

RECEIVED

By Gloria Suggitt at 12:06 pm, Nov 01, 2017

RISING STARS ACADEMY

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

JUNE 30, 2017

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	I - II
Management's Discussion and Analysis	III – VII
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position	1
Statement of Activities	2
Fund Financial Statements:	
Balance Sheet – Governmental Funds	3
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	4
Notes to the Financial Statements	5 – 10
Required Supplementary Information	
Budgetary Comparison Schedules:	
General Fund	11
Notes to Required Supplementary Information	12
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based Upon an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	13 – 14



October 31, 2017

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Rising Stars Academy

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 Rising Stars 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 Rising Stars Academy, 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.

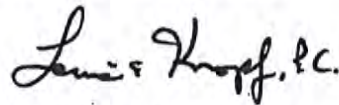
Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2017, on our consideration of the Rising Stars 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 Rising Stars Academy's internal control over financial reporting and compliance.



LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

RISING STARS ACADEMY
MANAGEMENT DISCUSSION AND ANALYSIS

As management of Rising Stars 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.

Financial Highlights

- * The assets of the Academy exceeded its liabilities at the close of the most recent fiscal year by \$267,310 (net position).
- * The Academy's total net position decreased by \$29,647. The decrease was primarily due to the recognition of depreciation on the Academy's capital assets in excess of additions to those assets.
- * The general fund had a decrease in fund balance of \$6,479. At the end of the year, unassigned fund balance for the general fund was \$77,029, or 13%, of total general fund expenditures.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Academy financially as a whole. The District-Wide Financial Statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The financial statements then proceed to provide an increasingly detailed look at specific financial activities included in the fund financial statements. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements provide information about the Academy's most significant funds - the General Fund.

Reporting the Academy as a Whole

The Statement of Net Position and Statement of Activities - One of the most important questions asked about the Academy's finances is, "Is the Academy better off or worse off as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the Academy's financial statements, report information about the Academy as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities of the Academy using the accrual basis of accounting, which is similar to the accounting used by private-sector corporations. However, the Academy's goal is to provide services to our students, not to generate profits as private-sector corporations do. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

The statement of net position and the statement of activities present information about the following:

Governmental Activities - All of the Academy's basic services are considered to be governmental activities, including instruction, support services and food services. Intergovernmental revenues (unrestricted and restricted State Aid) and federal grants finance most of these activities. These two statements report the Academy's net position and changes therein. The change in net position provides the reader a tool to assist in determining whether the Academy's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as property tax base, political conditions at the State Capitol, student enrollment growth, birth rates, and facility conditions in arriving at their conclusion regarding the overall health of the Academy.

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

RISING STARS ACADEMY
MANAGEMENT DISCUSSION AND ANALYSIS

Reporting the Academy's Most Significant Funds

Fund Financial Statements - The fund financial statements provide detailed information about the most significant funds - not the Academy as a whole. The fund financial statements begin on page 3 and provide detailed information about the most significant funds. The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." The Academy's two types of funds: governmental funds and fiduciary funds use different accounting approaches as further discussed in the notes to the financial statements. In the fund financial statements, capital assets purchased by cash are reported as expenditures in the year of acquisition. No asset is reported.

Governmental Funds - Most of the Academy's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Academy's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources available to spend in the near future to finance the Academy's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net position and the Statement of Activities) and governmental funds is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 3 and 4 of this report.

Additional Information - The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 5 - 10 of this report.

SUMMARY OF NET POSITION:

The following table provides a summary of the Academy's net position as of June 30, 2017 and 2016.

