

# **Creative Technologies Academy**

**Kent County, Michigan**

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**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT**

**Year Ended June 30, 2016**

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# Creative Technologies Academy

Kent County, Michigan

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June 30, 2016

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Creative Technologies Academy

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the major fund information of Creative Technologies Academy, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents. We did not audit the district's proportionate share of the net pension liability of the Michigan Public School Employees' Retirement System and the related transactions and disclosures. Those balances and disclosures were audited by the State of Michigan Office of the Auditor General whose report has been furnished to us, and our opinion, insofar as it related to the amounts included for the district, is based solely on the report of the State of Michigan Office of the Auditor General.

### **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 and the report of the State of Michigan Office of the Auditor General, 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 Creative Technologies Academy, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3–11 and 37 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 12, 2016, on our consideration of Creative Technology 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 Creative Technology Academy's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Douglas Wohlberg". The signature is written in a cursive style with a large, looping "D" and "W".

Douglas Wohlberg, CPA  
Byron Center, Michigan  
October 12, 2016

# Creative Technologies Academy

Kent County, Michigan

## Management's Discussion and Analysis

For the year ended June 30, 2016

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This section of Creative Technologies Academy's annual financial report presents our discussion and analysis of our financial performance during the year ended June 30, 2016. Please read it in conjunction with our basic financial statements, which immediately follow this section.

### Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Creative Technologies Academy financially as a whole. The Academy-wide financial statements provide information about the activities of our whole Academy, presenting both an aggregate view of our finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. 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 look at our operations in more detail than the Academy-wide financial statements by providing information about our most significant fund, the General Fund.

These financial statements are made up of the following elements:

- Management's Discussion and Analysis (MD&A) which is Required Supplemental Information.
- Basic Financial Statements which include the Academy-wide Financial Statements and the Fund Financial Statements.
- Notes to the Basic Financial Statements.
- Required Supplemental Information which include the Budgetary Information for Major Fund and pension plan information.

### Reporting the Academy as a Whole - Academy-wide Financial Statements

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in our financial statements, report information on our Academy as a whole and our activities in a way that helps answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report our net position - the difference between assets and liabilities, as reported in the statement of net position - as one way to measure our financial health or financial position. Over time, increases or decreases in our net position - as reported in the statement of activities - are indicators of whether our financial health is improving or deteriorating. The relationship between revenues and expenses is our operating results. However, our goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of our school, to assess the overall health of our Academy.

The statement of net position and the statement of activities report the governmental activities for our Academy, which encompass all of our services, including instruction, support services, community services, and food services. Unrestricted state aid (foundation allowance revenue) and state and federal grants finance most of these activities.

# Creative Technologies Academy

Kent County, Michigan

## Management's Discussion and Analysis

For the year ended June 30, 2016

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### **Reporting the Academy's Most Significant Funds - Fund Financial Statements**

Our fund financial statements provide detailed information about the most significant funds - not our Academy as a whole. Some funds are required to be established by state law and by bond covenants. However, we can establish many other funds to help us control and manage money for particular purposes or to show that we are meeting legal responsibilities for using grants and other money. The governmental funds use the following accounting approach:

Governmental Funds - All of our services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of our Academy and the services we provide. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance our programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in a reconciliation.

# Creative Technologies Academy

Kent County, Michigan

## Management's Discussion and Analysis

For the year ended June 30, 2016

### The Academy as a Whole

Recall that the statement of net position provides the perspective of our Academy as a whole. Table 1 provides a summary of net position as of June 30, 2016 and 2015:

Table 1

	2016	2015
<b>Assets</b>		
Current assets	\$ 650,841	\$ 711,347
Capital assets	2,144,395	2,212,143
<b>Total assets</b>	<b>2,795,236</b>	<b>2,923,490</b>
<b>Deferred outflows of resources</b>	<b>381,612</b>	<b>356,972</b>
<b>Liabilities</b>		
Current liabilities	294,562	316,160
Long-term liabilities	4,562,388	4,185,494
<b>Total liabilities</b>	<b>4,856,950</b>	<b>4,501,654</b>
<b>Deferred inflows of resources</b>	<b>262,975</b>	<b>334,717</b>
<b>Net Position</b>		
Net investment in capital assets	1,131,604	1,054,381
Unrestricted	(3,074,681)	(2,610,290)
<b>Total net position</b>	<b>\$ (1,943,077)</b>	<b>\$ (1,555,909)</b>

The above analysis focuses on the net position (see Table I). The change in net position (see Table 2) of our Academy's governmental activities is discussed below. Our net position was a deficit of \$1,943,077 at June 30, 2016. Capital assets, net of related debt totaling \$1,131,604, compares the original cost, less depreciation of our capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from General Fund revenue as the debt service comes due.

The \$3,074,681 deficit in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. This deficit is the result of the State of Michigan not funding the defined benefit pension system for school employees state-wide.

