

Branch Line School

Livonia, Michigan

Audited Financial Statements

June 30, 2014

CROSKEY LANNI, PC
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Branch Line School

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Branch Line School, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Branch Line School'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 an opinion 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. 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 the appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, each major fund, and the aggregate remaining fund information of Branch Line School, as of June 30, 2014, 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 Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages v - x and 17 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 provided any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurances.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Branch Line School's basic financial statements. The introductory section, combining and individual non-major fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statements 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 applied 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 combining and individual non-major fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



Croskey Lanni, PC

October 29, 2014
Rochester, Michigan

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

**To the Board of Directors
of Branch Line School**

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 Branch Line School, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Branch Line School's basic financial statements, and have issued our report thereon dated October 29, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Branch Line School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2014-01.

Purpose of this Report

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



Croskey Lanni, PC

October 29, 2014
Rochester, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Branch Line School's (BLS) annual financial report presents our discussion and analysis of the school's financial performance during the fiscal year that ended on June 30, 2014. Please read it in conjunction with the school's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

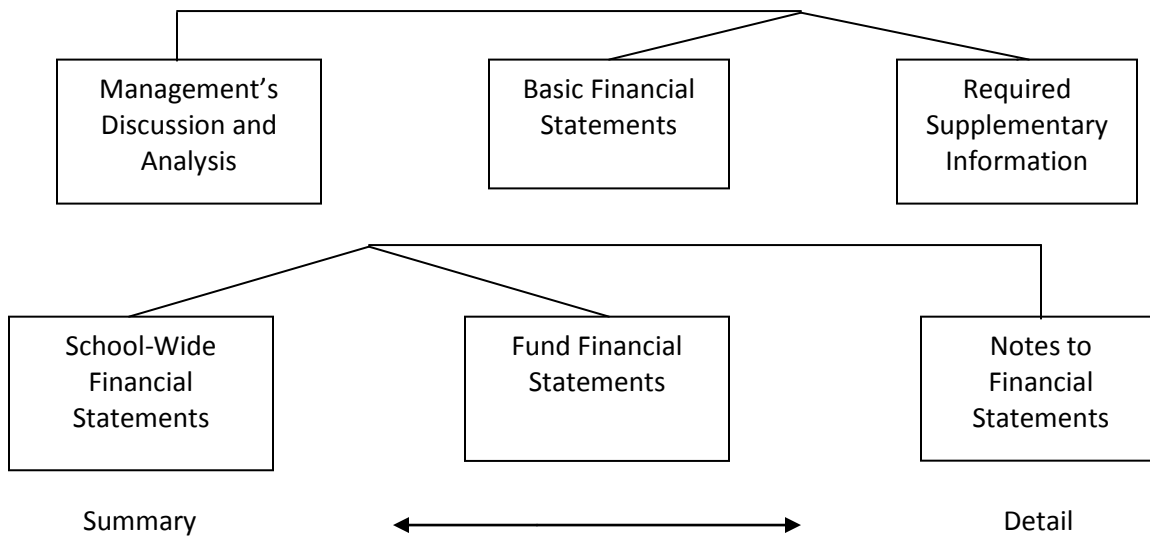
- ❖ The total cost of basic programs was \$289,657.
- ❖ Revenues were at \$635,856 while expenditures were \$667,879 in the General Fund.
 - Blended enrollment used for state aid purposes was 62.64.
- ❖ The school invested \$63,259 in capital assets.
- ❖ The school paid \$4,214 of principal on its long-term debt.
- ❖ The school has a negative General Fund balance of \$22,023. The Academy has filed a Deficit Elimination Plan with the state and is working to get back to a positive fund balance in the near future. See financial statements for additional information.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the school:

- The first two statements are school-wide financial statements that provide both short-term and long-term information about the school's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the school, reporting the schools operations in more detail.
- The governmental fund statements tell how basic services like regular and special education were financed.
- Fiduciary funds statements provide information about the financial relationships in which the school acts solely as a trustee or agent for the benefit of others. These consist of student activity funds held by the school on behalf of the student group.

