

Audited Financial Statements

Hanley International Academy
Hamtramck, Michigan

June 30, 2016

CONTENTS

	<u>Page</u>
Independent Auditor’s Report	i – iii
Management’s Discussion and Analysis	iv - ix
Basic Financial Statements	
Statement of Net Position	1
Statement of Activities	2
Combined Balance Sheet – All Governmental Funds	3
Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities	4
Statement of Revenues, Expenditures and Changes in Fund Balance – All Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	6
Notes to Financial Statements	7 - 18
Supplemental Information	
Budgetary Comparison Schedule – General Fund	19
Schedule of Revenues – General Fund	20
Schedule of Expenditures – General Fund	21 - 22

CONTENTS – Continued

	<u>Page</u>
Appendix- Federal Awards Report	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	A-1 – A-2
Independent Auditor’s Report on Compliance For Each Major Program and On Internal Control Over Compliance Required by the Uniform Guidance	A-3 – A-4
Schedule of Expenditures of Federal Awards	A-5 – A-6
Reconciliation of Basic Financial Statements Federal Receivables and Revenue with Schedule of Expenditures of Federal Awards	A-7
Notes to Schedule of Expenditures of Federal Awards	A-8
Schedule of Findings and Questioned Costs	A-9 – A-10

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Hanley International Academy

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hanley International Academy, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Hanley International 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 judgement, 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 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 Hanley International Academy as of June 30, 2016, and the respective changes in financial position, thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages iv - ix and 19 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 Hanley International Academy's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, schedules of revenues and expenditures, and the schedules of expenditures of federal awards are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, schedules of revenues and expenditures, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2016, on our consideration of the Hanley International Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hanley International Academy's internal control over financial reporting and compliance.



Croskey Lanni, PC

Rochester, Michigan
October 27, 2016

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Hanley International Academy’s, annual financial report presents our discussion and analysis of the school’s financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the school’s financial statements, which immediately follow this section.

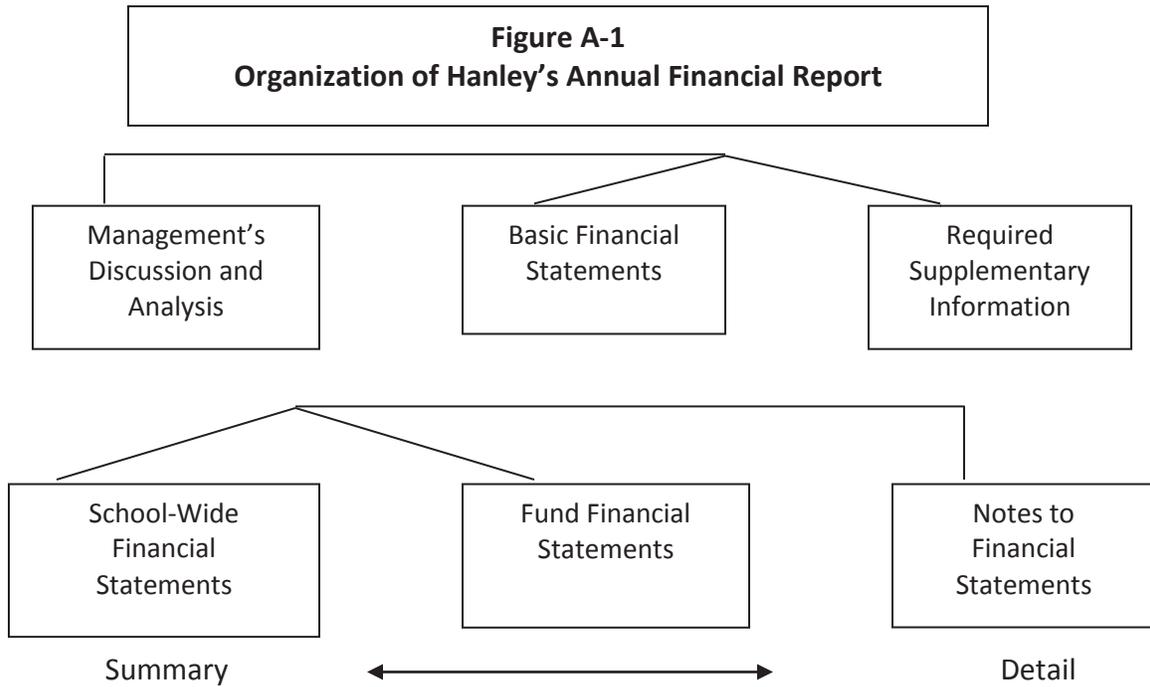
FINANCIAL HIGHLIGHTS

- ❖ The total cost of basic programs was \$2,321,679.
- ❖ General fund revenues were at \$6,251,784 while expenditures were \$5,294,002.
 - Blended enrollment used for state aid purposes was 651 students.
- ❖ The school has a positive General Fund balance of \$1,618,011.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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



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

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

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

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

SCHOOL-WIDE STATEMENTS

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

The two school-wide statements report the school’s net position and how they have changed. Net position – the difference between the school’s assets and liabilities – are one way to measure the school’s financial health or position.

