MUSKEGON HEIGHTS PUBLIC SCHOOL ACADEMY SYSTEM

MUSKEGON HEIGHTS, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

Vredeveld Haefner LLC
CPAs and Consultants

MUSKEGON HEIGHTS PUBLIC SCHOOL ACADEMY SYSTEM

TABLE OF CONTENTS

FINANCIAL SECTION	PAGE
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements	
Government–wide Financial Statements	
Statement of Net Position	9
Statement of Activities	11
Fund Financial Statements	
Balance Sheet – Governmental Funds	12
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to the Net Position of Governmental Activities on the Statement of Net Position	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Notes to Financial Statements	17-29
Required Supplementary Information	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	31
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Food Service Fund	32
Defined Benefit Pension Plan	
Schedule of Academy's Proportionate Share of Net Pension Liability	33
Schedule of Employer Contributions	34
SINGLE AUDIT SECTION	
Independent Auditors' 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*	35-36
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	37-38
Schedule of Expenditures of Federal Awards	39-41
Notes to Schedule of Expenditures of Federal Awards	42
Schedule of Findings and Questioned Costs	43

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INDEPENDENT AUDITORS' REPORT

October 4, 2017

Members of the Board of Directors
Muskegon Heights Public School Academy System
Muskegon Heights, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Muskegon Heights Public School Academy System, Muskegon Heights, Michigan, (the Academy) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Muskegon Heights Public School Academy System as of June 30, 2017, 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 on pages 3 through 7 and the schedules on pages 31 through 34 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Academy's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2017, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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.

Vredeveld Haefner LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of Muskegon Heights Public School Academy System (the Academy), we offer readers of the Academy's financial statements this narrative overview and analysis of the financial activities of the Academy for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial highlights

- The Academy did not have as many one-time grants as it has in the previous years.
- The Academy was allocated its share of the Safety and Technology Millage passed through the Muskegon Area Intermediate School District.
- The per student foundation allowance was $7,511 per student for the 2016-17 school year.
- The blended student count was 760 for the 2016-17 school year.

Overview of the financial statements

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

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

The *statement of net position* presents information on all of the Academy's assets and liabilities, with the difference 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 government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash* flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., payments on debt).

Both of the government-wide financial statements display functions of the Academy that are principally supported by intergovernmental revenues *(governmental activities).* The governmental activities of the Academy include instruction, support services, community services, food service, and interest on long-term debt. The Academy does not have any business-type activities.

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. All of the funds of the Academy are considered to be governmental funds.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources,* as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government'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 government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities.*

The Academy maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund and food service fund, each of which is considered to be a major fund. The nonmajor fund (technology Service) is a special revenue fund.

The Academy adopts an annual appropriated budget for its general and all special revenue funds. A budgetary comparison schedule has been provided herein for the major funds to demonstrate compliance with that budget.

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information.* Required supplementary information includes this management discussion and analysis as well as schedules of major fund budget to actual information and pension related schedules.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Academy, assets exceeded liabilities by $2,082,352 at the close of the most recent fiscal year.

A portion of the Academy's net position reflects amounts restricted for food service and unrestricted net position which is available for future operation while a significant portion of net position is invested in capital assets (e.g., building improvements and equipment), less any related debt used to acquire those assets that is still outstanding. The Academy uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the Academy investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Net Position

	Governmental Activities	
	2017	**2016**
Assets		
Current and other assets	$2,332,392	$2,443,802
Capital assets	749,435	767,933
Total assets	3,081,827	3,211,735
Deferred outflows of resources	245,097	288,209
Liabilities		
Other liabilities	801,114	989,339
Long-term liabilities outstanding	442,165	434,731
Total liabilities	1,243,279	1,424,070
Deferred inflows of resources	1,293	11,849
Net position		
Net investment in capital assets	740,216	744,273
Restricted	306,031	181,385
Unrestricted	1,036,105	1,138,367
Total net position	$2,082,352	$2,064,025

Net position of the Academy increased by $18,327 during the year after consideration of non-cash depreciation, capitalization of capital purchases and changes in the net pension liability and related deferred items.

Activities

	Governmental Activities	
	2017	**2016**
Revenues		
Program revenue		
Charges for services	$ 96,487	$ 33,128
Operating grants and contributions	3,104,365	4,370,180
Capital grants and contributions	17,745	-
General revenue		
Grants and contributions not restricted to specific programs	5,318,652	5,655,042
Other	937	109,668
Total revenues	8,538,186	10,168,018
Expenses		
Instruction	2,708,190	3,861,432
Support services	5,178,307	4,843,800
Community services	42,734	44,836
Food service	588,653	711,820
Interest	1,975	-
Total expenses	8,519,859	9,461,888
Increase (decrease) in net position	18,327	706,130
Net position, beginning of year	2,064,025	1,357,895
Net position, end of year	$2,082,352	$2,064,025

Governmental activities

During the year the Academy expended 32% of its total expenses on instruction and 61% on support services such as guidance service, transportation, building operation and maintenance and administration. The remaining 7% of expenses was for community and food services.