**Figure A-1
Organization of Branch Line School's Annual Financial Report**



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the school's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-2
Major Features of School-Wide and Fund Financial Statements**

Fund Financial Statements			
	School-Wide Statements	Government Funds	Fiduciary Funds
Scope	Entire school (except fiduciary funds)	The activities of the school that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the school administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	*Statement of net position *Statement of activities	*Balance sheet *Statement of revenues, expenditures and changes in fund balances	*Statement of fiduciary net assets *Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the school's financial statements, including the portion of the schools activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

SCHOOL-WIDE STATEMENTS

The school-wide statements report information about the school as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the school's assets, deferred outflows, liabilities, and deferred inflows. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two school-wide statements report the school's net position and how it has changed. Net position – the difference between the school's assets, deferred outflows, liabilities, and deferred inflows – are one way to measure the school's financial health or position.

- ❖ Over time, increases or decreases in the school's position is an indicator of whether its financial position is improving or deteriorating, respectively.
- ❖ To assess the overall health of the school, you need to consider additional non-financial factors such as changes in the school's enrollment and the condition of school buildings and other facilities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the school's funds, focusing on its most significant or "major" funds – not the school as a whole. Funds are accounting devices the school uses to keep track of specific sources of funding and spending on particular programs:

- ❖ *Governmental activities* – Most of the school's basic services are included in the general fund, such as regular and special education and administration. State foundation aid finances most of these activities.
- ❖ The school establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues.

The school has one kind of fund:

- ❖ *Governmental funds* – Most of the school's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the school's programs. Because this information does not encompass the additional long-term focus of the school-wide statements, we provide additional information with governmental funds statements that explains the relationship (or differences) between them.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

The school's financial position is the product of many factors. Comparative information will be presented in future years.

General Fund Budgetary Analysis

Over the course of the year, the school reviewed and amended the annual operating budget several times. The amended budget decreased revenue overall by \$692,168. The most significant variance was in state sources and was due to student count coming in lower than anticipated in our first budget.

The final budget decreased expenditures by \$443,247. Most of this decrease was in basic programs was due to staffing cuts due to lower enrollment than anticipated. The final budget reclassified capital outlay from operations and maintenance into the capital outlay line item.

Final results for revenue were \$24,368 better than anticipated due to increased enrollment from section 25e sources. Most of that variance was in state revenue.

Actual expenditures were \$31,889 less than budget. There were several variances in several line items that management believes that individually are not significant.

Financial Outlook

The Branch Line School's financial forecast is able to correct our deficit in the 2014/2015 school year.

The Academy submitted a Deficit Elimination Plan (DEP) to the Michigan Department of Education as a result of the 2014 Deficit. Based on the October 2014 pupil count, enrollment has increased approximately 26 students from the 2014 Fiscal Year. Areas of focus to eliminate the deficit include Fundraising in the form of an on-line Capital Campaign and marketing efforts to increase student enrollment.

**Table A-3
BLS's Net Position**

	<u>2014</u>
Current and other assets	\$ 109,841
Capital assets	<u>61,431</u>
Total Assets	<u>171,272</u>
Long-term debt outstanding	5,786
Other liabilities	<u>131,864</u>
Total Liabilities	137,650
Net position:	
Net investment in capital assets	55,645
Unrestricted	<u>(22,023)</u>
Total Net Position	<u><u>\$ 33,622</u></u>

Table A-4
Changes in BLS's Net Position

	2014
Revenues:	
Program revenues:	
Charges for services	\$ 33,925
Federal and State operating grants	134,253
General Revenues:	
State aid-unrestricted	449,004
Miscellaneous	18,674
Total revenues	635,856
Expenses:	
Instruction	289,657
Support services	309,458
Interest on long-term debt	1,291
Unallocated depreciation	1,828
Total expenses	602,234
Change in net position	\$ 33,622

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2014, the school had invested \$63,259 in capital assets, for building improvements. See figure A-5 below for a listing of capital assets, and the accumulated depreciation. Further information can be found in Note 5 of the financial statements.