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Other Assets	\$125,136	\$127,288
Capital Assets	<u>207,962</u>	<u>223,338</u>
<u>TOTAL ASSETS</u>	\$333,098	\$350,626
<u>LIABILITIES</u>		
Other Liabilities	48,107	43,780
Long-Term Liabilities	<u>17,681</u>	<u>9,889</u>
Total Liabilities	\$65,788	\$53,669
<u>NET POSITION</u>		
Net Investment in Capital Assets	190,281	213,449
Unrestricted	<u>77,029</u>	<u>83,508</u>
<u>TOTAL NET POSITION</u>	<u>\$267,310</u>	<u>\$296,957</u>

RISING STARS ACADEMY
MANAGEMENT DISCUSSION AND ANALYSIS

SUMMARY OF NET POSITION: (Continued)

The above analysis focuses on the net position. The change in net position of the Academy's governmental activities is discussed below. The net position differs from fund balances and a reconciliation appears on page 3.

The results of this year's operations for the Academy as a whole are reported in the statement of activities (see table above), which shows the changes in net position for fiscal year 2017.

RESULTS OF OPERATIONS:

For the fiscal years ended June 30, 2017 and 2016, the Academy wide results of operations were:

<u>REVENUES</u>	<u>2017</u>	<u>2016</u>
<u>Program Revenue</u>		
Operating Grants	\$86,140	\$69,660
<u>General Revenues:</u>		
State Sources - Unrestricted	515,355	458,553
Other General Revenues	410	8,760
Total General Revenues	<u>\$515,765</u>	<u>\$467,313</u>
Total Revenues	\$601,905	\$536,973
 <u>EXPENSES</u>		
Instruction	340,487	316,030
Support Services	225,308	170,968
Outgoing Transactions and Other Uses	630	320
Food Service	36,918	27,308
Depreciation - Unallocated	28,209	26,909
Total Expenses	<u>\$631,552</u>	<u>\$541,535</u>
 <u>CHANGE IN NET POSITION</u>	(\$29,647)	(\$4,562)
 <u>BEGINNING NET POSITION</u>	<u>296,957</u>	<u>301,519</u>
 <u>ENDING NET POSITION</u>	<u><u>\$267,310</u></u>	<u><u>\$296,957</u></u>

The Academy's net position decreased by \$29,647 during the current fiscal year. The decrease in net position differs from the change in fund balances and a reconciliation appears on page 4.

General Fund Budgeting and Operating Highlights

The Academy's budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund.

During the fiscal year ended June 30, 2017, the Academy amended the budget of the General Fund twice. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Academy's general fund original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

RISING STARS ACADEMY
MANAGEMENT DISCUSSION AND ANALYSIS

The general fund actual revenue and other financing sources was \$583,854. That amount is less than the final budget estimate of \$589,943. The variance was \$6,089 or 1%.

The actual expenditures and other financing uses of the general fund were \$590,333, which is more the final budget estimate of \$589,874. The variance was \$459, or less than 1%.

The general fund had total revenues of \$583,854 and total expenditures of \$590,333 with a net decrease in fund balance of \$6,479 and an ending fund balance of \$77,029.

Capital Asset and Debt Administration

A. Capital Assets

The Academy's investment in capital assets for its governmental activities as of June 30, 2017 amounted to \$207,962 (net of accumulated depreciation).. Capital assets at fiscal year-end included the following:

	Capital Assets (Net of Depreciation)	
	2017	2016
Furniture and Equipment	\$207,962	\$223,338

Additional information on the Academy's capital assets can be found in Note 4.

B. Debt

At the end of the current fiscal year, the District had total long-term debt outstanding of \$17,681. Long-term debt at fiscal year-end included the following:

	Long-Term Debt	
	2017	2016
Capital Lease Payable	\$7,920	\$9,889
Installment Contract	9,761	0
<u>TOTAL</u>	\$17,681	\$9,889

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

Economic Factors And Next Year's Budget

Under Michigan law, the Academy is required to prepare and approve a budget for the following year before July 1 on each year. The Academy is currently in a growth stage and projection of students is impossible. Therefore, the 2017-18 budget was passed using a carryover basis or based on the results of the 2016-17 fiscal year. The Academy expects to amend its budget once the student counts are solidified. Items used for the carryover budget are:

- * Foundation allowance of \$7,511
- * Student enrollment remaining at 67 students.
- * State aid membership count based on 90% Fall count and 10% previous Spring Count.