Financial analysis of the government's funds

As noted earlier, the Academy uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Academy's *governmental funds is* to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Academy's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the Academy's governmental funds reported combined ending fund balances of $1,531,278, an increase of $106,976 in comparison with the prior year.

The general fund is the chief operating fund of the Academy. At the end of the current fiscal year, unassigned fund balance of the general fund was $685,038. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 9% of total general fund expenditures.

The fund balance of the Academy's general fund decreased by $17,670 during the current fiscal year.

Total revenues of the Food Service Fund were $729,567 with total expenditures of $604,921. The ending fund balance was $306,031, an increase of $124,646.

Budgetary Highlights

- The Academy had approximately 60 less students than originally budgeted for.
- Adjustments were made in staffing based on revised enrollment data.
- The Academy made several adjustments in operations in order to conserve energy.

Capital Asset and Debt Administration

Capital assets. The Academy's investment in capital assets for its governmental activities as of June 30, 2017, amounted to $749,435 (net of accumulated depreciation).

The Academy's Capital Assets (net of depreciation) are summarized as follows:

	Governmental Activities
Site improvements	$632,163
Furniture and equipment	117,272
Total	**$749,435**

During the year, the Academy's major purchases included communication and food service equipment. Additional information on the Academy's capital assets can be found in Note 4 of this report.

Debt. At the end of the current fiscal year, the Academy had debt outstanding of $9,219. The Academy's debt is summarized as follows:

	Governmental Activities
Capital leases	$9,219

Additional information on the Academy's long-term debt can be found in Note 6 of this report.

Economic Factors and Next Year's Budgets

The following factors were considered in preparing the Academy's budget for the 2017-18 fiscal year:

- The Academy budgeted for 760 pupils.
- The Academy used the new foundation allowance of $7,631 for the 2017-18 school year.
- The Academy budgeted for new partnership costs.

Requests for Information

This financial report is designed to provide a general overview of the Academy's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed Administration Office, Muskegon Heights Public School Academy System, 2441 Sanford Street, Muskegon Heights, Michigan, 49444.

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BASIC FINANCIAL STATEMENTS

MUSKEGON HEIGHTS PUBLIC SCHOOL ACADEMY SYSTEM

STATEMENT OF NET POSITION

JUNE 30, 2017

	Governmental Activities
Assets	
Cash and deposits	$ 816,393
Due from other governments	1,515,999
Capital assets, net	
Site improvements and furniture and equipment	749,435
Total assets	3,081,827
Deferred outflows of resources	
Deferred outflows related to pensions	245,097
Liabilities	
Accounts payable	178,818
Short-term notes payable	117,836
Accrued payroll	123,425
Other accrued liabilities	24,970
Due to other governments	349,699
Unearned revenue	6,366
Noncurrent liabilities	
Net pension liability	432,946
Due within one year	9,219
Total liabilities	1,243,279
Deferred inflows of resources	
Deferred inflows related to pensions	1,293
Net position	
Net investment in capital assets	740,216
Restricted for food service	306,031
Unrestricted	1,036,105
Total net position	$ 2,082,352

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

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MUSKEGON HEIGHTS PUBLIC SCHOOL ACADEMY SYSTEM

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017

		Program Revenues			
Functions/ Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Net (Expense) Revenue**
Primary government					
Governmental activities					
Instruction	$ 2,708,190	$ -	$ 1,906,323	$ -	$ (801,867)
Support services	5,178,307	96,223	486,484	-	(4,595,600)
Food service	588,653	264	711,558	17,745	140,914
Community services	42,734	-	-	-	(42,734)
Interest	1,975	-	-	-	(1,975)
Total governmental activities	$ 8,519,859	$ 96,487	$ 3,104,365	$ 17,745	(5,301,262)
General revenues					
Unrestricted grants and contributions					5,318,652
Interest earnings					937
Total general revenues					5,319,589
Change in net position					18,327
Net position, beginning of year					2,064,025
Net position, end of year					$ 2,082,352

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

MUSKEGON HEIGHTS PUBLIC SCHOOL ACADEMY SYSTEM

GOVERNMENTAL FUNDS
BALANCE SHEET

JUNE 30, 2017

	General	Special Revenue Food Service	Nonmajor Governmental Funds	Total
Assets				
Cash and deposits	$ 816,393	$ -	$ -	$ 816,393
Due from other funds	2,558	321,157	-	323,715
Due from other governments	1,473,894	33,515	8,590	1,515,999
Total assets	$ 2,292,845	$ 354,672	$ 8,590	$ 2,656,107
Liabilities and fund balances				
Liabilities				
Accounts payable	$ 130,177	$ 48,641	$ -	$ 178,818
Short-term notes payable	117,836	-	-	117,836
Due to other governments	343,667	-	6,032	349,699
Accrued payroll	123,425	-	-	123,425
Other accrued liabilities	24,970	-	-	24,970
Due to other funds	321,157	-	2,558	323,715
Unearned revenue	6,366	-	-	6,366
Total liabilities	1,067,598	48,641	8,590	1,124,829
Fund balances				
Restricted				
Food service	-	306,031	-	306,031
Assigned				
Subsequent year expenditures	540,209		-	540,209
Unassigned	685,038	-	-	685,038
Total fund balances	1,225,247	306,031	-	1,531,278
Total liabilities and fund balances	$ 2,292,845	$ 354,672	$ 8,590	$ 2,656,107