Table A-5
BLS's Capital Assets

	Balance June 30, 2014
Building and improvements	\$ 63,259
Less: accumulated depreciation	1,828
Net book value of assets	\$ 61,431

Long-Term Debt

The Academy has a loan with an unrelated third party for equipment. During the year, that Academy paid \$4,214 in principal on the outstanding balance. Further information can be found in Note 7 of the financial statements.

FACTORS BEARING ON THE SCHOOL'S FUTURE

- Continuation of positive enrollment trends
- State aid foundation grant stabilization

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our students, parents and creditors with a general overview of the school's finances and to demonstrate the school's accountability for the money it receives. If you have questions about this report or need additional information, contact the management office at:

Branch Line School
16360 Hubbard
Livonia, MI 48154
734-335-0663

BRANCH LINE SCHOOL

STATEMENT OF NET POSITION JUNE 30, 2014

See Independent Auditor's Report

ASSETS AND DEFERRED OUTFLOWS

Current Assets

Cash and cash equivalents	\$	21,131
Due from other governmental units		82,142
Prepaid expenses		<u>6,568</u>
Total current assets		109,841

Capital Assets - Net of Accumulated Depreciation

61,431

Total assets and deferred outflows	\$	<u><u>171,272</u></u>
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LIABILITIES, DEFERRED INFLOWS AND NET POSITION

Current Liabilities

Accounts payable	\$	108,165
Other accrued expenses		23,699
Long-term debt - current portion		<u>5,394</u>
Total current liabilities		137,258

Long-Term Debt - Long-Term Portion

392

Net Position

Net investment in capital assets		55,645
Unrestricted		<u>(22,023)</u>
Total net position		<u>33,622</u>
Total liabilities, deferred inflows and net position	\$	<u><u>171,272</u></u>

See accompanying notes to financial statements

BRANCH LINE SCHOOL

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014
See Independent Auditor's Report

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u> <u>Revenues and</u> <u>Changes in</u> <u>Net Assets</u>
		<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants</u>	<u>Government</u> <u>Type</u> <u>Activities</u>
Functions				
Instruction				
Basic programs	\$ 280,220	\$ -	\$ 125,000	\$ (155,220)
Added needs	9,437	-	9,253	(184)
Support services				
Pupil support services	11,610	-	-	(11,610)
Instructional staff support services	24,148	-	-	(24,148)
General administration	75,789	-	-	(75,789)
School administration	46,874	-	-	(46,874)
Business support services	12,338	-	-	(12,338)
Operations and maintenance	56,260	-	-	(56,260)
Central support services	22,488	-	-	(22,488)
Community services	59,951	33,925	-	(26,026)
Unallocated depreciation	1,828	-	-	(1,828)
Unallocated interest	1,291	-	-	(1,291)
	<u>\$ 602,234</u>	<u>\$ 33,925</u>	<u>\$ 134,253</u>	<u>(434,056)</u>
General Purpose Revenues				
State school aid - unrestricted				449,004
Miscellaneous revenues				18,674
				<u>467,678</u>
Change in net position				33,622
Net position - July 1, 2013				<u>-</u>
Net position - June 30, 2014				<u>\$ 33,622</u>

See accompanying notes to financial statements



BRANCH LINE SCHOOL

COMBINED BALANCE SHEET – ALL GOVERNMENTAL FUNDS

JUNE 30, 2014

See Independent Auditor's Report

ASSETS

Cash and cash equivalents	\$	21,131
Due from other governmental units		82,142
Prepaid expenses		<u>6,568</u>
Total assets	\$	<u><u>109,841</u></u>

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$	108,165
Other accrued expenses		<u>23,699</u>
Total liabilities		131,864

Fund Balance

Nonspendable		6,568
Unassigned		<u>(28,591)</u>
Total fund balance		<u>(22,023)</u>
Total liabilities and fund balance	\$	<u><u>109,841</u></u>

See accompanying notes to financial statements



BRANCH LINE SCHOOL

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION
OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2014