RISING STARS ACADEMY
MANAGEMENT DISCUSSION AND ANALYSIS

The Rising Stars Academy' 2017/2018 adopted budget is as follows:

<u>REVENUE</u>	\$579,943
<u>EXPENDITURES</u>	<u>573,517</u>
<u>NET OVER BUDGET</u>	<u>\$6,426</u>

CONTACTING THE ACADEMY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Academy's finances for all those with an interest in the Academy's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Rising Stars Academy, 23855 Lawrence, Centerline, MI 48015.

BASIC FINANCIAL STATEMENTS

RISING STARS ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2017

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	\$32,836
Due from Other Governmental Units	92,299
Capital Assets, Net of Accumulated Depreciation	<u>207,962</u>
<u>TOTAL ASSETS</u>	\$333,097
<u>LIABILITIES</u>	
Accounts Payable	25,868
Accrued Expenses	198
Salaries Payable	22,040
Non-Current Liabilities - Due Within One Year	4,332
Non-Current Liabilities - Due in More Than One Year	<u>13,349</u>
<u>TOTAL LIABILITIES</u>	\$65,787
<u>NET POSITION</u>	
Net Investment in Capital Assets	190,281
Unrestricted	<u>77,029</u>
<u>TOTAL NET POSITION</u>	<u>\$267,310</u>

See notes to the financial statements.

RISING STARS ACADEMY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenue Operating Grants and Contributions</u>	<u>Governmental Activities Net (Expense) Revenue & Change in Net Position</u>
Governmental Activities:			
Instruction	\$340,487	\$59,969	(\$280,518)
Support Services	225,308	0	(225,308)
Outgoing Transfers and Other Transactions	630	0	(630)
Food Service	36,918	26,171	(10,747)
Depreciation - Unallocated	28,209	0	(28,209)
<u>Total Governmental Activities:</u>	<u>\$631,552</u>	<u>\$86,140</u>	<u>(\$545,412)</u>
General Revenues:			
State Sources - Unrestricted			515,355
Other General Revenues			410
Total General Revenues and Transfers			<u>\$515,765</u>
Change in Net Position			<u>(\$29,647)</u>
Net Position - Beginning of Year			<u>296,957</u>
<u>Net Position - End of Year</u>			<u><u>\$267,310</u></u>

See notes to the financial statements.

RISING STARS ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	General Fund	Non-Major Food Service Fund	Total Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$32,836	\$0	\$32,836
Due from Other Funds	0	493	493
Due from Other Governmental Units	90,772	1,527	92,299
<u>TOTAL ASSETS</u>	<u>\$123,608</u>	<u>\$2,020</u>	<u>\$125,628</u>
<u>LIABILITIES</u>			
Accounts Payable	\$23,848	\$2,020	\$25,868
Due to Other Funds	493	0	493
Accrued Expenses	198	0	198
Salaries Payable	22,040	0	22,040
Total Liabilities	\$46,579	\$2,020	\$48,599
<u>FUND BALANCES</u>			
Unassigned	77,029	0	77,029
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$123,608</u>	<u>\$2,020</u>	<u>\$125,628</u>

See notes to the financial statements.

RISING STARS ACADEMY
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2017

Total Governmental Fund Balances: \$77,029

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental resources and therefore are not reported as assets in governmental funds.

