The da Vinci Institute

Financial Report
With Supplemental Information

Year Ended June 30, 2017

Contents

Independent Auditors' Report

Board of Directors
The da Vinci Institute
Jackson, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of The da Vinci Institute (the Academy), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 auditors' 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 about the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of The da Vinci Institute as of June 30, 2017, and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and certain pension information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in 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 da Vinci Institute's basic financial statements. The schedule of indebtedness is presented for purposes of additional analysis and is not a required part of the basic financial statements.

This supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated October 10, 2017, on our consideration of The da Vinci Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The da Vinci Institute's internal control over financial reporting and compliance.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

October 10, 2017

As administration of The da Vinci Institute, County of Jackson, State of Michigan ("the Academy"), we offer readers of the Academy's financial statements this narrative overview and analysis of the financial activities of the Academy for the fiscal year ended June 30, 2017.

Financial Highlights

- The liabilities of the Academy exceeded its assets at the close of the most recent fiscal year by $1,244,709 (net position). The negative net position is primarily due to the net pension liability recorded (see below).

- The Academy's total net position decreased by $197,689. The decrease represents the degree to which increases in ongoing revenues exceeded similar increases in ongoing expenditures.

- The Academy's increase in student enrollment has had a positive effect on the district's financial position.

- The General Fund had a net change in fund balance of $(192,259). At the end of the year, the total fund balance for the General Fund was $502,874 or 13.6 percent of the total General Fund expenditures.

- The Academy adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* during the 2015 fiscal year. The purpose of this standard is to improve accounting and financial reporting for pensions. It established standards for measuring and recognizing pension liabilities, pension expenses, and the related deferred inflows and outflows of resources. Implementation of this standard requires recording of the full unfunded portion of the Academy's pension plan administered through the Michigan Public School Employees' Retirement System (MPSERS). The unfunded pension liability has been established through actuarial valuations and will be amortized over a 22 year period beginning with the plan's fiscal year-end of September 30, 2014. With the recording of this pension liability, the liabilities of the Academy exceeded its assets.

Using this Annual Report

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

Reporting the District as a Whole

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

The Statement of Net Position and Statement of Activities present information about the following:

Governmental Activities – All of the Academy's basic services are considered to be governmental activities, including instruction, support services, community services and transfers to other local districts. Intergovernmental revenues, (unrestricted and restricted State Aid), and charges for services finance most of these activities.

These two statements report the Academy's net position and changes in them. The change in net position provides the reader a tool to assist in determining whether the Academy's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as economic conditions in the state, political conditions at the State Capitol, student enrollment growth, birth rates, and facility conditions in arriving at their conclusion regarding the overall health of the Academy.

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

Reporting the Academy's Most Significant Funds

Fund Financial Statements – The fund financial statements provide detailed information about the most significant funds – not the Academy as a whole. The fund financial statements begin on page 3 and provide detailed information about the most significant funds. The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." The Academy has only one type of fund, the governmental funds.

In the fund financial statements, capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future years' debt obligations are not recorded.

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

The basic governmental fund financial statements can be found on pages 3 and 5 of this report.

Additional Information – The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 8 – 20 of this report.

Government-Wide Financial Analysis

The government-wide financial analysis focuses on the net position and changes in net position of the Academy's governmental activities. As noted earlier, net position may serve over time as a useful indicator of a government's financial position.

The following is a summary of the Academy's net position as of June 30, 2017 and 2016:

	Governmental Activities	
Assets:	**2017**	**2016**
Current assets	$ 813,703	$ 915,222
Non-current assets	2,134,953	2,150,624
Total assets	2,948,656	3,065,846
Deferred Outflows	796,875	748,580
Liabilities:		
Current liabilities	310,829	220,089
Non-current liabilities	4,542,019	4,520,388
Total liabilities	4,852,848	4,740,477
Deferred Inflows	137,392	120,969
Net Position:		
Net investment in capital assets	1,617,709	1,558,054
Unrestricted	(2,862,418)	(2,605,074)
Total net position	$(1,244,709)	$ (1,047,020)

The above analysis focuses on the net position. The change in net position of the Academy's governmental activities is discussed below. The net position differs from fund balances and a reconciliation of such appears on page 4.