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

MUSKEGON HEIGHTS PUBLIC SCHOOL ACADEMY SYSTEM

RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET POSITION OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET POSITION

JUNE 30, 2017

Fund balances - total governmental funds	$ 1,531,278
Amounts reported for *governmental activities* in the statement of net position are different because	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	
Add - capital assets (net)	749,435
Certain liabilities, such as bonds and compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - net pension liability	(432,946)
Deduct - deferred inflows related to pensions	(1,293)
Add - deferred outflows related to pensions	245,097
Deduct - long-term debt payable	(9,219)
Net position of governmental activities	$ 2,082,352

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

MUSKEGON HEIGHTS PUBLIC SCHOOL ACADEMY SYSTEM

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2017

	General	Special Revenue Food Service	Nonmajor Governmental Funds	Total
Revenues				
Local sources	$ 117,512	$ 264	$ -	$ 117,776
State sources	6,392,034	4,844	-	6,396,878
Federal sources	931,291	724,459	-	1,655,750
Interdistrict sources	274,664	-	123,279	397,943
Total revenues	7,715,501	729,567	123,279	8,568,347
Expenditures				
Current				
Instruction	2,708,190	-	-	2,708,190
Support services	4,550,413	-	123,279	4,673,692
Community services	42,734	-	-	42,734
Food service	-	604,921	-	604,921
Intergovernmental payments	415,418	-	-	415,418
Debt service				
Principal	14,441	-	-	14,441
Interest	1,975	-	-	1,975
Total expenditures	7,733,171	604,921	123,279	8,461,371
Net change in fund balances	(17,670)	124,646	-	106,976
Fund balances, beginning of year	1,242,917	181,385	-	1,424,302
Fund balances, end of year	$ 1,225,247	$ 306,031	$ -	$ 1,531,278

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

MUSKEGON HEIGHTS PUBLIC SCHOOL ACADEMY SYSTEM

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017

Net changes in fund balances - total governmental fund	$	106,976
Amounts reported for *governmental activities* in the statement of activities are different because		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.		
Add - capital outlay		94,344
Deduct - depreciation expense		(112,842)
Long-term debt provides current financial resources to governmental funds in the period issued, but issuing long-term debt increases long-term liabilities in the statement of net position. Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Add - principal payment on long-term debt		14,441
Some revenues are deferred in the fund financial statements as they are not considered to be available as of year end but they are reported in the government-wide financial statements as revenue when earned.		
Deduct - reduction in unavailable revenue reported in the fund statements		(30,161)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.		
Deduct - increase in net pension liability		(21,875)
Deduct - decrease in deferred outflows related to pensions		(43,112)
Add - decrease in deferred inflows related to pension		10,556
Change in net position of governmental activities	$	18,327

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

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Muskegon Heights Public School Academy System, Muskegon Heights, Michigan (the "Academy") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

Reporting Entity

The Academy (located in the City of Muskegon Heights, Muskegon County, Michigan) was formed as a charter school pursuant to the Michigan School Code. The Academy's Authorizer is the School District of the City of Muskegon Heights Board of Education. The Academy provides education and related services to approximately 760 students in grades Pre-K through 12th grade. The Academy is governed by a Board of Directors (from three to seven members) nominated by the Academy and subject to the Authorizer's appointment. The Academy is administered by a Superintendent appointed by the Board of Directors. All facilities are rented from the Authorizers for $4 annually. Staffing (other than the Superintendent) is provided through contractual arrangements.

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of Muskegon Heights Public School Academy System. There are no component units to be included. The criteria for including a component unit include significant operational or financial relationships with the Academy.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the special purpose government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities,* which normally are supported by intergovernmental revenues are reported in total. The Academy has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State of Michigan Foundation allowance and other revenues not properly included among program revenues are reported instead as *general revenues.*

Separate financial statements are provided for governmental funds. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Major governmental funds are reported as separate columns in the fund financial statements.

The Academy reports the following major governmental fund:

The *General Fund* is the general operating fund of the Academy. It is used to account for all financial resources, except those required to be accounted for in another fund.

The *Food Service Fund* is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for the food service program.

Additionally, the Academy reports the following fund type:

The *Special Revenue Fund (Technology Services)* is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Measurement Focus and Basis of Accounting

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

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for reimbursement-based grants and interest which use one year. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. Exceptions to this general rule include principal and interest on long-term debt, claims and judgments, and compensated absences which are recognized when due.

All governmental funds are accounted for on a spending or “flow of current financial resources” measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance is considered a measure of “available, spendable resources”.

Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available, spendable resources” during a period.

Budgets and Budgetary Accounting

Comparisons to budget are presented for each major fund. The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following July 1.

