITURES

In the table below, we have presented the cost of the largest functions/programs as a percentage of total governmental expenditures:

<u>Functions/Programs</u>	<u>2015</u>		<u>2014</u>	
	<u>Expenditure</u>	<u>Percent</u>	<u>Expenditure</u>	<u>Percent</u>
Governmental Expenditures:				
Instructional Expenditures	\$ 1,265,072	33%	\$ 932,950	26%
School Administration Services	249,714	6%	228,944	6%
Operations and Maintenance	1,611,388	42%	1,304,100	36%
Central Services	211,851	6%	303,273	8%
Food Services	134,279	4%	669,055	18%
All Other Functions/Programs	350,726	9%	190,051	5%
Total Governmental Expenditures	<u>\$ 3,823,030</u>	<u>100%</u>	<u>\$ 3,628,373</u>	<u>100%</u>

SUCCESS MILE ACADEMY

Management's Discussion and Analysis (MD&A) (Continued)
June 30, 2015

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015, the Academy had capital assets of \$413,836, net of accumulated depreciation, invested in furniture and fixtures and computer hardware and software compared to \$501,528 at June 30, 2014.

Debt

At June 30, 2015, the Academy had outstanding debt of \$478,134 as compared to \$617,937 at June 30, 2014. Additional information on the Academy's debt can be found in Note 7 on page 14.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The State of Michigan is projecting the per student revenue for the next fiscal year to remain unchanged. Revenues and expenditures are budgeted to rise in proportion to the expected growth at the Academy.

REQUESTS FOR INFORMATION

If you have questions about this report or need additional information, please contact Hillary Daigle, Controller; Charter School's USA; 800 Corporate Drive, Suite 124; Fort Lauderdale, Florida 33334.

SUCCESS MILE ACADEMY

Statement of Net Position (Deficit) June 30, 2015

	<u>Governmental Activities</u>
Assets	
Cash and Cash Equivalents (Note 3)	\$ 76,110
Due From Other Governmental Units (Note 4)	486,936
Due From Management Company (Note 6)	295,492
Other Receivables (Note 11)	157,891
Deposits	211
Prepaid Expenses	7,637
Capital Assets, Net of Accumulated Depreciation (Note 5)	<u>413,836</u>
Total Assets	<u>1,438,113</u>
Liabilities	
Accounts Payable	849,025
Accrued Payroll	136,897
Capital Lease Payable, Current Portion (Note 7)	149,165
Capital Lease Payable, Net of Current Portion (Note 7)	328,969
Compensated Absences Payable (Note 8)	7,678
Unearned Revenue	<u>28,130</u>
Total Liabilities	<u>1,499,864</u>
Net Position (Deficit)	
Net Investment in Capital Assets	(64,298)
Unrestricted	<u>2,547</u>
Total Net Position (Deficit)	<u><u>\$ (61,751)</u></u>

The accompanying notes are an integral part of these financial statements

SUCCESS MILE ACADEMY

Statement of Activities Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues		Governmental
		Charges for Services	Operating Grants and Contributions	Activities
				Net (Expenses) Revenues and changes in Net Position
Governmental Activities				
Basic Instruction	\$ 1,247,793	\$ -	\$ 200,416	\$ (1,047,377)
Instruction - Added Needs	202,399	-	-	(202,399)
Supporting Services				
Instructional Staff Services	52,383	-	-	(52,383)
School Administration Services	249,714	-	50,104	(199,610)
Business Services	40,902	-	-	(40,902)
Operations and Maintenance	1,611,388	-	97,977	(1,513,411)
Central Services	211,851	-	-	(211,851)
Food Services	134,279	491	116,754	(17,034)
After Care	24,058	30,749	-	6,691
Total Governmental Activities	3,774,767	31,240	465,251	(3,278,276)
			<u>General Revenues</u>	
			State Aid - Formula Grants	2,071,680
			Other Revenue	1,254,859
			Total General Revenues	3,326,539
			Change in Net Position	48,263
			Net Position (Deficit) - July 1, 2014	(110,014)
			Net Position (Deficit) - June 30, 2015	\$ (61,751)