The Academy's positive restricted net position reflects its investment in capital assets (i.e. land, buildings, and equipment) less any related debt used to acquire those assets that is still outstanding. The Academy uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the Academy's investment in its capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following is a summary of the changes in net position for the years ended June 30, 2017 and 2016:

	Governmental Activities	
	2017	**2016**
Revenues:		
Program revenues:		
Operating grants	$ 765,891	$ 541,663
General revenues:		
State of Michigan unrestricted State Aid	2,704,595	2,387,488
Unrestricted investment earnings	785	1,004
Other general revenues	3,423	11,591
Total general revenues	2,708,803	2,400,083
Total revenues	3,474,694	2,941,746
Functions/Program Expenses:		
Instruction	2,181,544	1,649,023
Support services	1,401,129	1,358,925
Community services	3,445	5,331
Interest on long-term debt	18,817	19,847
Depreciation (unallocated)	67,448	63,571
Total expenses	3,672,383	3,096,697
Changes in Net Position	(197,689)	(154,951)
Net position, beginning of year	(1,047,020)	(892,069)
Ending Net Position	$(1,244,709)	$(1,047,020)

The Academy's net position decreased by $197,689 during the current fiscal year. The decrease in net position differs from the change in fund balances and reconciliation appears on page 6.

Since unrestricted State Aid constitutes the vast majority of the Academy's operating revenue sources, the Board of Directors and Administration must annually evaluate the needs of the Academy and balance those needs with State-prescribed available unrestricted resources.

General Fund Budgeting and Operating Highlights

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

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

The General Fund actual revenues and other financing sources were $3,492,429. That amount is just below the amended budget estimate of $3,510,843 and above the original budget of $3,353,959 which was based on a lower student count.

The actual expenditures and other financing uses of the General Fund were $3,684,688, which is above the amended budget estimate of $3,563,290 and above the original budget of $3,362,124.

These actual revenue and expenditure amounts created a net change in fund balance of $(192,259) and an ending fund balance of $502,874.

Capital Asset and Debt Administration

Capital Assets – At the end of the fiscal year 2017, the Academy had $2,872,853 invested in land, buildings, furniture and equipment. On this amount, $737,900 in depreciation has been taken over the years. We currently have a net book value of $2,134,953. During the year, the Academy purchased new furniture for its primary school.

	Governmental Activities	
	2017	**2016**
Land	$ 35,808	$ 35,808
Buildings	2,545,176	2,545,176
Site improvements	81,838	65,476
Furniture and equipment	210,031	174,616
Total capital assets	2,872,853	2,821,076
Less accumulated depreciation	737,900	670,452
Net capital assets	$ 2,134,953	$ 2,150,624

Long-Term Debt – At June 30, 2017, the Academy had total debt outstanding of $517,244. The debt is for bank loans through First Merit Bank.

	Governmental Activities	
	2017	**2016**
Bank loans	$ 517,244	$ 592,570

The Academy's total debt decreased by $75,326 during the current fiscal year.

Additional information on the Academy's long-term debt can be found in Note 6 on page 13 of this report.

Economic Factors and Next Year's Budgets and Rates

At the time these financial statements were prepared and audited, the Academy was aware of the following circumstances that could significantly affect its financial health in the future:

- Due to maintaining a generous fund balance, the Academy, will again not have to borrow from the State Aid Note program for the 2017-18 school year.

The following assumptions were made in preparing the Academy's original budget for the 2017-18 fiscal year:

- Foundation allowance of $7,511
- An increased blended student enrollment from 320 to 387
- State aid membership count based on 90% September and 10% prior February blend

Requests for Information

This financial report is designed to provide a general overview of The da Vinci Institute's finances for all those with an interest in the Academy's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Sandy Maxson
Superintendent
The da Vinci Institute
2255 Emmons Road
Jackson, MI 49201
Phone: 517.796.0031
Fax: 517.796.0320