# Creative Technologies Academy

Kent County, Michigan

## Management's Discussion and Analysis

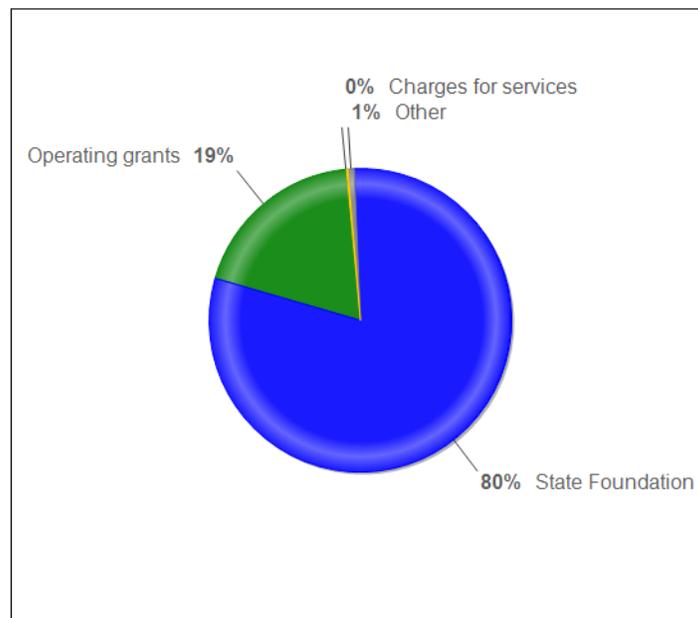
For the year ended June 30, 2016

The results of this year's operations for our Academy as a whole are reported in the statement of activities (Table 2), which shows the changes in net position for fiscal years 2016 and 2015.

**Table 2**

	2016	% of Total	2015	% of Total
<b>General Revenues</b>				
State aid, unrestricted	\$ 2,115,963	80.0 %	\$ 2,052,217	76.0 %
Other	19,554	0.7 %	125,552	4.7 %
<b>Total General Revenues</b>	<b>2,135,517</b>	<b>80.7 %</b>	<b>2,177,769</b>	<b>80.7 %</b>
<b>Program Revenues</b>				
Charges for services	2,117	0.1 %	2,386	0.1 %
Operating grants - Federal and State	508,052	19.2 %	518,808	19.2 %
<b>Total revenues</b>	<b>2,645,686</b>	<b>100.0 %</b>	<b>2,698,963</b>	<b>100.0 %</b>
<b>Expenses</b>				
Instruction	1,638,637	54.0 %	1,318,268	47.8 %
Support services	1,200,142	39.6 %	1,234,029	44.7 %
Food services	44,628	1.5 %	37,586	1.4 %
Athletics	14,728	0.5 %	20,320	0.7 %
Interest on long-term debt	49,543	1.6 %	53,125	1.9 %
Depreciation (unallocated)	85,173	2.8 %	95,184	3.5 %
<b>Total expenses</b>	<b>3,032,851</b>	<b>100.0 %</b>	<b>2,758,512</b>	<b>100.0 %</b>
<b>Increase (decrease) in Net Position</b>	<b>\$ (387,165)</b>		<b>\$ (59,549)</b>	

**Revenue by Source**



# Creative Technologies Academy

Kent County, Michigan

## Management's Discussion and Analysis

For the year ended June 30, 2016

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As reported in the statement of activities, the cost of all of our governmental activities this year was \$3,032,851. Certain activities were partially funded by those who benefited from the programs, or by other governments and organizations that subsidized certain programs with grants and contributions, such as state restricted revenues or Act 18 Special Education revenue. We paid for the remaining "public benefit" portion of our governmental activities with \$2,115,963 in state foundation allowance, and with our other revenues, i.e., interest and general entitlements.

We experienced a decrease in net position of \$387,165. This occurred largely because of the expenses for the defined benefit pension plan.

As discussed above, the net cost shows the financial burden that was placed on the Academy by each of these functions. Since unrestricted state aid constitutes the vast majority of our operating revenue sources, the board of directors and administration must annually evaluate our needs and balance those needs with state-prescribed available unrestricted resources.

### The Academy's Funds

As we noted earlier, we use funds to help us control and manage money for particular purposes. Looking at funds helps the reader consider whether we are being accountable for the resources the State and others provide to us and may provide more insight into our overall financial health.

As we completed this year, the General Fund reported a fund balance of \$356,279, which is a decrease of \$38,908 from last year. This change is solely the result of our principal operating fund, the General Fund, and debt retirement.

General Fund fund balance is available to fund costs related to allowable school operating purposes.

### General Fund Budgetary Highlights

Over the course of the year, we revised the budget as we attempted to deal with unexpected changes in revenues and expenditures. Our authorizer, Ferris State University, encourages its academies to budget a surplus of 3 percent to 5 percent in the event that there are unexpected expenses such as a natural disaster, fire, legal costs, or a reduction in state aid. (In the future, each academy may designate part of the surplus, if it is not needed for the unexpected event, for debt reduction.) After the academies have operated for several months without any of these events occurring, the academies can then begin to increase the budgeted expense accounts, using those budgeted surpluses for academic programs and other enrichments. If, on the other hand, the surplus is needed for the unexpected, state law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. A schedule showing our original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these basic financial statements.

There were revisions made to our 2015-2016 General Fund original budget. Budgeted revenues were increased by approximately \$35,000 to reflect increases in expected local revenues and state revenues over the original budget. Budgeted expenditures were increased by approximately \$90,000 to reflect changes in programs.

There were no significant variances between the final budget and actual amounts.