The accompanying notes are an integral part of these financial statements

SUCCESS MILE ACADEMY

Governmental Funds Balance Sheet June 30, 2015

	General Fund	Food Service Fund	Total
ASSETS			
Cash and Cash Equivalents (Note 3)	\$ 76,110	\$ -	\$ 76,110
Due From Other Governmental Units (Note 4)	486,936	-	486,936
Due From Management Company (Note 6)	295,492	-	295,492
Other Receivables (Note 11)	157,891	-	157,891
Deposits	211	-	211
Prepaid Expense	7,637	-	7,637
Total Assets	\$ 1,024,277	\$ -	\$ 1,024,277
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 849,025	\$ -	\$ 849,025
Accrued Payroll	136,897	-	136,897
Unearned Revenue	28,130	-	28,130
Total Liabilities	1,014,052	-	1,014,052
Fund Balance			
Nonspendable	7,637	-	7,637
Unassigned	2,588	-	2,588
Total Fund Balance	10,225	-	10,225
Total Liabilities and Fund Balances	\$ 1,024,277	\$ -	\$ 1,024,277

The accompanying notes are an integral part of these financial statements

SUCCESS MILE ACADEMY

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position (Deficit) June 30, 2015

Total Fund Balances - Governmental Funds \$ 10,225

Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

Capital assets used in Governmental Activities are not financial resources and therefore, not reported as assets in Governmental Funds:

Cost of Capital Assets	742,594	
Accumulated Depreciation	<u>(328,758)</u>	413,836

Capital leases used in Governmental Activities are not financial resources and therefore, not reported as liabilities in Governmental Funds (478,134)

Employee compensated absences are payable over a period of time beyond one year and do not represent a claim on current financial resources; therefore they are not reported as fund liabilities. (7,678)

Total Net Position (Deficit) - Governmental Activities \$ (61,751)

The accompanying notes are an integral part of these financial statements

SUCCESS MILE ACADEMY

Statement of Revenue, Expenditures and Changes in Fund Balance Year Ended June 30, 2015

	General Fund	Food Service Fund	Total
Revenue			
Federal Sources	\$ 272,733	\$ 116,754	\$ 389,487
State Sources	2,143,414	-	2,143,414
Local Sources	1,289,638	491	1,290,129
Total Revenue	<u>3,705,785</u>	<u>117,245</u>	<u>3,823,030</u>
Expenditures			
Basic Instruction	1,062,673	-	1,062,673
Instruction - Added Needs	202,399	-	202,399
Supporting Services:			
Instructional Staff Services	52,383	-	52,383
School Administration Services	249,714	-	249,714
Business Services	40,902	-	40,902
Operations and Maintenance	1,611,388	-	1,611,388
Central Services	211,851	-	211,851
Food Services	-	134,279	134,279
Capital Outlay	93,580	-	93,580
Payment on Capital Leases	139,803	-	139,803
After Care	24,058	-	24,058
Total Expenditures	<u>3,688,751</u>	<u>134,279</u>	<u>3,823,030</u>
Excess of Revenue Over (Under) Expenditures	<u>17,034</u>	<u>(17,034)</u>	<u>-</u>
Operating Transfer In/(Out)	<u>(17,034)</u>	<u>17,034</u>	<u>-</u>
Net Change in Fund Balance	-	-	-
Fund Balance - July 1, 2014	<u>10,225</u>	<u>-</u>	<u>10,225</u>
Fund Balance - June 30, 2015	<u>\$ 10,225</u>	<u>\$ -</u>	<u>\$ 10,225</u>

The accompanying notes are an integral part of these financial statements

SUCCESS MILE ACADEMY

Reconciliation of the Governmental Funds Statement of Revenue, Expenditures and Changes in Fund Balance to the Statement of Activities Year Ended June 30, 2015

Net Change in Fund Balances - Total Governmental Funds \$ -

Amounts Reported for Governmental Activities in the
Statement of Activities are different because:

Governmental Funds report capital outlays as
expenditures. In the Statement of Activities, these costs
are allocated over their estimated useful lives as
depreciation:

Depreciation Expense	(181,272)	
Capitalized Capital Outlay Expense	<u>93,580</u>	(87,692)

Governmental Funds record payments on capital leases
as expenditures. These payments reduce a liability in the
Government-wide statements. 139,803

Employee compensated absences are payable over a
period of time beyond one year and do not represent
a claim on current financial resources; therefore the change
in compensated absences is not reported in the change in
fund balances. (3,848)

Change in Net Position - Governmental Activities \$ 48,263

The accompanying notes are an integral part of these financial statements

SUCCESS MILE ACADEMY

Statement of Assets &
Liabilities - Agency Fund
June 30, 2015

	<u>Student Activities</u>
ASSETS:	
Cash and Cash Equivalents	\$ 9,299
Total Assets	<u>\$ 9,299</u>
LIABILITIES:	
Due to Students	\$ 9,299
Total Liabilities	<u>\$ 9,299</u>

The accompanying notes are an integral part of these financial statements

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Success Mile Academy (the Academy) conform to generally accepted accounting principles as applicable to schools. The following is a summary of the significant policies:

Reporting Entity

Success Mile Academy is a nonprofit corporation and a public school academy corporation organized under the Michigan Nonprofit Corporation Act, as amended, Act No. 162 of the Public Acts of 1982, being Sections 450.2101 to 450.3192 of the Michigan Compiled Laws. Notwithstanding any provision of the Michigan Nonprofit Corporation Act, as amended, the Academy shall not take any action inconsistent with the provisions of Part 6A of the Code or other Applicable Law.

On July 1, 2013 the Academy entered into a seven year contract with the Grand Valley University Board of Trustees to Charter a Public School Academy. The Grand Valley 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 and other related activities for which compensation is permissible. By agreement between Grand Valley University and the Academy, the Academy pays the Grand Valley University Board of Trustees 3 percent of the Academy's State School Aid Payments as an administrative fee. The total administrative fees paid for the year ended June 30, 2015 to Grand Valley University were \$59,832.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Academy. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy's activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue. The Academy operates a General Fund and a Food Service Fund.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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 to 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.

When an expense is incurred for purposes for which both restricted and unrestricted net assets or fund balance are available, the Academy's policy is to first apply restricted resources. When an expense is incurred for purposes which amounts in any of the unrestricted fund balance classifications could be used, it is the Academy's policy to spend funds in this order: committed, assigned, and unassigned.

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 and intergovernmental grants, 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.

General Fund - The Academy's major fund is the General Fund. This fund is used to account for all operational activities of the Academy. The General Fund includes the current operating expenditures of the Academy. Revenues are derived primarily from the State of Michigan.

Food Service Fund - The Food Service Fund accounts for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes of the Academy's Food Service Program.

Assets, Liabilities, and Net Assets or Equity

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

Receivables and Payables – Receivables are shown net of an allowance for uncollectible amounts. The Academy considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts has been recorded.

SUCCESS MILE ACADEMY

Notes to Financial Statements (Continued)
June 30, 2015

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Capital Assets – Capital assets, which include furniture and equipment and computer hardware, are reported in the applicable governmental column in the Academy-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$750 and a useful life greater than one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Cost 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.

All the Academy's assets are depreciated using the straight-line method over the following useful lives:

Furniture and Equipment	3-5 years
Computer Hardware	3 years

Deferred Outflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. The Academy has no deferred outflows of resources at June 30, 2015.

Deferred Inflows of Resources – In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues, which arises only under a modified accrual basis of accounting, from grants receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The Academy has no deferred inflows of resources at June 30, 2015.

MPSERS Liability – The Academy contracted with an outside organization to provide all staffing personnel during the year under audit. Consequently, all staffing costs are treated as purchased services in these financial statements. The Academy has no obligation to fund the Michigan Public School Employees Retirement System for the year 2015, and no such funding was made for the year.

Long-Term Obligations – In the Academy-wide financial statements, the Academy has a capital lease and compensated absences payable that are shown as long-term liabilities.