Capital Assets	\$289,033	
Less: Accumulated Depreciation	(81,071)	
Capital Assets, Net of Accumulated Depreciation		207,962

Long-term liabilities, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Capital Lease Payable	(7,920)	
Installment Contract Payable	(9,761)	
Total Long-Term Liabilities		(17,681)

TOTAL NET POSITION -
GOVERNMENTAL ACTIVITIES \$267,310

RISING STARS ACADEMY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017

	General Fund	Non-Major Food Service Fund	Total Governmental Funds
<u>REVENUES</u>			
Local Sources	\$2	\$408	\$410
State Sources	513,883	1,472	515,355
Federal Sources	59,969	26,171	86,140
Total Revenues	<u>\$573,854</u>	<u>\$28,051</u>	<u>\$601,905</u>
<u>EXPENDITURES</u>			
Instruction	353,320	0	353,320
Support Services	225,308	0	225,308
Outgoing Transfers and Other Transactions	2,838	0	2,838
Food Services	0	36,918	36,918
Total Expenditures	<u>\$581,466</u>	<u>\$36,918</u>	<u>\$618,384</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(\$7,612)	(\$8,867)	(\$16,479)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In	0	8,867	8,867
Transfers Out	(8,867)	0	(8,867)
Loan Proceeds	10,000	0	10,000
Total Other Financing Sources (Uses)	<u>\$1,133</u>	<u>\$8,867</u>	<u>\$10,000</u>
Net Change in Fund Balance	(\$6,479)	\$0	(\$6,479)
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>83,508</u>	<u>0</u>	<u>83,508</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$77,029</u>	<u>\$0</u>	<u>\$77,029</u>

See notes to the financial statements.

RISING STARS ACADEMY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

Total net change in fund balances - governmental funds	(\$6,479)
--	-----------

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 is allocated over their estimated useful lives as depreciation expense.

Capital Outlay	\$12,833	
Depreciation Expense	(28,209)	
Total	(15,376)	(15,376)

Loan Proceeds	(10,000)
---------------	----------

Payments on Installment Contract	239
----------------------------------	-----

Payments on Capital Lease	1,969
---------------------------	-------

<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	(\$29,647)
--	------------

RISING STARS ACADEMY
NOTES TO FINANCIAL STATEMENTS

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

Reporting Entity

The Academy was formed as a charter school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended.

In July 2014, the Academy executed a contract with Centerline Public Schools to operate as a public school academy through June 30, 2017. 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 Centerline Public Schools Board of Education is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws.

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 Academy. Based on the application of the criteria, the Academy does not contain any component units.

Academy-wide and Fund Financial Statements

The Academy-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government. All of the Academy's activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Intergovernmental payments and other items not properly included among program revenue are reported instead as general revenue.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Amounts reported as program revenue include operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes unrestricted state aid.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Revenue not meeting this definition is classified as a deferred inflow of resources. For this purpose, the Academy considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

RISING STARS ACADEMY
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The Academy reports the following major governmental fund:

General Fund - The General Fund is the Academy's primary operating fund. It accounts for all financial resources of the Academy.

The Academy reports the following fund type:

Special Revenue Funds - Special revenue funds are used to segregate, for administrative purposes, the transactions of the School Academy's food service operations from General Fund revenue and expenditure accounts. The School Academy maintains full control of these funds. Any deficits generated by these activities are the responsibility of the General Fund. The main sources of revenue for these funds are food sales to pupils, free/reduced breakfast and lunch reimbursement from federal funds.

Assets, Liabilities, and Net Position or Equity

Receivables - The Academy considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. The entire balance of accounts receivable at June 30, 2017 is composed of amounts due from other governmental units.

Capital Assets - Capital assets, which include buildings and equipment, are reported in the governmental column in the Academy-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure-type assets.

Capital assets are depreciated using the straight-line method over the following useful lives:

Building improvements	20-50 years
Furniture and other equipment	5-10 years

Interfund Balances - On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the statement of net position.

Unearned Revenue - The Academy reports unearned revenue on its governmental funds balance sheet. Unearned revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when the Academy receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for unearned revenue is removed from the combined balance sheet and revenue is recognized.

RISING STARS ACADEMY
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The Academy does not have any of this type of item.

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 does not have any of this type of item.