# Creative Technologies Academy

Kent County, Michigan

## Management's Discussion and Analysis

For the year ended June 30, 2016

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### Capital Assets and Debt Administration

#### Capital Assets

During the year the Academy purchased over \$17,000 for new computer equipment to replace aging computer equipment.

As of June 30, 2016, we had \$2,144,395 invested in a broad range of capital assets, including land, land improvements, buildings, building improvements, transportation equipment, furniture, and equipment. This amount represents a net decrease (including additions and depreciation) of \$67,748.

	<b>2016</b>	<b>2015</b>
Land	\$ 75,000	\$ 75,000
Buildings	1,925,960	1,989,269
Land improvements	20,611	22,815
Equipment and furnishings	95,293	108,778
Computers and software	27,531	16,281
<b>Total</b>	<b>\$ 2,144,395</b>	<b>\$ 2,212,143</b>

No major capital projects are planned for the 2016-2017 fiscal year. We anticipate capital additions will be comparable to the 2015-2016 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

# Creative Technologies Academy

Kent County, Michigan

## Management's Discussion and Analysis

For the year ended June 30, 2016

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### Debt Administration

The Academy has a commercial real estate loan with Lake Michigan Credit Union. At the end of this year, the balance of that loan was \$1,097,964 versus \$1,157,762 in the previous year - a decrease of \$59,798 or approximately 5.2 percent.

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	2016	2015
Commercial Real Estate Loan payable to a credit union, collateralized by land and buildings, due in monthly installments of \$9,112 through August 2021. The monthly installments include interest at 4.25 percent. A final payment is due on September 21, 2021 of approximately \$747,820.	\$ 1,097,964	\$ 1,157,762

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We do not have any liabilities for compensated absences. More detailed information about our long-term liabilities is presented in the notes to the financial statements.

# Creative Technologies Academy

Kent County, Michigan

## Management's Discussion and Analysis

For the year ended June 30, 2016

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### Economic Factors and Next Year's Budgets and Rates

Our board of directors and administration consider many factors when setting the 2017 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2017 fiscal year is 10 percent and 90 percent of the February 2016 and September 2016 student counts, respectively. The 2017 budget was adopted in June 2016, based on an estimate of students who will be enrolled in September 2016. Approximately 80 percent of total General Fund revenue is from the foundation allowance. As a result, our funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2017 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2017 budget. Once the final student count and related per pupil funding are validated, state law requires us to amend the budget if actual resources are not sufficient to fund original appropriations.

Since our revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenue to fund its appropriation to academies. The State periodically holds a revenue-estimating conference to estimate revenue. If a future revenue-estimating conference determines funds are not sufficient to fund the appropriation, the legislature must revise the appropriation, which may include a proration of state aid to all school districts and academies.

The Academy's management has refinanced its various long-term debt contracts into one issue with Lake Michigan Credit Union. This action will simplify the administration of the long-term debt and is expected to improve the Academy's cash flow by approximately \$100,000 per year.

# Creative Technologies Academy

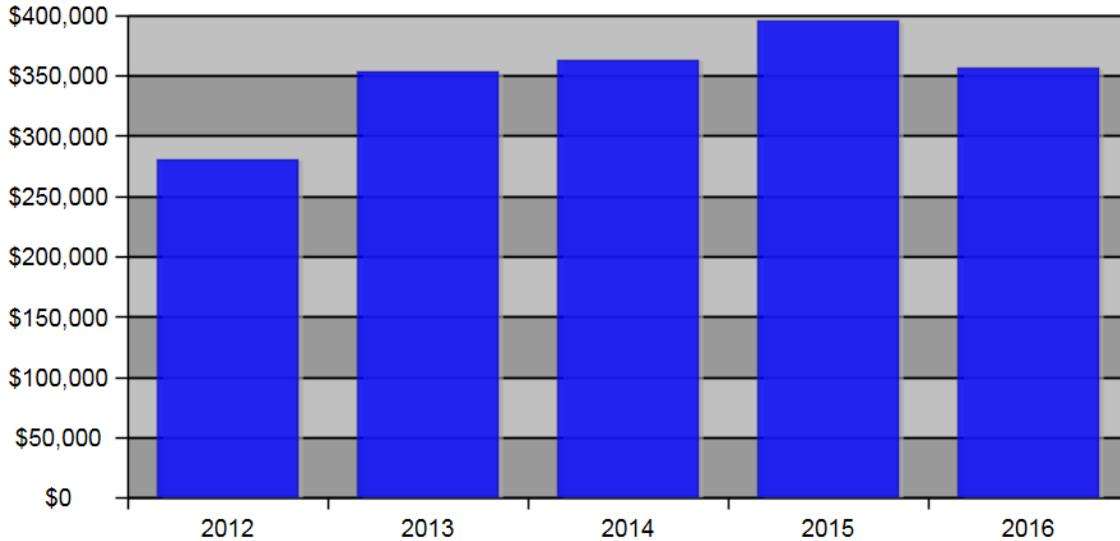
Kent County, Michigan

## Management's Discussion and Analysis

For the year ended June 30, 2016

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Following is a graph of the fund balance trend of the General Fund.



### Contacting the Academy's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the Academy's finances. If you have questions about this report or need additional information, contact the Creative Technologies Academy Business Office.