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

FUND FINANCIAL STATEMENTS

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

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

The school has two kinds of funds:

- ❖ *Governmental funds* – Most of the school’s basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the school’s programs. Because this information does not encompass the additional long-term focus of the school-wide statements, we provide additional information with governmental funds statements that explains the relationship (or differences) between them.
- ❖ *Fiduciary funds* – The school is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the school-wide financial statements because the school cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

The school's financial position is the product of many factors.

School Governmental

The stability of the school's finances is a result of the following measures:

- ❖ Spending is controlled to insure that it aligns with revenues received from the State.

General Fund Budgetary Analysis

Over the course of the year, the school reviewed the annual operating budget monthly and amended the budget quarterly. All invoices were paid in a timely matter.

Financial Outlook

Hanley International Academy's financial forecast continues to be optimistic heading into the 2016/2017 school year.

- ❖ Enrollment is anticipated to remain constant for the 2016-2017 school year.

Table A-3
Hanley International Academy's Net Position

	2016	2015
Current and other assets	\$ 3,768,263	\$ 3,565,378
Capital assets	7,291,914	7,544,398
Total assets	<u>11,060,177</u>	<u>11,109,776</u>
Long-term debt outstanding	8,487,794	8,487,794
Other liabilities	1,531,756	1,725,935
Total liabilities	<u>10,019,550</u>	<u>10,213,729</u>
Net position	<u>\$ 1,040,627</u>	<u>\$ 896,047</u>

Table A-4
Changes in Hanley International Academy's Net Position

	2016	2015
Revenues:		
Program revenues:		
Charges for services	\$ 153,652	\$ 153,268
Federal and state operating grants	1,804,881	1,703,572
General revenues:		
State aid - unrestricted	4,784,621	5,371,443
Miscellaneous	52,809	16,709
	6,795,963	7,244,992
Total revenues		
Expenses:		
Instruction	3,184,134	3,520,143
Support services	2,595,001	2,607,422
Interest on long-term debt	606,407	621,525
Unallocated depreciation	265,841	285,346
	6,651,383	7,034,436
Total expenses		
Increase(decrease) in net position	\$ 144,580	\$ 210,556

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2016, the school had invested \$9,056,235 in capital assets, including equipment and a building. See table A-5 below for a listing of capital assets, and the accumulated depreciation.

Table A-5
Hanley International Academy's Capital Assets

	Balance June 30, 2016	Balance June 30, 2015
Land	\$ 927,817	\$ 927,817
Building	7,045,876	7,045,876
Equipment and furniture	549,563	544,803
Computers	532,979	524,382
	9,056,235	9,042,878
Subtotal		
Less: accumulated depreciation	1,764,321	1,498,480
Total net capital assets	\$ 7,291,914	\$ 7,544,398

FACTORS BEARING ON THE SCHOOL'S FUTURE

- Maintenance of current enrollment.
- Aligning expenditures with available revenue sources.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

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

The Romine Group 7877 Stead, Utica, MI 48317 (586)731-5300

HANLEY INTERNATIONAL ACADEMY

STATEMENT OF NET POSITION
JUNE 30, 2016
See Independent Auditor's Report

ASSETS AND DEFERRED OUTFLOWS

Current Assets

Cash and cash equivalents	\$ 880,973
Investments - restricted for debt service and capital projects	1,272,517
Accounts receivable	22,353
Due from other governmental units	1,575,539
Prepaid expenses	<u>16,881</u>
Total current assets	3,768,263

Capital Assets - Net of Accumulated Depreciation

7,291,914

Total assets and deferred outflows \$ 11,060,177

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

Current Liabilities

Accounts payable	\$ 328,743
Due to other governmental units	485,104
Other accrued expenses	717,909
Long-term debt - current portion	<u>180,000</u>
Total current liabilities	1,711,756