2. Public hearings are conducted to obtain taxpayer comments.

3. Prior to July 1, the budget is legally enacted through passage of a resolution.

4. Budgets for the General and Special Revenue funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

5. The budgets are legally adopted at the activity level. Any revisions that alter the total expenditures at the activity level (legal level of budgetary control) must be approved by the Board of Directors.

6. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue funds.

7. Adoption and amendments of all budgets used by the Academy are governed by Michigan Law. The appropriation ordinances are based on the projected expenditures budget of the various activities of the Academy. Any amendment to the original budget must meet the requirements of Michigan Law. The Academy amended its budget for the current fiscal year.

Cash and Deposits

Michigan law and Academy policy authorizes the Academy to invest in:

a. Bonds, bills or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States, or obligations of the State. In a primary or fourth class school Academy, the bonds, bills or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.

b. Certificates of deposit issued by a state or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.

c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.

d. Securities issued or guaranteed by agencies or instrumentalities of the United States, United States or federal agency obligation repurchase agreements, and bankers' acceptances issued by a bank that is a member of the federal deposit insurance corporation.

e. Mutual funds that are composed entirely of investment vehicles that are legal for direct investment by a school Academy.

f. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school academy.

Due to and Due from Other Funds

Interfund receivables and payables are short-term borrowings that arise from interfund transactions which are recorded by all funds affected in the period in which transactions are executed.

Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements.

Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at acquisition value (the price that would be paid to acquire an asset with an equivalent service potential in an orderly market transaction) on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

	Years
Site improvements	10-20
Furniture and equipment	5-12

Deferred Outflows/Inflows 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 so will not be recognized as an outflow of resources (expense/ expenditure) until then. The Academy has items that qualify for reporting in this category relating to the pension plan as itemized in Note 5.

In addition to liabilities, the statement of financial position 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 Academy has items that qualify for reporting in this category relating to the pension plan as itemized in Note 5.

Unearned Revenue

Governmental funds and the statement of net position report $6,366 of unearned revenue at year-end in connection with grants received in advance of related expenditures being incurred. The balance of unearned revenues will be recorded as revenue in future years when related expenditures are incurred.

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension and pension expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPSERS) and additions to/deductions from MPSERS' fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Long-Term Obligations

In the government-wide financial statements, the long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position.

State Aid Revenue

The Academy reports State of Michigan school aid in the fiscal year in which the Academy is entitled to the revenue as provided by the State of Michigan School Aid Appropriation Act. State funding accounted for 83% of the General Fund revenue for the year. A certain portion of State Aid received by the Academy is restricted to cover specified expenses of the Academy, including special education

costs. 4% of the state foundation allowance is paid to the Authorizer for supervision with the balance use in the general operations of the Academy.

Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters and medical benefits to employees. The Academy carries commercial insurance for various risks of loss and employee benefits. The Academy has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

Net Position and Fund Balance Reporting

Governmental funds report fund balance in the following five categories:

1. Non-spendable – the related asset's form does not allow expenditure of the balance. The assets are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact. Nonspendable fund balance would be equal to inventory, prepaid items, non-current financial assets, and the nonspendable portion of endowments.
2. Restricted – the related assets can only be spent for the specific purposes stipulated by constitution, external resource providers, or as identified in enabling legislation.
3. Committed – the related assets can only be spent for a specific purpose identified by formal resolution of the entities governing board.
4. Assigned – the related assets can only be spent for a specific purpose identified by management as authorized by the entities governing board.
5. Unassigned – is the residual classification and includes all spendable amounts not contained in the other classifications.

Fund balance can only be committed or assigned by resolution of the Academy's Board of Directors.

Net Position and Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position/fund balance and unrestricted – net position/fund balance, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to use restricted resources first, then unrestricted resource as they are needed. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

State law provides that the Academy shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Academy's actual expenditures and budgeted expenditures for the budgeted funds have been shown at the activity level. The approved budgets of the Academy for these budgetary funds were adopted at the actvity level. During the year ended June 30, 2017, the Academy incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated.

	Budget	Actual	Negative Variance
General Fund			
Support services			
Central services	$167,794	$169,536	$1,742

3. CASH AND DEPOSITS

The captions on the financial statements relating to cash and deposits are as follows:

	Governmental Activities
Cash and deposits	$816,393

The deposits are in financial institutions located in Michigan. All accounts are in the name of the Academy and a specific fund or common account. They are recorded in Academy records at fair value.

Deposit risk

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned. As of year-end, $796,668 of the Academy's bank balance of $1,046,668 was exposed to custodial credit risk because it was uninsured and uncollateralized.

4. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Governmental activities				
Capital assets, being depreciated				
Site improvements	$928,513	$ -	$ -	$928,513
Furniture and equipment	131,293	94,344	-	225,637
Total capital assets, being depreciated	1,059,806	94,344	-	1,154,150
Less accumulated depreciation for				
Site improvements	222,188	74,162	-	296,350
Furniture and equipment	69,685	38,680	-	108,365
Total accumulated depreciation	291,873	112,842	-	404,715
Net capital assets, being depreciated	767,933	(18,498)	-	749,435
Governmental activities capital assets, net	**$767,933**	**$(18,498)**	$ -	**$749,435**

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
Support services	$111,364
Food services	1,478
Total depreciation expense - governmental activities	$112,842

5. DEFINED BENEFIT PENSION PLAN

Defined Benefit Plan

Plan Description

The Michigan Public School Employees' Retirement System (System or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

The System's financial statements are available at www.michigan.gov/mpsers-cafr.

Benefits Provided
Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

A DB member plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Contributions and Funded Status
Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 20-year period for the 2016 fiscal year.

The schedule below summarizes pension contribution rates in effect for fiscal year 2016.

		Employer	
Benefit Structure	Member	Universities	Non-Universities
Basic	0.0-4.0%	22.60%	18.95%
Member Investment Plan	3.0-7.0	22.60	18.95
Pension Plus	3.0-6.4	N/A	17.73
Defined Contribution	0.0	17.73	14.56

Required contributions to the pension plan from the Academy were $43,277 for the year ended September 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
At June 30, 2017, the Academy reported a liability of $432,946 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2015. The Academy's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2016, the Academy's proportion was .0017 percent, which was not changed from its proportion measured as of September 30, 2015.

For the year ended June 30, 2017, the Academy recognized pension expense of $49,170. At June 30, 2017, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	$5,396	$1,026
Changes of assumptions	6,769	-
Net difference between projected and actual earnings on pension plan investments	7,196	-
Change in proportion and differences between employer contributions and proportionate share of contributions	188,859	267
Employer contributions subsequent to the measurement date	36,877	-
Total	$245,097	$1,293

Contributions subsequent to the measurement date reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending September 30,	Amount
2017	$71,975
2018	71,409
2019	60,235
2020	3,308

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2015
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return:	
- MIP and Basic Plans (Non-Hybrid):	8.0%
- Pension Plus Plan (Hybrid):	7.0%
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members

Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first

used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Notes:

- *Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2016, is based on the results of an actuarial valuation date of September 30, 2015, and rolled forward using generally accepted actuarial procedures, including the experience study.*
- *Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: [4.6273 for non-university employers 1.2456 for university employers]*
- *Recognition period for assets in years is 5.0000.*
- *Full actuarial assumptions are available in the 2016 MPSERS Comprehensive Annual Financial Report (www.michigan.gov/mpsers-cafr).*

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2016, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return *
Domestic Equity Pools	28.0%	5.9%
Alternative Investment Pools	18.0%	9.2%
International Equity	16.0%	7.2%
Fixed Income Pools	10.5%	.9%
Real Estate and Infrastructure Pools	10.0%	4.3%
Absolute Return Pools	15.5%	6.0%
Short Term Investment Pools	2.0%	0%
	100%	

*** Long-term rate of return does not include 2.1% inflation**

Discount Rate

A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate
The following presents the Academy's proportionate share of the net pension liability calculated using the discount rate of 8.0% (7.0% for the Hybrid Plan), as well as what the Academy's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

1% Decrease (Non-Hybrid/Hybrid) 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 9.0% / 8.0%
$557,525	$432,946	$327,913

** University employers provide non-hybrid plans only. For non-university employers, the Basic plan and the Member Investment Plan (MIP) are non-hybrid plans. Pension Plus is a hybrid plan, with a defined benefit (pension) component and a defined contribution (DC) component.*

Michigan Public School Employees' Retirement System (MPSERS) Fiduciary Net Position
Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS CAFR, available at www.michigan.gov/mpsers-cafr.

Payables to the Michigan Public School Employees' Retirement System
At June 30, 2017, the Academy reported insignificant payables to the defined benefit pension plan. The balance represents legally required contributions to the pension plan.

6. DEBT

Short-term Debt

The following is a summary of short-term debt transactions of the Academy for the year ended June 30, 2017:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
$861,000 State aid anticipation notes due in monthly installments ranging from $77,244 to $79,312 with interest paid monthly at 3.20% Final payment due August 2016	$154,705	$ -	$154,705	$ -
$656,000 State aid anticipation notes due in monthly installments ranging from $58,836 to $60,449 with interest paid monthly at 3.20% Final payment due August 2017	-	656,000	538,164	117,836

The Academy directs payments on the notes payable to an irrevocable trust to provide resources to repay the state aid notes when they are due in fiscal year 2017. The resources held in trust are pooled with other districts participating in the state aid note program and invested in securities guaranteed by the US Government. As a result, the liability in the amount of $538,164 has been removed from the fund and government-wide financial statements.

Long-term Debt

The following is a summary of the long-term debt transactions of the Academy for the year ended June 30, 2017:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Due Within One Year
Governmental Activities					
Capital Leases	$23,660	$ -	$14,441	$9,219	$9,219

The Academy entered into a lease agreement for various equipment in 2012. The lease term is 63 months with monthly installments of $1,368 including interest of 3.8%. The total amount paid on the leases for the year was $16,416. The future minimum lease payments are due in the year ending June 30, 2018 in the amount of $9,576.