## **BASIC FINANCIAL STATEMENTS**

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# Creative Technologies Academy

Kent County, Michigan

## Statement of Net Position

June 30, 2016

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and investments	\$ 192,067
Accounts receivable (net)	455,137
Prepaid expenses	3,637
Capital assets less accumulated depreciation of \$931,347	2,144,395
<b>Total assets</b>	<b>2,795,236</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension plan changes in assumptions	176,393
Pension contributions subsequent to measurement date	205,219
<b>Total deferred outflows of resources</b>	<b>381,612</b>
<b>LIABILITIES</b>	
Accounts payable	93,015
Accrued payroll and other liabilities	196,547
Deferred revenue	5,000
Long-term liabilities:	
Due within one year	62,269
Due in more than one year	1,035,695
Net pension liability	3,464,424
<b>Total liabilities</b>	<b>4,856,950</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension plan earnings differences from projections	262,975
<b>NET POSITION</b>	
Investment in capital assets, net of related debt	1,131,604
Unrestricted	(3,074,681)
<b>Total net position</b>	<b>\$ (1,943,077)</b>

The Notes to Financial Statements are an integral part of this statement.

# Creative Technologies Academy

Kent County, Michigan

## Statement of Activities

For the year ended June 30, 2016

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for services	Operating grants and contributions	Governmental activities
<b>Functions/Programs:</b>				
Governmental activities:				
Instruction	\$ 1,638,637	\$ -	\$ 498,766	\$ (1,139,871)
Support services	1,200,142	-	9,286	(1,190,856)
Food service	44,628	2,117	-	(42,511)
Athletics	14,728	-	-	(14,728)
Interest on long-term debt	49,543	-	-	(49,543)
Depreciation (unallocated)	85,173	-	-	(85,173)
<b>Total governmental activities</b>	<b>\$ 3,032,851</b>	<b>\$ 2,117</b>	<b>\$ 508,052</b>	<b>(2,522,682)</b>
General revenues:				
State of Michigan aid, unrestricted				2,115,963
Interest and investment earnings				810
Other revenues				18,744
<b>Total general revenues</b>				<b>2,135,517</b>
Change in net position				(387,165)
Net position-beginning				(1,555,912)
Net position-ending				\$ (1,943,077)

The Notes to Financial Statements are an integral part of this statement.

# Creative Technologies Academy

Kent County, Michigan

Governmental Funds

Balance Sheet

June 30, 2016

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<b>General Fund</b>	
<b>ASSETS</b>	
Cash and investments	\$ 192,067
Accounts receivable (net)	455,137
Prepaid expenditures	3,637
<b>Total assets</b>	<b>\$ 650,841</b>
<b>LIABILITIES</b>	
Accounts payable	\$ 67,573
Accrued payroll and other liabilities	158,372
Deferred revenue	5,000
Due to other governmental units	63,617
<b>Total liabilities</b>	<b>294,562</b>
<b>FUND BALANCES</b>	
Nonspendable	3,637
Unassigned	352,642
<b>Total fund balances</b>	<b>356,279</b>
<b>Total liabilities and fund balances</b>	<b>\$ 650,841</b>

The Notes to Financial Statements are an integral part of this statement.

# Creative Technologies Academy

Kent County, Michigan

## Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position

June 30, 2016

Total fund balances - total governmental funds	\$	356,279
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 in the funds.		2,144,395
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. Balances at June 30, 2016 were:		
The commercial real estate loan is not due and payable in the current period, and, therefore, is not reported in the funds.		(1,097,964)
The net pension liability is not due and payable in the current period and, therefore, is not reported in the funds.		(3,464,424)
The pension expense reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds.		381,612
The net difference between the projected and actual pension plan investment earnings is recorded as deferred inflows of resources on the statement of net position, but not on the balance sheet of the funds.		(262,975)
Total net position - governmental activities	\$	(1,943,077)

The Notes to Financial Statements are an integral part of this statement.

# Creative Technologies Academy

Kent County, Michigan

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

For the year ended June 30, 2016

<b>General Fund</b>	
<b>REVENUES</b>	
Local sources	\$ 21,671
State sources	2,408,114
Federal sources	77,606
Intermediate sources	138,296
<b>Total revenues</b>	<b>2,645,687</b>
<b>EXPENDITURES</b>	
Current:	
Instruction	1,315,870
Support services	1,198,052
Student activities	1,974
Athletics	14,728
Food service	44,628
Debt service:	
Principal	59,800
Interest	49,543
<b>Total expenditures</b>	<b>2,684,595</b>
<b>Net change in fund balances</b>	<b>(38,908)</b>
<b>Fund balances-beginning</b>	<b>395,187</b>
<b>Fund balances-ending</b>	<b>\$ 356,279</b>

The Notes to Financial Statements are an integral part of this statement.

# Creative Technologies Academy

Kent County, Michigan

## Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the year ended June 30, 2016

Net change in fund balances - total governmental funds	\$	(38,908)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statements of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the capital outlays exceeded depreciation expense in the current period.		(67,748)
Repayments of note and lease principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).		59,800
Governmental funds report pension contributions as expenditures. However, in the statements of activities, the pension expense is determined by the pension plan. This is the amount by which the pension expense exceeded the contributions.		(340,309)
<b>Change in net position of governmental activities</b>	<b>\$</b>	<b>(387,165)</b>

The Notes to Financial Statements are an integral part of this statement.