Long-Term Debt

8,307,794

Net Position

Net investment in capital assets	(1,195,880)
Restricted for debt services and capital projects	1,272,517
Unrestricted	<u>963,990</u>
Total net position	<u>1,040,627</u>
Total liabilities, deferred inflows and net position	<u>\$ 11,060,177</u>

See accompanying notes to financial statements

HANLEY INTERNATIONAL ACADEMY

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenues and Changes in Position</u>
		<u>Charges for Services</u>	<u>Operating Grants</u>	<u>Government Type Activities</u>
Functions				
Instruction				
Basic programs	\$ 2,321,679	\$ -	\$ 461,474	\$ (1,860,205)
Added needs	862,455	-	704,355	(158,100)
Support services				
Pupil support services	34,983	-	23,956	(11,027)
Instructional staff support services	50,515	-	40,250	(10,265)
General administration	732,551	-	-	(732,551)
School administration	527,155	-	-	(527,155)
Business support services	31,383	-	-	(31,383)
Operations and maintenance	448,327	-	8,718	(439,609)
Pupil transportation services	19,018	-	17,011	(2,007)
Central support services	221,298	-	-	(221,298)
Athletic activities	29,098	25,448	-	(3,650)
Food services	490,863	463	543,614	53,214
Community services	9,810	-	5,503	(4,307)
Unallocated depreciation	265,841	-	-	(265,841)
Unallocated interest	606,407	127,741	-	(478,666)
	<u>\$ 6,651,383</u>	<u>\$ 153,652</u>	<u>\$ 1,804,881</u>	<u>(4,692,850)</u>
General Purpose Revenues				
State school aid - unrestricted				4,784,621
Miscellaneous revenues				52,809
				<u>4,837,430</u>
Change in net position				144,580
Net position - July 1, 2015				<u>896,047</u>
Net position - June 30, 2016				<u>\$ 1,040,627</u>

See accompanying notes to financial statements

HANLEY INTERNATIONAL ACADEMY

COMBINED BALANCE SHEET – ALL GOVERNMENTAL FUNDS

JUNE 30, 2016

See Independent Auditor's Report

ASSETS

	General	Debt Service	Non-Major Special Revenue	Total
Cash and cash equivalents	\$ 716,774	\$ -	\$ 164,199	\$ 880,973
Investments	132,506	1,140,011	-	1,272,517
Accounts receivable	22,353	-	-	22,353
Due from other governmental units	1,575,539	-	-	1,575,539
Prepaid expenses	16,881	-	-	16,881
	<u>\$ 2,464,053</u>	<u>\$ 1,140,011</u>	<u>\$ 164,199</u>	<u>\$ 3,768,263</u>

LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE

Liabilities

Accounts payable	\$ 328,743	\$ -	\$ -	\$ 328,743
Due to other governmental units	-	485,104	-	485,104
Other accrued expenses	517,299	-	-	517,299
	<u>846,042</u>	<u>485,104</u>	<u>-</u>	<u>1,331,146</u>

Fund Balance

Nonspendable	16,881	-	-	16,881
Restricted	-	654,907	164,199	819,106
Unassigned	1,601,130	-	-	1,601,130
	<u>1,618,011</u>	<u>654,907</u>	<u>164,199</u>	<u>2,437,117</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 2,464,053</u>	<u>\$ 1,140,011</u>	<u>\$ 164,199</u>	<u>\$ 3,768,263</u>

See accompanying notes to financial statements

HANLEY INTERNATIONAL ACADEMY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES

JUNE 30, 2016

See Independent Auditor's Report

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

Total Governmental Fund Balances	\$ 2,437,117
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$9,056,235 and the accumulated depreciation is \$1,764,321.	7,291,914
Interest is not payable until due in governmental activities and, therefore, is not recorded in the funds.	(200,610)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(8,487,794)</u>
Net Position of Governmental Activities	<u><u>\$ 1,040,627</u></u>

See accompanying notes to financial statements

HANLEY INTERNATIONAL ACADEMY

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE – ALL GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