Equipment held under the capital lease has an original cost of $62,204 and a net book value at June 30, 2017 of $8,294.

The annual requirements to amortize all capital leases as of June 30, 2017 are as follows:

Fiscal Year	Principal	Interest
2018	$9,219	$357

7. INTERFUND TRANSACTIONS

Interfund receivables and payables are utilized to facilitate temporary cash flow needs between funds. Interfund receivables and payable at year end were as follows:

	Due from other funds		
Due to other funds	General fund	Food service fund	Total
General fund	$ -	$321,157	$321,157
Nonmajor governmental funds	2,558	-	2,558
Total	**$2,558**	**$321,157**	**$323,715**

8. CONTINGENCIES

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement to the grantor or regulatory agencies. However, management believes such disallowances, if any, will not be material to the financial position of the Academy.

9. SUBSEQUENT EVENTS

In August 2017, the School Academy received the proceeds of a $594,000 State of Michigan school aid anticipation notes payable. The note payable is not subject to redemption prior to its maturity in August 2017 and bears interest at the rate of 3.75 percent per annum. The Academy pledged for payment of the note payable, the amount of state school aid to be received.

10. REALTED PARTY TRANSACTIONS

The Academy paid the Authorizer administrative fees in the amount of $167,399 for the year ended June 30, 2017.

11. LEASES

The Academy leases all buildings and personal property from Muskegon Heights Public Schools. The lease began July 9, 2012 and expires upon the extinguishment of all debt owed by Muskegon Heights Public Schools. The lease payment is due in annual installments of $4.

12. OTHER POST-EMPLOYMENT BENEFITS

Effective for the year ending June 30, 2017, the Academy will be required to implement a new accounting and financial reporting standard issued by the Governmental Accounting Standards Board. This standard establishes new requirements for governments to report a “net OPEB liability” for the unfunded portion of its participation in a cost sharing multiple employer OPEB plan. Historically, governments have only been required to report a net OPEB obligation to the extent that they have not met the annual required contribution (ARC) in any given year. Upon implementation of this standard, governments will be required to report a net OPEB liability based on the funded status of the plan (actuarially accrued liability less plan assets). This liability will be reported on the accrual basis financial statements. Changes in this liability from year to year will largely be reflected on the accrual basis income statement, though certain amounts may be deferred and amortized over varying periods. Any liability for the Academy’s participation in the MPSERS OPEB plan is currently indeterminable.

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REQUIRED SUPPLEMENTARY INFORMATION

MUSKEGON HEIGHTS PUBLIC SCHOOL ACADEMY SYSTEM

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2017

	Budget Amounts		Actual	Variance Positive
	Original	Final	Amount	(Negative)
Revenues				
Local sources	$ 106,144	$ 114,672	$ 117,512	$ 2,840
State sources	7,183,405	6,416,035	6,392,034	(24,001)
Federal sources	1,179,409	1,174,141	931,291	(242,850)
Interdistrict sources	175,000	250,475	274,664	24,189
Total revenues	8,643,958	7,955,323	7,715,501	(239,822)
Expenditures				
Current				
Instruction				
Basic programs	2,185,235	2,066,838	1,825,573	241,265
Added needs	1,151,416	1,024,446	882,617	141,829
	3,336,651	3,091,284	2,708,190	383,094
Support services				
Pupil services	1,023,485	1,081,805	925,731	156,074
Instructional staff services	493,813	496,468	415,177	81,291
General administrative services	614,648	645,857	630,730	15,127
School administrative services	440,577	412,229	382,584	29,645
Business services	294,400	220,300	183,428	36,872
Operation and maintenance	1,408,773	1,306,516	1,241,006	65,510
Pupil transportation	382,588	386,477	386,433	44
Central services	177,357	167,794	169,536	(1,742)
Athletics	207,620	191,736	189,670	2,066
Other	-	26,163	26,118	45
	5,043,261	4,935,345	4,550,413	384,932
Community services	48,516	59,196	42,734	16,462
Intergovernmental payments	435,000	466,011	415,418	50,593
Debt Service				
Principal	14,441	14,441	14,441	-
Interest and fiscal charges	1,975	1,975	1,975	-
	16,416	16,416	16,416	-
Total expenditures	8,879,843	8,568,252	7,733,171	835,081
Revenues over (under) expenditures	(235,885)	(612,929)	(17,670)	595,259
Net change in fund balance	(235,885)	(612,929)	(17,670)	595,259
Fund balance, beginning of year	1,242,917	1,242,917	1,242,917	-
Fund balance, end of year	$ 1,007,032	$ 629,988	$ 1,225,247	$ 595,259