# Creative Technologies Academy

Kent County, Michigan

Fiduciary Fund

Statement of Fiduciary Assets and Liabilities

June 30, 2016

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	<b>Student Activities Agency Fund</b>	
<b>ASSETS</b>		
Cash and cash equivalents	\$	12,331
<hr/>		
<b>LIABILITIES</b>		
Due to student groups	\$	12,331
<hr/>		

The Notes to Financial Statements are an integral part of this statement.

# Creative Technologies Academy

Kent County, Michigan

Notes to Financial Statements

June 30, 2016

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## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Creative Technologies 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.

### **A. 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.

On July 1, 2007, the Academy renewed a seven-year contract with the Ferris State University Board of Trustees 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 aid funds pursuant to the State Constitution. The Ferris State University Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Ferris State University Board of Trustees 3 percent of the state aid foundation allowance as administrative fees. The total administrative fees for the year ended June 30, 2016 paid to the Ferris State University Board of Trustees were approximately \$64,000.

The accompanying basic 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 application of the criteria, the Academy does not contain component units.

### **B. 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 nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy's academy-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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 and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the academy-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

# Creative Technologies Academy

Kent County, Michigan

## Notes to Financial Statements

June 30, 2016

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### C. 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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the academy-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenues include all taxes and 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. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, 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 revenues of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Academy.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The Academy reports the following major governmental funds:

**General Fund** - The General Fund is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

Additionally, the Academy reports the following fund type:

**Fiduciary Fund** - The Agency Fund is used to account for assets held by the Academy in a trustee capacity for individuals or school-related organizations. The Agency Fund is custodial in nature and does not involve measurement of results of operations.

When both restricted and unrestricted resources are available for use, it is the Academy's policy to use restricted resources first, then unrestricted resources as they are needed.

# Creative Technologies Academy

Kent County, Michigan

## Notes to Financial Statements

June 30, 2016

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### D. Assets, Liabilities, and Net Assets or Equity

**Cash and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The Academy considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are billed on December 1. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

**Inventories** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. The Food Service Fund inventory consists of food and paper goods.

**Capital Assets** - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the academy-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$10,000. 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.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Land improvements	20 years
Transportation equipment	20 years
Furniture and other equipment	5-20 years
Computers and software	5 years

**Deferred outflows/inflows of resources**--In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

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 Village has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from two sources: property taxes and state grants. These amounts are deferred and recognized as inflow of resources in the period that the amounts become available.

**Compensated Absences** - The liability for compensated absences reported in the academy-wide statements consists of earned but unused accumulated vacation and sick leave benefits. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

**Long-term Obligations** - In the entity-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

# Creative Technologies Academy

Kent County, Michigan

## Notes to Financial Statements

June 30, 2016

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Net Position and Fund Equity - The difference between fund assets and liabilities is "Net Position" on the government-wide and fiduciary fund statements and "Fund Balance" on governmental fund statements. Net Position are classified as "Invested in Capital Assets, Net of Related Debt," legally "Restricted" for a specific purpose, or "Unrestricted" and available for appropriation for the general purposes of the fund. In governmental fund financial statements, fund balances are classified as follows:

- Nonspendable--Amounts that cannot be spent either because they are a) not in spendable form or; b) legally or contractually required to be maintained intact.
- Restricted--Amounts with constraints placed on the use of resources are either a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.
- Committed--Amounts that can be used only for specific purposes determined by a formal action by Board of Directors resolution, and that remain binding unless removed in the same manner.
- Assigned--Amounts neither restricted nor committed for which a Academy has a stated intended use as established by the Board of Directors or a body or official to which the Board of Directors has delegated the authority to assign amounts for specific purposes.
- Unassigned--Amounts that cannot be properly classified in one of the other four categories. The General Fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include negative balances in the governmental funds reporting resources restricted for specific programs.

Use of Restricted Resources - When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Academy's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the Academy's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications - committed and then assigned fund balances before using unassigned fund balances.

Use of Estimates - The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of the following: assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

### E. Pension

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

# Creative Technologies Academy

Kent County, Michigan

Notes to Financial Statements

June 30, 2016

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## **NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for the General and Special Revenue Funds. 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 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 budgets were amended in a legally permissible manner.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts, etc.) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Excess of Expenditures Over Appropriations in Budgeted Funds - For the year ended June 30, 2016, expenditures exceeded appropriations in the following departments (the legal level of budgetary control).

	<b>Final Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>% Variance</b>
General Fund				
Added needs	\$ 316,179	\$ 320,453	\$ 4,274	1 %
Pupil services	78,311	83,439	5,128	7 %
Central support services	188,456	189,533	1,077	1 %

# Creative Technologies Academy

Kent County, Michigan

Notes to Financial Statements

June 30, 2016

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## **NOTE 3 - DEPOSITS AND INVESTMENTS**

State statutes and the Academy's investment policy authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Academy is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investments pools that are composed of authorized investment vehicles. The Academy's deposits are in accordance with statutory authority.

Deposits are carried at cost. The academy has designated one bank and one credit union for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Academy's deposits and investment policy are in accordance with statutory authority.