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

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Fund Balance (Continued)

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

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

Use of Estimates - The preparation of the 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 of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statement, and the reported revenues and expenses during the reporting period. Actual results may differ from those estimates.

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. All annual appropriations lapse at fiscal year ended.

The budget document presents information by fund, function, and object. 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 object 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 schools to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner.

SUCCESS MILE ACADEMY

Notes to Financial Statements (Continued)
June 30, 2015

2) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

Grants – Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, would become a liability of the General Fund. In the Academy's opinion, no disallowed claims are expected and would not have a material effect on the financial statements as of and for the year ended June 30, 2015.

3) DEPOSITS AND INVESTMENTS

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

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

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of bank failure, the Academy's deposits may not be returned to it. At the year end, the Academy had a deposit balance of \$113,487, all of which was covered by federal depository insurance.

The Academy evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that value of investments will decrease as a result of a rise in interest rates. The Academy does not have investments with 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 held no such investment at June 30, 2015.

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 prohibits investment in foreign currency.

4) DUE FROM OTHER GOVERNMENTAL UNITS

Receivables from other governmental units as of year-end for the Academy include \$372,517 from the State of Michigan and \$114,419 from Federal grants.

SUCCESS MILE ACADEMY

Notes to Financial Statements (Continued) June 30, 2015

5) CAPITAL ASSETS

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

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Transfers</u>	<u>Disposals</u>	<u>Balance June 30, 2015</u>
Furniture & Fixtures	\$ 634,272	\$ 22,488	\$ (253,907)	\$ -	\$ 402,853
Less: Accumulated Depreciation	(143,303)	(169,872)	155,132	-	(158,043)
	<u>490,969</u>	<u>(147,384)</u>	<u>(98,775)</u>	<u>-</u>	<u>244,810</u>
Computer Hardware & Software	14,742	71,092	253,907	-	339,741
Less: Accumulated Depreciation	(4,183)	(11,400)	(155,132)	-	(170,715)
	<u>10,559</u>	<u>59,692</u>	<u>98,775</u>	<u>-</u>	<u>169,026</u>
Net Governmental Capital Assets	<u>\$ 501,528</u>	<u>\$ (87,692)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 413,836</u>

Total depreciation expense was \$181,272 for the year ended June 30, 2015. All depreciation has been allocated to Basic Instruction in the Statement of Activities.

6) MANAGEMENT COMPANY AGREEMENT

The Academy has entered into a contract with Charter Schools USA. Under the direction of the Academy's Board, Charter Schools USA shall be responsible for all of the management, operation, administration, and education at the Academy, by providing certain services directly to the Academy, subcontracting for certain services, and overseeing other contractors. The management contract may be terminated under various circumstances as defined in the management agreement. The agreement runs through June 30, 2020. For services rendered, Charter School USA is entitled to a fixed percentage of the Academy's revenues as agreed to by Charter Schools USA and the Academy, with the fee equal to at least 9% of revenues, but not to exceed 15%.

At June 30, 2015, the Academy owed a net balance of \$320,645 to Charter Schools USA for payroll and other purchases made by Charter Schools USA on behalf of the Academy costs incurred. Charter Schools USA contributed approximately \$245,000 to the Academy for the year ended June 30, 2015 and waived all management fees for the year. A portion of the Charter School USA contribution was not collected as of June 30, 2015 and is shown as due from Management Company.

The Academy leases its School building from Red Apple at Warren, LLC a related party to Charter Schools USA. The lease was entered into on April 2013 and has a term of 20 years with 4 additional 5 year options to extend the lease. The Annual rent is based upon the greater of \$1,000 per student enrolled at the Charter School operating on the premises or the landlord's debt service on the building, plus 10%. Rent expense for the year was approximately \$984,000 and was waived by Red Apple and is recorded as Contribution income.