	General	Debt Service	Non-Major Special Revenue	Total
Revenues				
Local sources	\$ 205,896	\$ 102	\$ 463	\$ 206,461
State sources	5,482,381	-	4,480	5,486,861
Federal sources	563,507	-	539,134	1,102,641
Total governmental fund revenues	6,251,784	102	544,077	6,795,963
Expenditures				
Instruction				
Basic programs	2,321,679	-	-	2,321,679
Added needs	862,455	-	-	862,455
Support services				
Pupil support services	34,983	-	-	34,983
Instructional staff support services	50,515	-	-	50,515
General administration	732,551	-	-	732,551
School administration	527,155	-	-	527,155
Business support services	23,756	7,627	-	31,383
Operations and maintenance	448,327	-	-	448,327
Pupil transportation services	19,018	-	-	19,018
Central support services	221,298	-	-	221,298
Athletic activities	29,098	-	-	29,098
Food services	-	-	490,863	490,863
Community services	9,810	-	-	9,810
Capital outlay	13,357	-	-	13,357
Debt principal and interest	-	784,707	-	784,707
Total governmental fund expenditures	5,294,002	792,334	490,863	6,577,199
Excess (deficiency) of revenues over expenditures	957,782	(792,232)	53,214	218,764
Other Financing Sources (Uses)				
Operating transfers in	-	790,564	-	790,564
Operating transfers out	(790,564)	-	-	(790,564)
Total other financing sources (uses)	(790,564)	790,564	-	-
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	167,218	(1,668)	53,214	218,764
Fund balance - July 1, 2015	1,450,793	656,575	110,985	2,218,353
Fund balance - June 30, 2016	\$ 1,618,011	\$ 654,907	\$ 164,199	\$ 2,437,117

See accompanying notes to financial statements

HANLEY INTERNATIONAL ACADEMY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

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

Net Change in Fund Balances - Total Governmental Funds \$ 218,764

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation and amortization expense. This is the amount by which capital outlays exceeded depreciation and amortization in the current period

Capital outlay	\$ 13,357	
Depreciation and amortization expense	<u>(265,841)</u>	(252,484)

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

Repayment of loan principal	\$ 175,000	
Interest expense	<u>3,300</u>	<u>178,300</u>

Change in Net Position of Governmental Activities \$ 144,580

See accompanying notes to financial statements

HANLEY INTERNATIONAL ACADEMY

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

Hanley International Academy was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, and began operation in May 2005.

In June 2012, the Academy entered into a seven-year contract, expiring June 30, 2019, with Grand Valley State University's Board of Control to charter a public school academy. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State constitution. The University's Board of Control is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays Grand Valley State University's Board of Control three percent of state aid as administrative fees. Total administrative fees paid for the year ended June 30, 2016 were approximately \$143,600.

In June 2012, the Academy entered into a seven-year agreement with The Romine Group, Inc. Under the terms of this agreement, The Romine Group, Inc. provides a variety of services including financial management, educational programs and consulting, as well as teacher training. The Academy is obligated to pay The Romine Group, Inc. ten percent of its state school aid revenue and all other governmental revenue sources. The total paid for these services amounted to approximately \$564,300 for the year ended June 30, 2016.

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

Fund Financial Statements

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

HANLEY INTERNATIONAL ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Basis of Presentation – Fund Accounting

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

Governmental Funds

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

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

Special Revenue Fund - The special revenue fund is used to account for the food service program operations. The special revenue fund is a subsidiary operation and is an obligation of the general fund. Therefore any shortfall in the special revenue fund will be covered by an operating transfer from the general fund.

Debt Service Fund - The debt service fund is used to record certain revenue and the payment of interest, principal and other expenditures on long-term debt.

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

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

Activity (Agency) Fund - The Academy does not presently maintain an activity fund, which would be used to record the transactions of a student group for school and school-related purposes. The fund would be segregated and held in trust for the students.

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

HANLEY INTERNATIONAL ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

Government-Wide Financial Statements

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

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

HANLEY INTERNATIONAL ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

Cash and Cash Equivalents

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

Receivables

Receivables at June 30, 2016 consist primarily of state school aid due from the State of Michigan and the federal government. All receivables are expected to be fully collected in July and August of 2016 and are considered current for the purposes of these financial statements.

Prepaid Assets

Payments made to vendors for services that will benefit periods beyond June 30, 2016, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

HANLEY INTERNATIONAL ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital Assets and Depreciation

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

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

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

Accrued Liabilities and Long-Term Obligations

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

Deferred Inflows of Resources

In addition to liabilities, the statement of net 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 reports unavailable revenue under a modified accrual basis of accounting, as deferred inflow of resources in the governmental funds balance sheet. Revenues are considered unavailable if they are not received within 60 days of the Academy's year end.

Net Position

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

HANLEY INTERNATIONAL ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Equity

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

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

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

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

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

HANLEY INTERNATIONAL ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. The Academy is required by law to adopt a general fund budget. During the year ended June 30, 2016 the budget was amended in a legally permissible manner. During the year ended June 30, 2016 the Academy incurred expenditures that were in excess of the amounts appropriated, as detailed on page 19 of these financial statements.