At year end, the Academy's deposits and investments were reported in the basic financial statements in the following categories:

	<b>Governmental Activities</b>	<b>Fiduciary Funds</b>	<b>Total Primary Government</b>
Cash and cash equivalents	\$ 211,837	\$ 12,331	\$ 224,168

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy does not have a deposit policy for custodial credit risk of bank deposits. At year end, the bank balance of the Academy's deposits (checking and money market funds) is \$224,168, of that balance \$224,168 is insured by federal depository insurance and the National Credit Union Administration. The Academy's deposits are all insured.

# Creative Technologies Academy

Kent County, Michigan

Notes to Financial Statements

June 30, 2016

## **NOTE 4 - CAPITAL ASSETS**

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

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Land	\$ 75,000	\$ -	\$ -	\$ 75,000
Capital assets being depreciated:				
Buildings	2,566,085	-	-	2,566,085
Land improvements	69,985	-	-	69,985
Equipment and furnishings	269,078	-	-	269,078
Computers and software	78,169	17,425	-	95,594
<b>Total capital assets being depreciated</b>	<b>2,983,317</b>	<b>17,425</b>	<b>-</b>	<b>3,000,742</b>
Less accumulated depreciation for:				
Buildings	576,816	63,309	-	640,125
Land improvements	47,170	2,204	-	49,374
Equipment and furnishings	160,300	13,485	-	173,785
Computers and software	61,888	6,175	-	68,063
<b>Total accumulated depreciation</b>	<b>846,174</b>	<b>85,173</b>	<b>-</b>	<b>931,347</b>
<b>Net capital assets</b>	<b>\$ 2,212,143</b>	<b>\$ (67,748)</b>	<b>\$ -</b>	<b>\$ 2,144,395</b>

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

# Creative Technologies Academy

Kent County, Michigan

## Notes to Financial Statements

June 30, 2016

### **NOTE 5 - LONG-TERM DEBT**

The Academy issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General Obligation Bonds are direct obligations and pledge the full faith and credit of the Academy.

The following is a summary of long-term debt transactions for the year ended June 30, 2016:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Governmental activities					
Commercial Real Estate Loan	\$ 1,157,764	\$ -	\$ 59,800	\$ 1,097,964	\$ 62,269

The annual requirement to amortize long-term debt outstanding as of June 30, 2016 follows:

<b>Year ended June 30,</b>	<b>Governmental Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 62,269	\$ 47,074	\$ 109,343
2018	65,065	44,278	109,343
2019	67,986	41,357	109,343
2020	71,039	38,304	109,343
2021	74,228	35,115	109,343
2022	757,377	8,264	765,641
Totals	\$ 1,097,964	\$ 214,392	\$ 1,312,356

Long-term note obligations were comprised of the following:

Commercial Real Estate Loan payable to a credit union, collateralized by land and buildings, due in monthly installments of \$9,112 through August 2021. The monthly installments include interest at 4.25 percent. A final payment is due on September 21, 2021 of approximately \$747,820.

\$ 1,097,964

### **NOTE 6 - 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 all claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

# Creative Technologies Academy

Kent County, Michigan

Notes to Financial Statements

June 30, 2016

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## **NOTE 7 - GENERAL INFORMATION ABOUT THE MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION PLAN**

### **Plan Description**

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

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

The System's financial statements are available at [www.michigan.gov/mpsers-cafr](http://www.michigan.gov/mpsers-cafr).

### **Benefits Provided**

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Retirement benefits for DB plan members are determined by final average compensation and years of service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

# Creative Technologies Academy

Kent County, Michigan

## Notes to Financial Statements

June 30, 2016

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### Contributions and Funded Status

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2015 valuation will be amortized over a 21 year period for the 2015 fiscal year.

The schedule below summarizes pension contribution rates in effect for fiscal year 2015.

Pension Contribution Rates		
<u>Benefit Structure</u>	<u>Member</u>	<u>Employer</u>
Basic	0.0 - 4.0 %	22.52 - 23.07 %
Member Investment Plan	3.0 - 7.0	22.52 - 23.07
Pension Plus	3.0 - 6.4	21.99
Defined Contribution	0.0	17.72 - 18.76

Required contributions to the pension plan from Creative Technologies Academy were \$273,626 for the year ended September 30, 2015.

# Creative Technologies Academy

Kent County, Michigan

## Notes to Financial Statements

June 30, 2016

### Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, Creative Technologies Academy reported a liability of \$3,464,424 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2014. Creative Technologies Academy's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2015, Creative Technologies Academy's proportion was 0.01418391% percent, which was an increase of 3.09% percent from its proportion measured as of September 30, 2014.

For the year ended June 30, 2016, Creative Technologies Academy recognized pension expense of \$314,919. At June 30, 2016, Creative Technologies Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ -	\$ 11,475
Changes of assumptions	85,301	-
Net difference between projected and actual earnings on pension plan investments	17,683	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	82,127	-
Employer contributions subsequent to the measurement date	205,220	-
<b>Total</b>	<b>\$ 390,331</b>	<b>\$ 11,475</b>

\$205,220 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Deferred (Inflows) and Deferred Outflow of Resources by Year (to Be Recognized in Future Pension Expenses)</b>	
2016	\$ 31,823
2017	31,823
2018	27,197
2019	82,793

# Creative Technologies Academy

Kent County, Michigan

## Notes to Financial Statements

June 30, 2016

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### Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

### Summary of Actuarial Assumptions

Valuation Date:	September 30, 2014
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return:	
- MIP and Basic Plans (Non-Hybrid):	8.0%
- Pension Plus Plan (Hybrid):	7.0%
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

### Notes:

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2015, is based on the results of an actuarial valuation date of September 30, 2014, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.7158
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2015 MPSERS Comprehensive Annual Financial Report.