MUSKEGON HEIGHTS PUBLIC SCHOOL ACADEMY SYSTEM

FOOD SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2017

	Budget Amounts		Actual	Variance Positive
	Original	Final	Amount	(Negative)
Revenues				
Local sources	$ 300	$ 300	$ 264	$ (36)
State sources	4,850	4,850	4,844	(6)
Federal sources	637,745	637,745	724,459	86,714
Total revenues	642,895	642,895	729,567	86,672
Expenditures				
Current				
Food service	610,910	610,910	604,921	5,989
Net change in fund balances	31,985	31,985	124,646	92,661
Fund balances, beginning of year	181,385	181,385	181,385	-
Fund balances, end of year	$ 213,370	$ 213,370	$ 306,031	$ 92,661

MUSKEGON HEIGHTS PUBLIC SCHOOL ACADEMY SYSTEM

DEFINED BENEFIT PENSION PLAN
SCHEDULE OF ACADEMY'S PROPROTIONATE SHARE OF
NET PENSION LIABILITY

FOR THE YEAR ENDED JUNE 30, 2017

	2016	2015	2014
Academy's proportion of the net pension liability (asset)	0.00174%	0.00168%	0.00037%
Academy's proportionate share of the net pension liability (asset)	$ 432,946	$ 411,071	$ 81,033
Covered employee payroll	$ 147,292	$ 139,050	$ 144,837
Academy's proportionate share of the net pension liability as a percentage of its covered employee payroll	293.94%	295.63%	55.95%
Plan fiduciary net position as a percentage of total pension liability	63.27%	63.17%	66.20%

Notes to schedule:
Above data is based on a measurement date of September 30.

MUSKEGON HEIGHTS PUBLIC SCHOOL ACADEMY SYSTEM

DEFINED BENEFIT PENSION PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS

FOR THE YEAR ENDED JUNE 30

	2017	2016	2015
Actuarial determined contributions	$ 49,170	$ 32,467	$ 31,144
Contributions in relation to the actuarially determined contribution	49,170	32,467	31,144
Contribution deficiency (excess)	$ -	$ -	$ -
Covered employee payroll	$ 147,292	$ 139,050	$ 144,837
Contributions as a percentage of covered employee payroll	33.4%	23.3%	21.5%

SINGLE AUDIT SECTION

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INDEPENDENT AUDITORS' 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*

October 4, 2017

Members of the Board of Education
Muskegon Heights Public School Academy System
Muskegon Heights, Michigan

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 Muskegon Heights Public School Academy System, Muskegon Heights, Michigan (the "Academy") as of and for the year ended June 30, 2017, 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 4, 2017.

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 statements, 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 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 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*.

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 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 Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

October 4, 2017

Members of the Board of Education
Muskegon Heights Public School Academy System
Muskegon Heights, Michigan

Report on Compliance for Each Major Federal Program

We have audited Muskegon Heights Public School Academy System, Muskegon Heights, Michigan's (the "Academy") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Academy's major federal programs for the year ended June 30, 2017. The Academy's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Academy's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Academy's compliance.

Opinion on Each Major Federal Program

In our opinion, the Academy complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the Academy is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Academy's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Vredeveld Haefner LLC

MUSKEGON HEIGHTS PUBLIC SCHOOL ACADEMY SYSTEM

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2017

Federal Grantor Cluster Program Title Grant Number	Federal CFDA Number	Pass Through Agency	Approved Grant Award Amount	Accrued (Deferred) Revenue July 1, 2016	Current Year Receipts (Cash Basis)	Expenditures (Memo Only) Prior Year	Expenditures Year Ended June 30, 2017	Accrued (Deferred) Revenue June 30, 2017
U.S. DEPARTMENT OF EDUCATION								
Title I, Part A								
161530-1516	84.010	MDE	$ 700,705	$ 55,826	$ 167,819	$ 529,343	$ 111,993	$ -
171530-1617	84.010	MDE	551,675	-	283,376	-	366,214	82,838
Total			1,252,380	55,826	451,195	529,343	478,207	82,838
Improving Teacher Quality								
160520-1516	84.367	MDE	146,817	4,597	47,213	71,672	42,616	-
170520-1617	84.367	MDE	132,570	-	70,151	-	84,050	13,899
Total			279,387	4,597	117,364	71,672	126,666	13,899
Special Education Cluster								
IDEA								
160450-1516	84.027	MAISD	-	17,701	17,701	267,544	-	-
170450-1617	84.027	MAISD	232,583	-	214,455	-	232,583	18,128
Total			232,583	-	214,455	-	232,583	18,128
Preschool Imitative								
170460-1617	84.173	MAISD	12,280	-	12,280	-	12,280	-
Total			12,280	-	12,280	-	12,280	-
Total Special Education Cluster			244,863	-	226,735	-	244,863	18,128
TOTAL U.S. DEPARTMENT OF EDUCATION			1,776,630	60,423	795,294	601,015	849,736	114,865