NOTE 3 - DEPOSITS AND INVESTMENTS

As of June 30, 2016, the Academy had the following investments:

<u>Type</u>	<u>S&P Rating</u>	<u>Maturities</u>	<u>Carrying Value</u>
Deposits:			
Demand deposits			\$ 880,973
Investments:			
U.S. Treasury and agency obligations	AAAm	Various	<u>1,272,517</u>
Total deposits and investments			<u>\$ 2,153,490</u>

The above amounts are reported in the financial statements as follows:

Deposits:			
Cash - General fund			\$ 716,774
Cash - Special revenue fund			<u>164,199</u>
Total cash			880,973
Investments:			
Investments - General fund			132,506
Investments - Debt service fund			<u>1,140,011</u>
Total investments			<u>1,272,517</u>
Total deposits and investments			<u>\$ 2,153,490</u>

Cash is split between unrestricted and restricted amounts. General Fund and Debt Service Fund investments are restricted for use in servicing debt obligations.

HANLEY INTERNATIONAL ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

NOTE 3 - DEPOSITS AND INVESTMENTS - Continued

Interest Rate Risk

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

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2016, the Academy's investments were rated AAAM by Standards & Poor's and Aaa by Moody's Investors Service.

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. More than 5% of the Academy's investments are in pooled investment accounts which represents 100% of the Academy's total investments.

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, 2016, \$702,074 of the Academy's cash was exposed to custodial credit risk because it was uninsured. All cash balances were uncollateralized as of June 30, 2016.

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 District will do business.

Foreign Currency Risk

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

HANLEY INTERNATIONAL ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
 FOR THE YEAR ENDED JUNE 30, 2016
 See Independent Auditor's Report

NOTE 4 – DUE FROM OTHER GOVERNMENTAL UNITS

Amounts due from other governmental units consist of the following:

State sources	\$ 999,895
Federal sources	<u>575,644</u>
Total	<u><u>\$ 1,575,539</u></u>

NOTE 5 - CAPITAL ASSETS

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

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2016</u>
Capital assets not subject to depreciation				
Land	\$ 927,817	\$ -	\$ -	\$ 927,817
Capital assets subject to depreciation				
Building	7,045,876	-	-	7,045,876
Equipment	142,230	-	-	142,230
Furniture	402,573	4,760	-	407,333
Computer	<u>524,382</u>	<u>8,597</u>	<u>-</u>	<u>532,979</u>
Sub-total	9,042,878	13,357	-	9,056,235
Accumulated depreciation				
Building	671,080	176,147	-	847,227
Equipment	101,572	11,733	-	113,305
Furniture	271,256	33,554	-	304,810
Computer	<u>454,572</u>	<u>44,407</u>	<u>-</u>	<u>498,979</u>
Sub-total	<u>1,498,480</u>	<u>265,841</u>	<u>-</u>	<u>1,764,321</u>
Total net capital assets	<u><u>\$ 7,544,398</u></u>	<u><u>\$ (252,484)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 7,291,914</u></u>

Depreciation and amortization expense was not charged to activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

HANLEY INTERNATIONAL ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
 FOR THE YEAR ENDED JUNE 30, 2016
 See Independent Auditor's Report

NOTE 6 – ACCRUED EXPENSES

Accrued expenses can be summarized as follows:

	<u>Net Position</u>	<u>Funds</u>
Purchased services - payroll and benefits	\$ 327,987	\$ 327,987
Management fee	137,855	137,855
University oversight fee	26,112	26,112
Other accrued expenses	25,345	25,345
Interest	200,610	-
	<hr/>	<hr/>
Total accrued expenses	<u>\$ 717,909</u>	<u>\$ 517,299</u>

NOTE 7 - LONG-TERM OBLIGATIONS PAYABLE

The following is a summary of long-term obligations for the Academy during the year ended June 30, 2016:

Loan Information

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Other</u>
Revenue bond	6.125% - 9.0%	September, 2040	Twice yearly payments of principal and interest. Secured by facilities, funds held in trust, and a pledge for 20% of future State School Aid payments.