SUCCESS MILE ACADEMY

Notes to Financial Statements (Continued)
June 30, 2015

7) CAPITAL LEASES

The Academy entered into a capital lease for furniture and equipment. The lease was through Red Apple at Warren, LLC and requires 12 interest only payments of \$3,347, followed by 48 payments of \$14,654 with the last payment to be made in June 2018. Future maturities of the capital lease are as follows:

	2016	\$	149,165
	2017		159,155
	2018		<u>169,814</u>
Total		\$	<u>478,134</u>

8) COMPENSATED ABSENCES

At year-end the Academy had \$7,678 in accrued time off earned by employees to be used at a future time. As this is not expected to be liquidated within the current year, it is included as liability in the statement of net position, but not at the fund level.

9) INTERFUND TRANSFERS

The General Fund transferred \$17,034 to the Food Service Fund to fund additional costs incurred by the Food Service Fund in excess of revenues.

10) DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS

Plan Description – The Academy currently does not participate in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan. During the year ended June 30, 2015, the Academy offered all of its full-time employees, who had attained 21 years of age, a retirement plan under Internal Revenue Code, Section 401(k). The employee is allowed to contribute up to a maximum of 20% of their annual gross compensation, subject to certain limitations. The Academy had \$629 in expense for fiscal 2015 for the 401(k) plan.

Post-employment Benefits – Currently, the Academy does not offer any post-employment benefits.

11) WATER DAMAGE

During the year, certain assets of the Academy were damaged due to flooding caused by a burst pipe. As of June 30, 2015 all damage incurred has been approved for reimbursement by the Academy's insurance company. \$157,891 was received subsequent to year-end for damages incurred, less a \$20,000 deductible.

12) SUBSEQUENT EVENTS

The Academy has evaluated all subsequent events through October 8, 2015, the date the financial statements were available to be issued. No subsequent event was noted that required adjustments or disclosures on the financial statements.



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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
Success Mile Academy
Warren, MI

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Success Mile Academy (the Academy) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated October 8, 2015.

Internal Control over Financial Reporting

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

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

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

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
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

We noted certain matters that we reported to management of the Academy in a separate letter dated October 8, 2015.

Purpose of this Report

This purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Detroit, Michigan
October 8, 2015

REQUIRED SUPPLEMENTAL INFORMATION

SUCCESS MILE ACADEMY

Budgetary Comparison Schedule General Fund Year Ended June 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Revenue				
Federal Sources	\$ 129,765	\$ 362,837	\$ 272,733	\$ (90,104)
State Sources	2,877,200	2,168,790	2,143,414	(25,376)
Local Sources	1,266,053	1,693,379	1,289,638	(403,741)
Total Revenue	<u>4,273,018</u>	<u>4,225,006</u>	<u>3,705,785</u>	<u>(519,221)</u>
Expenditures				
Instructional Services	1,411,777	1,215,230	1,062,673	(152,557)
Added Needs	176,978	253,304	202,399	(50,905)
<u>Supporting Services:</u>				
Pupil Support Services	-	250	-	(250)
Instructional Staff Services	80,515	84,884	52,383	(32,501)
School Administration Services	376,869	251,406	249,714	(1,692)
Business Services	45,791	41,988	40,902	(1,086)
Operations and Maintenance	1,590,834	1,694,127	1,611,388	(82,739)
Central Services	316,972	274,852	211,851	(63,001)
Capital Outlay	88,090	220,642	93,580	(127,062)
Payment on Capital Lease	139,802	139,803	139,803	-
After Care	35,069	24,604	24,058	(546)
Total Expenditure	<u>4,262,697</u>	<u>4,201,090</u>	<u>3,688,751</u>	<u>(512,339)</u>
Excess of Revenue over Expenditures	10,321	23,916	17,034	(6,882)
Other Financing Sources (Uses)				
Outgoing Transfers and Other Transactions	(10,321)	(23,916)	(17,034)	6,882
Total Other Financing Sources (Uses)	<u>(10,321)</u>	<u>(23,916)</u>	<u>(17,034)</u>	<u>6,882</u>
Net Change in Fund Balance	-	-	-	-
Fund Balance - July 1, 2014	<u>10,225</u>	<u>10,225</u>	<u>10,225</u>	<u>-</u>
Fund Balance - June 30, 2015	<u>\$ 10,225</u>	<u>\$ 10,225</u>	<u>\$ 10,225</u>	<u>\$ -</u>