Fund Balance - Fund balance classifications comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications are comprised of the following - nonspendable, restricted, committed, assigned, and unassigned.

In the fund financial statements, governmental funds report the following components of fund balance:

- * Nonspendable - Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- * Restricted - Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- * Committed - Amounts that have been formally set aside by the board of trustees for use for specific purposes. Commitments are made and can be rescinded only via resolution of the board of trustees.
- * Assigned - Intent to spend resources on specific purposes expressed by the board of trustees
- * Unassigned - Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been restricted, committed, or assigned to specific purposes in the General Fund.

Net Position - Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position are 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 or regulations of other governments.

Revenues - Program Revenues – Amounts reported as 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 requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

RISING STARS ACADEMY
NOTES TO FINANCIAL STATEMENTS

2) DEPOSITS AND INVESTMENTS

As of June 30, 2017, the Academy had no 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.

The Academy has designated all banks in Macomb County for the deposit of its funds.

Concentration of credit risk. The Academy will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Academy'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, 2017, \$0 of the Academy's bank balance of \$47,686 was exposed to custodial credit risk.

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.

Fair value measurement. The Academy is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the Academy's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

The asset or liability's fair measurement level with the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Academy does not have any investments subject to the fair value measurement.

RISING STARS ACADEMY
NOTES TO FINANCIAL STATEMENTS

3) RECEIVABLES

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	\$ 90,845
Federal Grants	1,454
 <u>TOTAL GOVERNMENTAL ACTIVITIES</u>	 <u>\$ 92,299</u>

4) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	<u>Balance Beginning</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance Ending</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
Furniture and Equipment	\$276,200	\$12,833	\$0	\$289,033
Less: Accumulated Depreciation	(52,862)	(28,209)	0	(81,071)
 <u>CAPITAL ASSETS - NET</u>	 <u>\$223,338</u>	 <u>(\$28,209)</u>	 <u>\$0</u>	 <u>\$207,962</u>

Depreciation expense was not charged to functions/programs of the primary government as the Academy considers its assets to impact multiple activities and allocation is not practical.

5) SHORT-TERM DEBT

The Academy has various options for short-term financing including tax anticipation notes, state aid anticipation notes and lines of credit. The Academy entered into no short-term financing arrangements during the fiscal year ended June 30, 2017.

6) GENERAL LONG-TERM DEBT

The Academy has a capital lease payable to American Capital with an outstanding balance at June 30, 2017 of \$7,920 that requires monthly payments of \$210 including interest at 6.1%. This lease matures December 2020 and is secured by a vehicle.

The Academy has an installment contract payable to American Capital with an outstanding balance at June 30, 2017 of \$9,761 that requires monthly payments of \$239 including interest at 6.8%. This loan matures May 2021 and is secured by a vehicle.

Future maturities are as follows:

	<u>Capital Lease</u>	<u>Installment Contract</u>	<u>Interest</u>	<u>Total</u>
June 30, 2018	\$2,093	\$2,239	\$1,051	\$5,383
June 30, 2019	2,225	2,426	732	5,383
June 30, 2020	2,365	2,596	422	5,383
June 30, 2021	1,237	2,500	146	3,883
 <u>TOTAL</u>	 <u>\$7,920</u>	 <u>\$9,761</u>	 <u>\$2,351</u>	 <u>\$20,032</u>

RISING STARS ACADEMY
NOTES TO FINANCIAL STATEMENTS

6) GENERAL LONG-TERM DEBT (Continued)

Changes in General Long-Term Debt

<u>Governmental Activities:</u>	Balance Beginning	Additions	Deductions	Balance Ending	Amount Due in One Year
Capital Lease	\$9,889	\$0	\$1,969	\$7,920	\$2,093
Installment Contract	0	10,000	239	9,761	2,239
<u>TOTAL</u>	<u>\$9,889</u>	<u>\$10,000</u>	<u>\$2,208</u>	<u>\$17,681</u>	<u>\$4,332</u>

7) INTERFUND ACTIVITY

Interfund balances at June 30, 2017 consisted of the following:

DUE TO	
DUE FROM	Food Service
General Fund	<u>\$493</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

8) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2017, consisted of the following:

TRANSFERS FROM	
TRANSFERS TO	General Fund
Food Services	<u>\$8,867</u>

Transfers are made to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

9) RISK MANAGEMENT

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for these claims and settled claims have not exceeded the amount of insurance coverage during the year.