Loan Activity

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Retirements and Payments</u>	<u>Balance June 30, 2016</u>	<u>Due Within One Year</u>
Revenue bond	<u>\$ 8,710,000</u>	<u>\$ -</u>	<u>\$ 175,000</u>	8,535,000	<u>\$ 180,000</u>
Less unamortized discount				<u>47,206</u>	
				<u>\$ 8,487,794</u>	

HANLEY INTERNATIONAL ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

NOTE 7 - LONG-TERM OBLIGATIONS PAYABLE - Continued

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

	<u>Principal</u>	<u>Interest</u>
2017	\$ 180,000	\$ 591,781
2018	190,000	575,131
2019	195,000	557,806
2020	205,000	539,806
2021	215,000	520,906
2022 - 2026	1,205,000	2,302,881
2027 - 2031	1,505,000	1,738,134
2032 - 2036	2,005,000	1,189,934
2037 - 2041	2,835,000	471,778

NOTE 8 – OPERATING LEASES

Lease Information

	<u>Maturity Date</u>	<u>Approximate Payment</u>	<u>Other</u>
Bus leases (4)	June, 2018	\$200,000 yearly	Payable in 11 installments of \$18,180

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

2017	\$ 200,000
2018	200,000

Total lease expense included in the statement of activities for the year ended June 30, 2016 amounted to \$164,694.

NOTE 9 - RETIREMENT PLAN

All leased employees of the Academy are eligible to participate in a retirement plan established by the Academy's management company (the employer) which qualifies under the provisions of Section 401(k) of the Internal Revenue Code. The Academy, under this plan, will reimburse the employer's contribution of 4% of salaries regardless of the amount the employee contributes. The Academy will additionally reimburse the employer's match up to 4% of employee contributed funds. Eligible employees may contribute up to 15% of their salaries under the terms of this plan.

HANLEY INTERNATIONAL ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

NOTE 10 - INTERFUND TRANSFERS

During the normal course of the school year the Academy transferred amounts between its major funds as follows:

	<u>General</u>	<u>Debt Service</u>
Transfer In	\$ -	\$ 790,564
Transfer Out	790,564	-

As stipulated by the Academy's revenue bond agreement as described in Note 7, the Academy must transfer 20% of its state aid to a trustee. The trustee retains the required portion for debt service and returns the remainder to the Academy.

NOTE 11 - RISK MANAGEMENT

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

SUPPLEMENTAL INFORMATION

HANLEY INTERNATIONAL ACADEMY

REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor’s Report

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Local sources	\$ 192,414	\$ 212,983	\$ 205,896	\$ (7,087)
State sources	5,323,669	5,482,970	5,482,381	(589)
Federal sources	511,262	587,370	563,507	(23,863)
Total general fund revenues	6,027,345	6,283,323	6,251,784	(31,539)
Expenditures				
Instruction				
Basic programs	2,211,018	2,400,662	2,321,679	(78,983)
Added needs	906,170	863,017	862,455	(562)
Support services				
Pupil support services	35,764	35,500	34,983	(517)
Instructional staff support services	49,376	52,046	50,515	(1,531)
General administration	724,411	742,657	732,551	(10,106)
School administration	534,247	537,177	527,155	(10,022)
Business support services	46,000	31,000	23,756	(7,244)
Operations and maintenance	422,064	488,954	448,327	(40,627)
Pupil transportation services	-	30,800	19,018	(11,782)
Central support services	205,500	243,000	221,298	(21,702)
Athletic activities	21,150	31,900	29,098	(2,802)
Community services	1,000	10,312	9,810	(502)
Capital outlay	-	13,357	13,357	-
Total general fund expenditures	5,156,700	5,480,382	5,294,002	(186,380)
Excess (deficiency) of revenues over expenditures	870,645	802,941	957,782	154,841
Other Financing Sources (Uses)				
Operating transfers out	(766,801)	(794,977)	(790,564)	4,413
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	103,844	7,964	167,218	159,254
Fund balance - July 1, 2015	1,450,793	1,450,793	1,450,793	-
Fund balance - June 30, 2016	<u>\$ 1,554,637</u>	<u>\$ 1,458,757</u>	<u>\$ 1,618,011</u>	<u>\$ 159,254</u>

HANLEY INTERNATIONAL ACADEMY

SCHEDULE OF REVENUES – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2016 See Independent Auditor’s Report

Local Sources

Student activities	\$ 25,448
Other local revenues	<u>180,448</u>
Total local sources	205,896

State Sources

At risk	336,239
Great start readiness program	270,928
Special education	90,593
State aid	<u>4,784,621</u>
Total state sources	5,482,381

Federal Sources

IDEA	103,108
Title I	408,169
Title II A	23,222
Title III	20,456
Other program revenue	<u>8,552</u>
Total federal sources	<u>563,507</u>
Total general fund revenues	<u>\$ 6,251,784</u>

HANLEY INTERNATIONAL ACADEMY

SCHEDULE OF EXPENDITURES – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2016 See Independent Auditor’s Report