See Independent Auditor's Report

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

Total Governmental Fund Balances	\$ (22,023)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$63,259 and the accumulated depreciation is \$1,828.	61,431
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(5,786)</u>
Net Position of Governmental Activities	<u><u>\$ 33,622</u></u>

BRANCH LINE SCHOOL

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE – ALL GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
See Independent Auditor's Report

Revenues

Local sources	\$	52,599
State sources		451,581
Federal sources		<u>131,676</u>
Total governmental fund revenues		635,856

Expenditures

Instruction		
Basic program		280,220
Added needs		9,437
Support services		
Pupil support services		11,610
Instructional staff support services		24,148
General administration		75,789
School administration		46,874
Business support services		12,338
Operations and maintenance		56,260
Central support services		22,488
Community services		59,951
Capital outlay		63,259
Debt principal and interest		<u>5,505</u>
Total governmental fund expenditures		<u>667,879</u>

Excess (deficiency) of revenues
over expenditures (32,023)

Other Financing Sources (Uses)

Proceeds from long-term debt		<u>10,000</u>
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Excess (deficiency) of revenues
and other financing sources over
expenditures and other uses (22,023)

Fund balance - July 1, 2013 -

Fund balance - June 30, 2014 \$ (22,023)

See accompanying notes to financial statements

BRANCH LINE SCHOOL

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014
See Independent Auditor's Report

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

Net Change in Fund Balances - Total Governmental Funds	\$	(22,023)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation and amortization expense. This is the amount by which capital outlays exceeded depreciation and amortization in the current period

Capital outlay	\$	63,259	
Depreciation and amortization expense		<u>(1,828)</u>	61,431

The governmental funds report loan proceeds as an other financing source, while repayment of loan principal is reported as an expenditure. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of general loan obligations is as follows:

Proceeds from long-term debt	\$	(10,000)	
Repayment of loan principal		<u>4,214</u>	<u>(5,786)</u>

Change in Net Position of Governmental Activities	\$	<u>33,622</u>
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See accompanying notes to financial statements

BRANCH LINE SCHOOL

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014
See Independent Auditor's Report

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Branch Line School (the "Academy") conform to generally accepted accounting principles applicable to public school academies. The following is a summary of the significant accounting policies:

Reporting Entity

Branch Line School was formed as a public 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 filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, on November 8, 2011, and began operation in July 2013.

In July 2013, the Academy entered into a three-year contract with Saginaw Valley State University's Board of Control to charter a public school academy. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State constitution. The University's Board of Control 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 Saginaw Valley State University's Board of Control three percent of State aid as administrative fees. Total administrative fees paid for the year ended June 30, 2014 were approximately \$13,500.

In August 2013, the Academy entered into an agreement with Advance Educational Services, Inc., "AED". Under the terms of this agreement, AED will provide a variety of services including payroll, human resource services, and accounting services. The agreement is in effect through July 1, 2018. The Academy is obligated to pay AED 4.7 percent of gross wages for payroll and human resource services and \$1,250 per month for accounting services. AED has agreed to cap its fee for accounting services for the year ended June 30, 2014 at \$10,000. The total paid for these services amounted to approximately \$21,800 for the year ended June 30, 2014.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the public school Academy. Based on application of criteria, the Academy does not contain component units.

Fund Financial Statements

Fund financial statements report detailed information about the Academy. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

BRANCH LINE SCHOOL

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2014
See Independent Auditor's Report

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Presentation – Fund Accounting

The accounts of the Academy are organized on the basis of funds. The operations of a fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report, into generic fund types in two broad fund categories.

Governmental Funds

A governmental fund is a fund through which most academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through a governmental fund.

General Fund - The general fund is used to record the general operations of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Fund - The special revenue fund, which the Academy does not currently maintain, is used to account for the food service program operations. The special revenue fund is a subsidiary operation and is an obligation of the general fund. Therefore any shortfall in the special revenue fund will be covered by an operating transfer from the general fund. The special revenue fund does not maintain its own assets and liabilities; accordingly, no balance sheet is presented for this fund.

Debt Service Fund - The debt service fund, which the Academy does not currently maintain, is used to record certain revenue and the payment of interest, principal and other expenditures on long-term debt.