The da Vinci Institute
Statement of Net Position
June 30, 2017

	Governmental Activities
Assets:	
Cash and cash equivalents	$ 209,293
Receivables	17,144
Due from other governmental units	587,266
Capital assets net of accumulated depreciation	2,134,953
Total assets	2,948,656
Deferred Outflows of Resources:	
Pension related	796,875
Total deferred outflows of resources	796,875
Liabilities:	
Accounts payable and accrued expenses	293,430
Unearned revenue	17,399
Long-term liabilities:	
Due within one year	79,123
Due in more than one year	438,121
Net pension liability	4,024,775
Total liabilities	4,852,848
Deferred Inflows of Resources:	
Pension related	137,392
Total deferred inflows of resources	137,392
Net Position:	
Net investment in capital assets	1,617,709
Unrestricted	(2,862,418)
Total net position	$ (1,244,709)

The da Vinci Institute
Statement of Activities
Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Governmental Activities: Net (Expenses) Revenues and Change in Net Position
Primary Government				
Governmental activities:				
Instruction	$ 2,181,544	$ -	$ 739,697	$ (1,441,847)
Support services	1,401,129	-	26,194	(1,374,935)
Community services	3,445	-	-	(3,445)
Interest on long-term debt	18,817	-	-	(18,817)
Depreciation (unallocated)	67,448	-	-	(67,448)
Total governmental activities	$ 3,672,383	$ -	$ 765,891	(2,906,492)
General Revenues:				
State aid not restricted to specific purposes				2,704,595
Unrestricted investment earnings				785
Other				3,423
Total general revenues				2,708,803
Change in Net Position				(197,689)
Net Position - Beginning of Year				(1,047,020)
Net Position - End of Year				$ (1,244,709)

The da Vinci Institute
Balance Sheet
Governmental Funds
June 30, 2017

	General Fund
Assets	
Cash and cash equivalents	$ 209,293
Receivable from other governments	587,266
Other receivables	17,144
Total assets	$ 813,703
Liabilities and Fund Balances	
Liabilities:	
Accounts payable	$ 64,380
Unearned revenue	17,399
Salaries payable and related	229,050
Total liabilities	310,829
Fund Balance:	
Unassigned	502,874
Total fund balance	502,874
Total liabilities and fund balance	$ 813,703

The da Vinci Institute

Reconciliation of the Fund Balances on the Balance Sheet of Governmental Funds
to Net Position of Governmental Activities on the Statement of Net Position
June 30, 2017

Total Fund Balance - Governmental Funds		$ 502,874
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.		
The cost of the capital assets is	$ 2,872,853	
Accumulated depreciation is	(737,900)	
		2,134,953
Long-term liabilities (notes payable, pension related liabilities, etc.) are not due and payable in the current period and not reported in the funds.		
Loans payable	(517,244)	
Net pension liability	(4,024,775)	
Deferred outflows related to net pension liability	796,875	
Deferred inflows related to net pension liability	(137,392)	
		(3,882,536)
Total Net Position - Governmental Activities		$ (1,244,709)

See Notes to Financial Statements.

The da Vinci Institute
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2017

	General Fund
Revenues:	
Local sources	$ 24,208
State sources	3,237,986
Federal sources	135,257
Interdistrict and other	94,978
Total revenues	3,492,429
Expenditures:	
Instruction	2,145,421
Support services	1,441,679
Community services	3,445
Debt service:	
Principal and interest	94,143
Total expenditures	3,684,688
Net Change in Fund Balance	(192,259)
Fund Balance - Beginning of Year	695,133
Fund Balance - End of Year	$ 502,874

See Notes to Financial Statements.

The da Vinci Institute

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2017

Net Change in Fund Balances - Total Governmental Funds	$	(192,259)
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.		
The amount by which net capital expenditures of $51,777 exceeded depreciation of $67,448 in the current period.		(15,671)
Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which repayments exceeded proceeds.		
Repayments:		
To bank		75,326
Governmental funds report the required pension contributions for the current fiscal year as an expenditure. The Statement of Activities reports the fully accrued pension expense based upon a September year-end to coincide with the State of Michigan's fiscal year.		
Changes in pension related liabilities and deferrals		(65,085)
Change in Net Assets of Governmental Activities	$	(197,689)

See Notes to Financial Statements.

The da Vinci Institute
Statement of Fiduciary Net Position
Fiduciary Fund
June 30, 2017

	Student Activities
Assets:	
Cash and cash equivalents	$ 14,544
Liabilities:	
Due to student groups	$ 14,544

See Notes to Financial Statements.

Note 1 – Summary of Significant Accounting Policies

The basic financial statements of The da Vinci Institute ("the Academy") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Academy's accounting policies are described below.