MUSKEGON HEIGHTS PUBLIC SCHOOL ACADEMY SYSTEM

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2017

Federal Grantor Cluster Program Title Grant Number	Federal CFDA Number	Pass Through Agency	Approved Grant Award Amount	Accrued (Deferred) Revenue July 1, 2016	Current Year Receipts (Cash Basis)	Expenditures (Memo Only) Prior Year	Expenditures Year Ended June 30, 2017	Accrued (Deferred) Revenue June 30, 2017
U.S. DEPARTMENT OF AGRICULTURE								
Nutrition Cluster								
Non-Cash Assistance (USDA Commodities)								
National School Lunch Program - Entitlements	10.555	MHPS	$ 40,122	$ -	$ 40,122	$ -	$ 40,122	$ -
Cash Assistance								
School Breakfast Program								
161970	10.553	MDE	179,093	9,840	36,448	152,485	26,608	-
171970	10.553	MDE	158,469	-	148,811	-	158,469	9,658
Total			337,562	9,840	185,259	152,485	185,077	9,658
National School Lunch Program								
161960	10.555	MDE	412,349	22,245	81,734	352,860	59,489	-
171960	10.555	MDE	336,678	-	315,783	-	336,678	20,895
Total			749,027	22,245	397,517	352,860	396,167	20,895
Total Cash Assistance			1,086,589	32,085	582,776	505,345	581,244	30,553
Total Nutrition Cluster			1,126,711	32,085	622,898	505,345	621,366	30,553
CCFP Meals reimbursement								
161920	10.558	MDE	33,564	1,435	3,732	29,833	2,297	-
162010	10.558	MDE	1,813	81	150	1,744	69	-
171920	10.558	MDE	57,359	-	54,548	-	57,359	2,811
172010	10.558	MDE	2,781	-	2,631	-	2,781	150
Total			95,517	1,516	61,061	31,577	62,506	2,961
Fresh Fruits & Vegetables								
170950	10.582	MDE	22,842	-	22,842	-	22,842	-
NSLP Equipment Assistance								
151991	10.579	MDE	17,745	-	17,745	-	17,745	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE			1,262,815	33,601	724,546	536,922	724,459	33,514

MUSKEGON HEIGHTS PUBLIC SCHOOL ACADEMY SYSTEM

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2017

Federal Grantor Cluster Program Title Grant Number	Federal CFDA Number	Pass Through Agency	Approved Grant Award Amount	Accrued (Deferred) Revenue July 1, 2016	Current Year Receipts (Cash Basis)	Expenditures (Memo Only) Prior Year	Expenditures Year Ended June 30, 2017	Accrued (Deferred) Revenue June 30, 2017
DEPARTMENT OF HEALTH AND HUMAN SERVICES								
Medicaid								
2016	93.778	MAISD	$ 51,394	$ -	$ 51,394	$ -	$ 51,394	$ -
Total Federal Financial Assistance			$ 3,090,839	$ 94,024	$ 1,571,234	$ 1,137,937	$ 1,625,589	$ 148,379

See notes to schedule of expenditures of federal awards.

MUSKEGON HEIGHTS PUBLIC SCHOOL ACADEMY SYSTEM

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2017

1. The Schedule of Expenditures of Federal Awards is prepared in accordance with the modified accrual basis of accounting.

2. Management has utilized the CMS Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.

3. Reconciliation of revenues from federal sources per governmental funds financial statements and expenditures per the Schedule of Expenditures of Federal Awards.

Revenues from federal sources per June 30, 2017 governmental funds financial statements	$ 1,655,750
Federal revenue of $30,161 was included in SEFA expenditures in 2016 but was reported in 2017 revenues when the modified accrual revenue availability criteria was met.	(30,161)
Expenditures per Schedule of Expenditures of Federal Awards	$ 1,625,589

4. Title I 161530-1516 prior fiscal year expenditures and accrued revenue at July, 1 2016 were increased by $7,375 from balances reported in the 2016 audit to reflect general ledger balances.

5. The District did not elect to use the 10% de minimis cost rate as covered in Uniform Guidance section 2 CFR 200.414 indirect costs.

6. Table of Pass through agencies
MDE - Michigan Department of Education
MAISD - Muskegon Area Intermediate School District
MHPS - Muskegon Height Public Schools

MUSKEGON HEIGHTS PUBLIC SCHOOL ACADEMY SYSTEM

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2017

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued	Unmodified			
Internal control over financial reporting:				
Material weakness(es) identified?	_____	yes	X	no
Significant deficiency(ies) identified?	_____	yes	X	none reported
Noncompliance material to financial statements noted?	_____	yes	X	no

Federal Awards

Internal control over major programs:				
Material weakness(es) identified?	_____	yes	X	no
Significant deficiency(ies) identified?	_____	yes	X	none reported
Type of auditors' report issued on compliance for major programs	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	_____	yes	X	no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.555, 10.553	Nutrition Cluster
10.558	CCFP Meals

Dollar threshold used to distinguish between Type A and B programs:	$750,000			
Auditee qualified as low-risk auditee?	_____	yes	X	no

SECTION II - FINANCIAL STATEMENT FINDINGS

None noted.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

SECTION IV - SUMMARY OF PRIOR AUDIT FINDINGS

2016-001

Compliance with Michgan Compiled Law 141.436 requires adoption of an appropriation act for specific funds,

This finding has not been repeated.

2016-002

Compliance with Michgan Compiled Law 141.435 requires adoption of a balanced budget.

This finding has not been repeated.