# Creative Technologies Academy

Kent County, Michigan

## Notes to Financial Statements

June 30, 2016

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### Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return*</u>
Domestic Equity Pools	28.0 %	5.9 %
% Alternative Investment Pools	18.0	9.2
International Equity	16.0	7.2
Fixed Income Pools	10.5	0.9
Real Estate and Infrastructure Pools	10.0	4.3
Absolute Return Pools	15.5	6.0
Short Term Investment Pools	2.0	-
<u>Total</u>	<u>100.0</u>	

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

### Discount Rate

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

# Creative Technologies Academy

Kent County, Michigan

## Notes to Financial Statements

June 30, 2016

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### Sensitivity of Creative Technologies Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents Creative Technologies Academy's proportionate share of the net pension liability calculated using a discount rate of 8.0% (7.0% for the Pension Plus Plan), as well as what Creative Technologies Academy's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

<b>1% Decrease (Non-Hybrid/Hybrid)*</b> <b>7.0% / 6.0%</b>	<b>Current Single Discount Rate</b> <b>Assumption (Non-Hybrid/Hybrid)*</b> <b>8.0% / 7.0%</b>	<b>1% Increase (Non-Hybrid/Hybrid)*</b> <b>9.0% / 8.0%</b>
\$ 4,466,530	\$ 3,464,424	\$ 2,619,607

### Michigan Public School Employees' Retirement System (MPSERS) Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS CAFR. See the 2015 MPSERS CAFR

([www.michigan.gov/documents/orsschools/MPSERS\\_CAFR\\_2015\\_Final\\_510211\\_7.pdf](http://www.michigan.gov/documents/orsschools/MPSERS_CAFR_2015_Final_510211_7.pdf))

### Payables to the Michigan Public School Employees' Retirement System (MPSERS)

The academy has no significant payables to the pension plan.

# Creative Technologies Academy

Kent County, Michigan

## Notes to Financial Statements

June 30, 2016

### **NOTE 8 - DEFINED CONTRIBUTION RETIREMENT PLAN**

Full-time faculty, administrators and full-time classified employees may elect to participate in an optional retirement program (ORP) in lieu of participating in the MPSERS plan. The ORP is a defined contribution plan affiliated with Teachers' Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF). Under ORP, the Academy contributes 12.00%, and the participant contributes 4.00% of the participant's compensation. Compensation covered under the plan for the year ended June 30, 2016 was approximately \$350,000, resulting in contributions of approximately \$3,500 and \$10,000 for the Academy and employee, respectively.

### **NOTE 9 - SUBSEQUENT EVENTS**

Management evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected or disclosed in the financial statements. Such evaluation was performed through October 12, 2016, the date the financial statements were approved for issuance. There were subsequent events that should be accounted for or require disclosure in the accompanying financial statements.

### **NOTE 10 - RECENTLY ISSUED ACCOUNTING PRINCIPLES**

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes.

The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

# Creative Technologies Academy

Kent County, Michigan

## Notes to Financial Statements

June 30, 2016

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In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. The requirements of this Statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.

In December 2015, GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

In March 2016, GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

**REQUIRED SUPPLEMENTAL INFORMATION**

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# Creative Technologies Academy

Kent County, Michigan

General Fund

Budgetary Comparison Schedule

For the year ended June 30, 2016

	Budgeted Amounts			Variance with final budget
	Original	Final	Actual	
<b>REVENUES</b>				
Local sources	\$ 14,500	\$ 20,800	\$ 21,671	\$ 871
State sources	2,386,555	2,406,107	2,408,114	2,007
Federal sources	76,778	76,778	77,606	828
Intermediate sources	130,000	137,677	138,296	619
<b>Total revenues</b>	<b>2,607,833</b>	<b>2,641,362</b>	<b>2,645,687</b>	<b>4,325</b>
<b>EXPENDITURES</b>				
Current:				
Instruction:				
Basic programs	917,700	996,728	995,417	1,311
Added needs	282,184	316,179	320,453	(4,274)
Support services:				
Pupil services	65,395	78,311	83,439	(5,128)
Instructional staff services	113,546	104,493	101,326	3,167
General administration	215,483	209,796	209,227	569
School administration	190,468	209,991	205,766	4,225
Business services	99,314	94,563	94,556	7
Operations and maintenance	311,620	316,246	314,205	2,041
Central support services	231,456	188,456	189,533	(1,077)
Student activities	5,000	2,000	1,974	26
Athletics	17,000	14,800	14,728	72
Food service	35,000	45,000	44,628	372
Debt service:				
Principal	57,750	59,800	59,800	-
Interest	51,600	49,543	49,543	-
<b>Total expenditures</b>	<b>2,593,516</b>	<b>2,685,906</b>	<b>2,684,595</b>	<b>1,311</b>
Excess (deficiency) of revenues over expenditures	14,317	(44,544)	(38,908)	5,636
Net change in fund balances	14,317	(44,544)	(38,908)	5,636
Fund balances-beginning	395,187	395,187	395,187	-
<b>Fund balances-ending</b>	<b>\$ 409,504</b>	<b>\$ 350,643</b>	<b>\$ 356,279</b>	<b>\$ 5,636</b>