Basic Programs

Purchased services	\$ 2,120,088
Supplies and materials	174,054
Other expenditures	<u>27,537</u>
Total basic programs	2,321,679

Added Needs

Purchased services	811,025
Supplies and materials	<u>51,430</u>
Total added needs	862,455

Pupil Support Services

Social work services	34,983
----------------------	--------

Instructional Staff Support Services

Purchased services	43,772
Supplies and materials	<u>6,743</u>
Total instructional staff support services	50,515

General Administration

Purchased services	23,783
Management fees	564,264
University oversight	143,550
Other expenditures	<u>954</u>
Total general administration	732,551

School Administration

Purchased services	467,345
Supplies and materials	41,020
Other expenditures	<u>18,790</u>
Total school administration	527,155

HANLEY INTERNATIONAL ACADEMY

SCHEDULE OF EXPENDITURES – GENERAL FUND - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

Business Support Services

Purchased services	19,525
Other expenditures	4,231
	<hr/>
Total business support services	23,756

Operations and Maintenance

Purchased services	203,458
Repairs and maintenance	131,202
Supplies and materials	113,667
	<hr/>
Total operations and maintenance	448,327

Pupil Transportation Services

Purchased services	19,018
--------------------	--------

Central Support Services

Other expenditures	221,298
--------------------	---------

Athletic Activities

Purchased services	18,071
Supplies and materials	4,567
Other expenditures	6,460
	<hr/>
Total athletic activities	29,098

Community Services

Purchased services	9,810
--------------------	-------

Capital Outlay

	13,357
	<hr/>

Total general fund expenditures	<u><u>\$ 5,294,002</u></u>
---------------------------------	----------------------------

APPENDIX

Federal Awards

Supplementary Information

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

To the Board of Directors of Hanley International 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 the Hanley International Academy, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Hanley International Academy's basic financial statements, and have issued our report thereon dated October 27, 2016.

Internal Control over Financial Reporting

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

Purpose of this Report

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



Croskey Lanni, PC

Rochester, Michigan
October 27, 2016



David M. Croskey, CPA
Thomas B. Lanni, CPA
Carolyn A. Jones, CPA, CFP® MST
Clifton F. Powell Jr., CPA, CFP®, PFS
Roger J. DeJong, CPA
Patrick M. Sweeney, CPA
Leonard A. Geronemus, CPA, PFS

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

To the Board of Directors
of Hanley International Academy

Report on Compliance for Each Major Federal Program

We have audited the Hanley International Academy's 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 Hanley International Academy's major federal programs for the year ended June 30, 2016. Hanley International 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 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 Hanley International 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 audit 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 Hanley International 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 Hanley International Academy's compliance.

Opinion on Each Major Federal Program

In our opinion, Hanley International 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, 2016.

Report on Internal Control over Compliance

Management of Hanley International 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 Hanley International 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 Hanley International 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.



Croskey Lanni, PC

Rochester, Michigan
October 27, 2016

HANLEY INTERNATIONAL ACADEMY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Program Title/Project Number Subrecipient Name	Grant/ Project Number	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2015	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2016	Current Year Cash Transferred To Subrecipient
Clusters:										
Child Nutrition Cluster - U.S. Department of Agriculture -										
Passed through Michigan Department of Education:										
Noncash Assistance (Commodities) -										
National Lunch Program Commodities 2015-16	N/A	10.555	\$ 15,781	\$ -	\$ -	\$ -	\$ 15,781	\$ 15,781	\$ -	\$ -
Cash Assistance:										
National School Lunch Program 2014-2015	151960	10.555	318,326	314,873	14,704	-	14,704	-	-	-
National School Lunch Program 2015-2016	161960	10.555	323,999	-	-	-	323,999	341,217	17,218	-
National School Lunch Program (including commodities) Subtotal		10.555	658,106	314,873	14,704	-	354,484	356,998	17,218	-
National School Breakfast Program 2014-2015	151970	10.553	164,665	161,481	8,155	-	8,155	-	-	-
National School Breakfast Program 2015-2016	161970	10.553	170,819	-	-	-	170,819	182,136	11,317	-
National School Breakfast Program Subtotal		10.553	335,484	161,481	8,155	-	178,974	182,136	11,317	-
Total Child Nutrition Cluster			993,590	476,354	22,859	-	533,458	539,134	28,535	-
Special Education Cluster - U.S. Department of Ed. -										
Passed through the Wayne County RESA										
IDEA Flowthrough:										
IDEA Flowthrough 1415	151450	84.027A	11,774	103,928	103,928	-	111,774	7,846	-	-
IDEA Flowthrough 1516	161450	84.027A	95,262	-	-	-	-	95,262	95,262	-
Total Special Education Cluster			107,036	103,928	103,928	-	111,774	103,108	95,262	-