Capital Projects Fund - The capital projects fund, which the Academy does not currently maintain, accounts for financial resources to be used for the acquisition, construction, or improvement of capital facilities.

Fiduciary Fund - The fiduciary fund, which the Academy does not currently maintain, is used to account for assets held by the Academy in a trustee capacity or as an agent. The agency fund is custodial in nature and does not involve the measurement of results of operations.

Activity (Agency) Fund - The Academy presently maintains an activity fund to record the transactions of a student group for school and school-related purposes. The fund is segregated and held in trust for the students.

Governmental and agency funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

BRANCH LINE SCHOOL

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2014
See Independent Auditor's Report

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within sixty days of the end of the current fiscal period.
- b. Payments for inventorial types of supplies, which are not significant at year end, are recorded as expenditures at the time of purchase.
- c. Principal and interest of general long-term debt are not recorded as expenditures until their due dates.
- d. The State of Michigan utilizes a foundation allowance funding approach, which provides for specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law. A major portion of the Academy's revenue is derived from this state aid. As such, the Academy is considered to be economically dependent on this aid. The Academy's existence is dependent upon qualification for such aid.

Government-Wide Financial Statements

The government-wide financial statements (i.e. the statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationships between the government-wide statements and the statements for governmental funds.

The government-wide Statement of Activities presents a comparison between expenses and program revenues for each segment of the business-type activities of the Academy and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. The Academy does not allocate indirect expenses to programs. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or function is self-financing or draws from the general revenues of the Academy. When both restricted and unrestricted resources are available for use, it is the Academy's policy to use restricted resources first.

BRANCH LINE SCHOOL

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2014
See Independent Auditor's Report

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net position should be reported as restricted when constraints placed on net position's use is either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The Academy first utilizes restricted resources to finance qualifying activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government - wide financial statements.

Cash and Cash Equivalents

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition. The Academy reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and GASB No. 40, Deposit and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity. The Academy held no investments during the year ended June 30, 2014. State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, saving accounts, deposit accounts, and or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Corporation or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or Federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Receivables

Receivables at June 30, 2014 consist primarily of state school aid due from the State of Michigan and the federal government. All receivables are expected to be fully collected in July and August of 2014 and are considered current for the purposes of these financial statements.

Prepaid Assets

Payments made to vendors for services that will benefit periods beyond June 30, 2014, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

BRANCH LINE SCHOOL

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2014
See Independent Auditor's Report

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital Assets and Depreciation

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions or retirements during the year. The Academy follows the policy of not capitalizing assets with a useful life of less than one year. The Academy does not possess any infrastructure assets.

All reported capital assets, with the exception of land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Building and improvements	10 – 50 years
Furniture and equipment	5 – 15 years
Computers and software	3 – 10 years

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the non-current portion of capital leases that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Net Position

Net position represents the difference between assets, deferred outflows and liabilities and deferred inflows. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws of regulations of other governments.

Fund Equity

The Academy has adopted GASB 54 as part of its fiscal year reporting. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the Academy's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on those resources.

BRANCH LINE SCHOOL

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2014
See Independent Auditor's Report

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable 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.

In addition to nonspendable 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.

The Academy follows the policy that restricted, committed, or assigned amounts will be considered to have been spent when an expenditure is incurred for purposes for which both unassigned and restricted, committed, or assigned fund balances are available.

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.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a consistent basis with accounting principles generally accepted in the United States of America and state law for the general fund. All annual appropriations lapse at fiscal year end and encumbrances are not formally recorded.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. The Academy is required by law to adopt a general fund budget. During the year ended June 30, 2014 the budget was amended in a legally permissible manner. Under Michigan law, the Academy is required to maintain a positive fund balance. The Academy has accumulated a fund balance deficit of \$22,023. A plan has been filed with the Michigan Department of Education to eliminate the deficit.