Reporting Entity

The Academy was established under the provisions of the State of Michigan as a Public School Academy. Public School Academies are formed pursuant to the Michigan School Code of 1976 as amended by Act Number 416 of the Public Acts of 1994; Act Number 416 became effective March 30, 1995. The Academy has contracted with Central Michigan University's Board of Trustees to charter a Public School Academy. The Academy operates under an appointed Board of Directors and provides education needs for grades K – 12.

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 financial relationships that determine which of the governmental organizations are a part of the Academy's reporting entity, and which organizations are legally separate, component units of the Academy. Based on the application of the criteria, the Academy does not contain any component units.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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 non-fiduciary activities of the primary government. For the most part, the effect of interfund activity, if any, 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 government-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. 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.

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

Note 1 – Summary of Significant Accounting Policies (Continued)

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

Academy-Wide Statements (Continued) - It is the Academy's policy to allocate resource outlays first to restricted net position with the remainder allocated to unrestricted net position.

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

Fund-Based Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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, severance pay, claims, and judgments are only recorded when payment is due.

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

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 government reports the following fund types:

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the Academy in a trustee capacity or as an agent. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations. The Academy presently maintains a Student Activities Fund to record the transactions of student and parent groups for school-related purposes. The funds are segregated and held in trust for the students and parents.

Revenue, Assets, Liabilities, and Net Position or Equity

State Revenue – The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a State-wide formula. The foundation allowance is funded from State sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts. For the year ended June 30, 2017, the foundation allowance was based on pupil membership counts taken in February and September of 2016.

The State portion of the foundation is provided primarily by a state education property tax millage of six mills and an allocated portion of state sales and other taxes. The State revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenue, Assets, Liabilities, and Net Position or Equity (Continued)

State Revenue (Continued) - The Academy also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year, are recorded as unearned revenue. Other categorical funding is recognized when the appropriation is received.

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit.

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 Statement No. 40, *Deposits 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. Accordingly, investments in bankers' acceptances and commercial paper are recorded at amortized cost. As of year-end, the Academy held no investments.

State statutes authorize the Academy to invest in bonds, and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, 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 Insurance 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 and Payables – In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

Receivables are shown net of an allowance for uncollectible amounts. The Academy has determined the uncollectible amounts are immaterial and no provision has been recorded.

Capital Assets - Capital assets, which include land, buildings, and equipment, are reported in the applicable governmental activities column in the Academy-wide financial statements. The government defines capital assets as assets with an initial individual cost of $5,000 or greater and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The Academy does not have infrastructure type assets.

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

Buildings and improvements	50 years
Site improvements	50 years
Furniture and equipment	5-20 years

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenue, Assets, Liabilities, and Net Position or Equity (Continued)

Long-Term Obligations – In the Academy-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position.

Fund Equity – The Academy has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In accordance with this guidance, fund balances of governmental funds are categorized according to five defined categories of fund balance. These categories consist of *nonspendable* amounts which are legally or contractually required to be maintained intact; *restricted* amounts that are constrained for specific purposes set by external parties or law; *committed* amounts that are constraints set by the highest decision making authority (the School Board) through adoption of a resolution and may only be removed by the School Board through a rescindment resolution; *assigned* amounts that have an intended purpose but require no formal specific action; and *unassigned* amounts which are the residual of the other categories and have no specific purpose.

It is the Academy's policy to generally use fund balance in order according to the hierarchy of fund balance categories, from restricted down to unassigned.

Defined Benefit Pension Plan – 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 Employee's Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See Note 9 for detailed information.

Use of Estimates - The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Note 2 – Stewardship, Compliance, and Accountability

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriations lapse at fiscal year-end. The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.

2. Prior to July 1, the budget is legally adopted by Board of Directors resolution pursuant to the *Uniform Budgeting and Accounting Act* (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations if any, for the General Fund, are noted in the required supplementary information section.

Note 2 – Stewardship, Compliance, and Accountability (Continued)

3. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.

4. Formal budgetary integration is employed as a management control device during the year for the General Fund.

5. The budget was amended during the year with supplemental appropriations, the last one approved prior to the end of the fiscal year.