See accompanying notes to schedule of expenditures of federal awards

HANLEY INTERNATIONAL ACADEMY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued
FOR THE YEAR ENDED JUNE 30, 2016**

Program Title/Project Number Subrecipient Name	Grant/ Project Number	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2015	Adjustments and Transfers	Federal Funds/		Accrued (Deferred) Revenue at June 30, 2016	Current Year Cash Transferred To Subrecipient
							Payments In-kind Received	Expenditures		
Other federal awards:										
Passed through the Michigan Department of Education:										
Title I Part A:										
Title I Part A 1415	151530	84.010	466,557	397,176	397,176	-	397,176	-	-	-
Title I Part A 1516	161530	84.010	440,581	-	-	-	408,169	408,169	408,169	-
Total Title I Part A		84.010	907,138	397,176	397,176	-	397,176	408,169	408,169	-
Title III Limited English:										
Title III Limited English 1415	150580	84.365	25,948	25,948	25,948	-	25,948	-	-	-
Title III Limited English 1516	160580	84.365	20,456	-	-	-	20,456	20,456	20,456	-
Total Title III Limited English		84.365	46,404	25,948	25,948	-	25,948	20,456	20,456	-
Title II Part A - Improving Teacher Quality										
Title II Part A 1516	150520	84.367	40,284	36,767	36,767	-	36,767	-	-	-
Title II Part A 1516	160520	84.367	23,222	-	-	-	23,222	23,222	23,222	-
Total Title I Part A		84.367	63,506	36,767	36,767	-	36,767	23,222	23,222	-
Total noncluster programs passed through the Michigan Department of Education										
			1,017,048	459,891	459,891	-	459,891	451,847	451,847	-
Other federal awards (Continued):										
Passed through the Michigan Association of Public School Academies (MAPSA):										
T.E.A.M.S Grant:										
T.E.A.M.S Grant 1516	S385A100144	84.374	-	-	-	-	8,552	8,552	-	-
Total noncluster programs passed through the Michigan Association of Public School Academies										
			-	-	-	-	8,552	8,552	-	-
Total Federal Awards			<u>\$2,117,674</u>	<u>\$ 1,040,173</u>	<u>\$ 586,678</u>	<u>\$ -</u>	<u>\$1,113,675</u>	<u>\$1,102,641</u>	<u>\$ 575,644</u>	<u>\$ -</u>

See accompanying notes to schedule of expenditures of federal awards

HANLEY INTERNATIONAL ACADEMY

RECONCILIATION OF BASIC FINANCIAL STATEMENTS FEDERAL RECEIVABLES AND REVENUE WITH SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2016

Revenues to Expenditures

Revenue from federal sources - As reported on modified accrual financial statements
(includes all funds):

General Fund	\$ 563,507
Special Revenue Fund	<u>539,134</u>
Federal expenditures per the schedule of expenditures of federal awards	<u>\$ 1,102,641</u>

HANLEY INTERNATIONAL ACADEMY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of Hanley International Academy under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with 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). Because the Schedule presents only a selected portion of the operations of Hanley International Academy, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Hanley International Academy.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3 – INDIRECT COST RATE

Hanley International Academy has elected to not use the 10-percent *de minimis* indirect cost rate allowed under the Uniform Guidance.

NOTE 4 - NONCASH ASSISTANCE

The value of the noncash assistance received was determined in accordance with the provisions of Uniform Guidance.

NOTE 5 - GRANT AUDITOR'S REPORT

Management has utilized the Grant Auditor's report in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.

HANLEY INTERNATIONAL ACADEMY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2016

SECTION I - SUMMARY OF THE AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
 - Significant deficiency(ies) identified that are not considered to be a material weakness(es)? yes none reported
- Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be a material weakness(es)? yes none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
#10.553, 10.555	Child Nutrition Cluster
10.556 & 10.559	

Dollar threshold used to distinguish between Type A and Type B programs as described in 2 CFR section 200.518(b): \$ 750,000

Auditee qualified as low-risk auditee? yes no

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

HANLEY INTERNATIONAL ACADEMY

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2016

1) *Audit findings that have been fully corrected:*

Fiscal Year: 2015

Finding Number: 2015-001

Finding: The Academy was overcharged for meals by its food service vendor. The amounts did not agree with the approved contract.

Comments: The corrective action was taken.