BRANCH LINE SCHOOL

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2014
See Independent Auditor's Report

NOTE 3 - DEPOSITS AND INVESTMENTS

Interest Rate Risk

In accordance with its investment policy, the Academy will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Academy's cash requirements.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). The Academy did not hold any investments during the year ended June 30, 2014.

Concentration of Credit Risk

The district will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2014, all of the Academy's cash was fully covered by federal deposit insurance. All cash balances were uncollateralized as of June 30, 2014.

Custodial Credit Risk - Investments

For an investment, this 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 will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Academy will do business.

Foreign Currency Risk

The Academy is not authorized to invest in investments which have this type of risk.

BRANCH LINE SCHOOL

NOTES TO FINANCIAL STATEMENTS - Continued
 FOR THE YEAR ENDED JUNE 30, 2014
 See Independent Auditor's Report

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

Amounts due from other governmental units consist of the following:

State sources	<u>\$ 82,142</u>
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NOTE 5 - CAPITAL ASSETS AND DEPRECIATION

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

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2014</u>
Capital assets subject to depreciation				
Improvements	\$ -	\$ 63,259	\$ -	\$ 63,259
Accumulated depreciation				
Improvements	-	1,828	-	1,828
Total net capital assets	<u>\$ -</u>	<u>\$ 61,431</u>	<u>\$ -</u>	<u>\$ 61,431</u>

Depreciation and amortization 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 OBLIGATIONS PAYABLE

Long-term obligations as of June 30, 2014 can be summarized as follows:

Loan Information

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Other</u>
Initialization Loan	18.00%	July, 2015	To provide the Academy with funds to finance school operations

Loan Activity

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Retirements and Payments</u>	<u>Balance June 30, 2014</u>	<u>Due Within One Year</u>
Initialization Loan	\$ -	\$ 10,000	\$ 4,214	\$ 5,786	\$ 5,394

BRANCH LINE SCHOOL

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2014
See Independent Auditor's Report

NOTE 6 - LONG-TERM OBLIGATIONS PAYABLE - Continued

Following are maturities of long-term obligations for principal and interest for the next two years:

	<u>Principal</u>	<u>Interest</u>
2015	\$ 5,394	\$ 611
2016	392	6

NOTE 7 – OPERATING LEASES

	<u>Maturity Date</u>	<u>Approximate Payment</u>	<u>Other</u>
Facilities	June 30, 2018	\$2,500 Monthly	Lease runs July 1, 2013 through June 30, 2018. Payment in equal installments of \$3,750 for the first eight months, and \$2,500 per month for the remainder of the lease.

The approximate amount of lease obligations coming due during the next four years are as follows:

	<u>Facilities</u>
2015	\$ 30,000
2016	30,000
2017	30,000
2018	30,000

Total lease expense included in the statement of activities for the year ended June 30, 2014 amounted to \$30,000.

BRANCH LINE SCHOOL

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2014
See Independent Auditor's Report

NOTE 8 - RISK MANAGEMENT

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

SUPPLEMENTAL INFORMATION

BRANCH LINE SCHOOL

REQUIRED SUPPLEMENTAL INFORMATION
 BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2014
 See Independent Auditor's Report

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Local sources	\$ 133,000	\$ 50,500	\$ 52,599	\$ 2,099
State sources	1,031,112	431,988	451,581	19,593
Federal sources	139,544	129,000	131,676	2,676
	<hr/>	<hr/>	<hr/>	<hr/>
Total governmental fund revenues	1,303,656	611,488	635,856	24,368
Expenditures				
Instruction				
Basic programs	609,164	297,495	280,220	(17,275)
Added needs	21,816	10,000	9,437	(563)
Support services				
Pupil support services	15,000	7,500	11,610	4,110
Instructional staff support services	-	13,869	24,148	10,279
General administration	101,659	81,311	75,789	(5,522)
School administration	77,500	63,438	46,874	(16,564)
Business support services	47,388	14,800	12,338	(2,462)
Operations and maintenance	183,600	59,440	56,260	(3,180)
Central support services	7,500	18,825	22,488	3,663
Community services	79,388	62,490	59,951	(2,539)
Capital outlay	-	70,600	63,259	(7,341)
Debt principal and interest	-	-	5,505	5,505
	<hr/>	<hr/>	<hr/>	<hr/>
Total general fund expenditures	1,143,015	699,768	667,879	(31,889)
Excess (deficiency) of revenues over expenditures	160,641	(88,280)	(32,023)	56,257
Other Financing Sources (Uses)				
Proceeds from long-term debt	-	-	10,000	10,000
	<hr/>	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	160,641	(88,280)	(22,023)	66,257
Fund balance - July 1, 2013	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balance - June 30, 2014	\$ 160,641	\$ (88,280)	\$ (22,023)	\$ 66,257
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