# Creative Technologies Academy

Kent County, Michigan

## Schedule of the Reporting Unit's Proportionate Share of the Net Pension Liability

June 30, 2016

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### Michigan Public Schools Employees Retirement Plan

	<u>2015</u>		<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.01418 %		0.01375 %
Reporting unit's proportionate share of net pension liability	\$ 3,464,424	\$	3,027,732
Reporting unit's covered employee payroll	\$ 1,088,462	\$	1,056,759
Reporting unit's proportionate share of net pension liability as a percentage of its covered employee payroll (%)	318.29 %		286.51 %
Plan fiduciary net position as a percentage of total pension liability	63.17 %		66.20 %

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# Creative Technologies Academy

Kent County, Michigan

## Schedule of the Reporting Unit's Contributions

June 30, 2016

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### Michigan Public Schools Employees Retirement Plan

	<u>2015</u>	<u>2014</u>
Statutorily required contributions	\$ 273,626	\$ 213,481
Contributions in relation to statutorily required contributions	<u>273,626</u>	<u>213,481</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>
Reporting units covered-employee payroll	\$ 1,088,462	\$ 1,056,759
Contributions as a percentage of covered-employee payroll	<u>25.14 %</u>	<u>20.20 %</u>

# Creative Technologies Academy

Kent County, Michigan

Notes to Required Supplementary Information

June 30, 2016

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## Michigan Public Schools Employees Retirement Plan

Changes of benefit terms: There were no changes of benefit terms during the plan year ending October 301,2014.

Changes of assumptions: There were no changes of benefit assumptions during the plan year ending October 301,2014.

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## AUDITORS' REPORT

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**AUDITORS' COMMUNICATION OF SIGNIFICANT MATTERS  
WITH THOSE CHARGED WITH GOVERNANCE**

October 12, 2016

To the Board of Directors  
Creative Technology Academy

We have audited the financial statements of the governmental activities and the major fund information of Creative Technologies Academy for the year ended June 30, 2016. 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 July 25, 2016. 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 Creative Technology Academy are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the Academy changed accounting policies related to accounting for pension contributions and expenditures by adopting Statements of Governmental Accounting Standards (GASB Statement) No. 68, Accounting and Financial Reporting for Pensions, and No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, in the year ending June 30, 2016. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Activities. We noted no transactions entered into by the governmental unit 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.

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.

## AUDITORS' COMMUNICATION OF SIGNIFICANT MATTERS WITH THOSE CHARGED WITH GOVERNANCE (continued)

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 12, 2016.

### *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 governmental unit'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

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

Very truly yours,

A handwritten signature in black ink that reads "Douglas Wohlberg". The signature is written in a cursive style with a large, looping "D" and a long, sweeping tail on the "g".

Douglas Wohlberg, CPA  
Byron Center, Michigan

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**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  
Creative Technologies 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 and the major fund, of Creative Technologies Academy, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Creative Technologies Academy's basic financial statements and have issued our report thereon dated October 12, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Creative Technologies 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 Creative Technologies Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of Creative Technologies 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Creative Technologies 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2016-01.

**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 (continued)**

**Creative Technologies Academy's Response to Findings**

Creative Technologies Academy's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Creative Technologies Academy's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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.

Very truly yours,

A handwritten signature in black ink that reads "Douglas Wohlberg". The signature is written in a cursive style with a large, sweeping flourish at the end.

Douglas Wohlberg, CPA  
Byron Center, Michigan  
October 12, 2016

# Creative Technologies Academy

Kent County, Michigan

## Schedule of Findings and Responses

For the year ended June 30, 2016

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### Finding 2016-01

#### Expenditures in Excess of Appropriations - noncompliance with state statutes

*Condition:* The Charter School Academy's General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level by the Charter School Academy. As detailed below, actual expenditures exceeded the Charter School Academy's approved budget allocations.

During the fiscal year ended June 30, 2016, expenditures were incurred in excess of amounts appropriated follows:

	<b>Final Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>% Variance</b>
General Fund				
Added needs	\$ 316,179	\$ 320,453	\$ 4,274	1 %
Pupil services	78,311	83,439	5,128	7 %
Central support services	188,456	189,533	1,077	1 %

*Criteria:* The expenditure of funds in excess of appropriations is contrary to the provisions of Section 17 of Public Act 2 of 1968.

*Effect:* The Charter School Academy is in noncompliance with State statute. Unavailable funds continued to be spent despite the lack of budgeted funds to support the expenses.

*Recommendation:* We direct that the Charter School Academy develop budgetary control procedures which will ensure that expenditures do not exceed amounts authorized in the General Appropriations Act or amendments thereof.

*Management's Response-Corrective Action Plan:* The Charter School Academy will more frequently review available funds and amend the budgets.