REQUIRED SUPPLEMENTARY
INFORMATION

RISING STARS ACADEMY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Local Sources	\$100	\$100	\$2	(\$98)
State Sources	457,146	513,874	513,883	9
Federal Sources	47,164	59,969	59,969	0
Total Revenues	<u>\$504,410</u>	<u>\$573,943</u>	<u>\$573,854</u>	<u>(\$89)</u>
<u>EXPENDITURES</u>				
Instruction	328,380	351,690	353,320	(1,630)
Instructional Staff	500	500	440	60
General Administration	42,800	35,600	36,099	(499)
School Administration	20,394	68,934	69,654	(720)
Business Administration	24,900	26,400	25,787	613
Operation & Maintenance of Plant	69,700	75,650	75,172	478
Transportation	15,100	17,550	17,335	215
Support Services - Other	1,100	850	821	29
Total Expenditures	<u>\$502,874</u>	<u>\$577,174</u>	<u>\$578,628</u>	<u>(\$1,454)</u>
Excess of Revenues Over Expenditures	\$1,536	(\$3,231)	(\$4,774)	(\$1,543)
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers to Other Funds	0	(8,900)	(8,867)	33
Loan Proceeds	14,384	16,000	10,000	(6,000)
Principal and Interest	(2,200)	(3,800)	(2,838)	962
Total Other Financing Sources (Uses)	<u>\$12,184</u>	<u>\$3,300</u>	<u>(\$1,705)</u>	<u>(\$5,005)</u>
Net Change in Fund Balance	\$13,720	\$69	(\$6,479)	(\$6,548)
<u>FUND BALANCE - BEGINNING OF YEAR</u>			<u>83,508</u>	
<u>FUND BALANCE - END OF YEAR</u>			<u>\$77,029</u>	

RISING STARS ACADEMY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and Special Revenue Fund (Food Service). All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits Academies to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The School Academy increased/decreased budgeted amounts during the year in response to changes in funding and related expenditures.

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

During the year, Rising Stars Academy had the following expenditure budget variances.

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Instruction	\$351,690	\$353,320	(\$1,630)
General Administration	35,600	36,099	(499)
School Administration	68,934	69,654	(720)



October 31, 2017

**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***

Independent Auditor's Report

To the Board of Education of
Rising Stars Academy

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 Rising Stars Academy, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Rising Stars Academy's basic financial statements, and have issued our report thereon dated October 31, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Rising Stars 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 Rising Stars Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rising Stars 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.

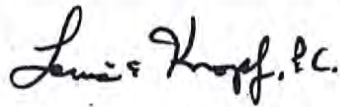
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rising Stars Academy'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Rising Stars Academy
Page 2
October 31, 2017

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.



LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS



October 31, 2017

To the Board of Education of
Rising Stars Academy

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Rising Stars Academy for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 5, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Rising Stars Academy are described in Note 1 to the financial statements. We noted no transactions entered into by the Academy during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the District's financial statements were:

The useful lives of its depreciable capital assets. Useful lives are estimated based on the expected length of time during which the asset is able to deliver a given level of service.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 31, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

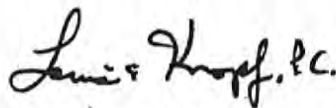
Other Matters

We applied certain limited procedures to required supplementary information (RSI) which are required and supplement the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of the Board of Education and management of Rising Stars Academy and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS



Lewis
& Knopf
CPAs, PC