BRANCH LINE SCHOOL

SCHEDULE OF REVENUES – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014
See Independent Auditor’s Report

Local Sources

Other local revenues	\$	52,599
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State Sources

At risk		1,027
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Special education		1,550
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State aid		<u>449,004</u>
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Total state sources		451,581
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Federal Sources

IDEA		6,676
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Other program revenue		<u>125,000</u>
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Total federal sources		<u>131,676</u>
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Total general fund revenues	\$	<u><u>635,856</u></u>
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BRANCH LINE SCHOOL

SCHEDULE OF EXPENDITURES – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014
See Independent Auditor's Report

Basic Programs

Purchased services	\$ 214,495
Other purchased services	1,054
Supplies and materials	64,529
Other expenditures	<u>142</u>
Total basic programs	280,220

Added Needs

Purchased services	9,437
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Pupil Support Services

Health services	807
Psychological services	1,256
Speech pathology and audiology	5,916
Social work services	<u>3,631</u>
Total pupil support services	11,610

Instructional Staff Support Services

Purchased services	9,000
Supplies and materials	<u>15,148</u>
Total instructional staff support services	24,148

General Administration

Purchased services	33,315
Management fees	12,668
University oversight	13,469
Other purchased services	5,000
Other expenditures	<u>11,337</u>
Total general administration	75,789

School Administration

Purchased services	43,094
Supplies and materials	134
Other expenditures	<u>3,646</u>
Total school administration	46,874

BRANCH LINE SCHOOL

SCHEDULE OF EXPENDITURES – GENERAL FUND - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2014
See Independent Auditor's Report

Business Support Services

Purchased services	12,108
Other expenditures	230
	<hr/>
Total business support services	12,338

Operations and Maintenance

Purchased services	10,049
Repairs and maintenance	1,577
Rentals	30,000
Other purchased services	3,717
Supplies and materials	6,832
Other expenditures	4,085
	<hr/>
Total operations and maintenance	56,260

Central Support Services

Purchased services	608
Supplies and materials	21,880
	<hr/>
Total central support services	22,488

Community Services

Purchased services	58,909
Supplies and materials	131
Other expenditures	911
	<hr/>
Total community services	59,951

Capital Outlay

63,259

Debt Principal and Interest

5,505

Total general fund expenditures	<hr/> <hr/>
	\$ 667,879

BRANCH LINE SCHOOL

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2014

Reference Number

Findings

2014-01

Finding Type – Noncompliance

Criteria – In accordance with Public Act 621 (Michigan Uniform and Budgeting Accounting Act) no fund shall have a deficit fund balance.

Condition – As of June 30, 2014, the general fund of the Academy had an operating deficit of \$22,023.

Cause / Effect – At the beginning of the school year, due to unforeseen circumstances, the Academy was forced to change its location to a different community which lead to a significant decrease in the realized number of students. Additionally, the Academy incurred expenditures in order to perform significant improvements to the new location in order to bring it up to code for school use. The effect is that the Academy is violation of Public Act 621.

Recommendation – In accordance with Public Act 621 the Academy should adopt a Deficit Elimination Plan. Additional cost cutting and revenue enhancement alternatives should be explored in order to ensure the Academy can eliminate the deficit.

Auditee Response – The auditee agrees with the finding. The Academy properly filed a Deficit Elimination Plan with the Michigan Department of Education in June, 2014 and is working to eliminate the deficit within the 2014-2015 school year.