Note 3 – Deposits and Investments

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

	Governmental Activities	Fiduciary Funds	Total
Cash and cash equivalents	$ 209,293	$ 14,544	$ 223,837

The breakdown for deposits for the Academy is as follows:

Deposits (checking and savings accounts)	$ 223,837

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned. The Academy has not adopted and State law does not require a policy for deposit custodial credit risk. As of year-end, approximately $18,000 of the Academy's bank balance of $268,690 was uninsured and uncollateralized.

The Academy had no investments at year-end.

Note 4 – Receivables

Receivables at year-end, consist of the following:

Other governmental units (primarily Michigan Department of Education)	$ 587,266
Other	17,144
	$ 604,410

Note 5 – Capital Assets

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

	Beginning Balance	Additions	Disposals and Adjustments	Year-End Balance
Assets not being depreciated:				
Land	$ 35,808	$ -	$ -	$ 35,808
Subtotal	35,808	-	-	35,808
Capital assets being depreciated:				
Buildings and improvements	2,545,176	-	-	2,545,176
Site improvements	65,476	16,362	-	81,838
Furniture and equipment	174,616	35,415	-	210,031
Subtotal	2,785,268	51,777	-	2,837,045
Accumulated depreciation:				
Buildings and improvements	595,239	47,826	-	643,065
Site improvements	28,252	4,144	-	32,396
Furniture and equipment	46,961	15,478	-	62,439
Subtotal	670,452	67,448	-	737,900
Net capital assets being depreciated	2,114,816	(15,671)	-	2,099,145
Net capital assets	$ 2,150,624	$ (15,671)	$ -	$ 2,134,953

Total depreciation for the fiscal year was $67,448. The Academy has determined it is impractical to allocate depreciation among governmental activities.

Note 6 – Long-Term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Bank loan	$ 439,916	$ -	$ 48,804	$ 391,112	$ 49,330
Bank loan	152,654	-	26,522	126,132	29,793
Total governmental activities	$ 592,570	$ -	$ 75,326	$ 517,244	$ 79,123

Note 6 – Long-Term Debt (Continued)

Estimated annual debt service requirements to maturity on the above governmental loan obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2018	$ 79,123	$ 15,025	$ 94,148
2019	81,744	12,404	94,148
2020	84,445	9,703	94,148
2021	86,840	6,857	93,697
2022	55,303	4,588	59,891
2023-2025	129,789	4,375	134,164
Total	$ 517,244	$ 52,952	$ 570,196

Long-term debt consists of:

Bank loan – First Merit Bank; due in monthly installments of $4,991 including interest at 2.790%; adjustable every 5 years; matures September 2024	$ 391,112
Bank loan – First Merit Bank; due in monthly installments of $2,855 including interest at 3.910%; matures June 2021	126,132
Total long-term debt	$ 517,244

Note 7 – Leases

The Academy leases land for the high school and administrative building from a local community college. The lease period is November 20, 2000 through November 19, 2030. The lease calls for annual payments over the thirty year period of $5 annually.

The Academy leases space at 134 West Cortland, Jackson, MI 49201. The lease period is September 1, 2016 through August 31, 2019. The lease calls for monthly payments of $2,850. The lease expense for the current year was $28,500.

Note 8 – Federal and State Grants

The Academy has received federal and State grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.

Note 9 – Defined Benefit Pension Plan and Post-Employment Benefits

Organization

Plan Description – The Academy participates in the Michigan Public School Employees' Retirement System ("MPSERS" or "the System"), a State-wide, cost-sharing, multiple-employer defined benefit public employee retirement plan governed by the State of Michigan. The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to public school employees and their beneficiaries, and covers substantially all employees of the Academy. In addition, the System's health plan provides postemployment healthcare benefits to all retirees and beneficiaries as an elective option including health, dental, and vision coverage. There are currently approximately 700 participating employers in the System which meets the definition of a qualified pension trust fund under Section 401(a) of the Internal Revenue Code.

Note 9 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)

Organization (Continued)

Plan Description (Continued) - The System was originally created under Public Act 136 of 1945, recodified, and currently operates under the provisions of Public Act 300 of 1980, as amended. Section 25 of this Act establishes a governing board and its authority to promulgate or amend the provisions of the System. The board consists of twelve members – eleven appointed by the Governor plus the State Superintendent of Instruction, who serves as an ex-officio member.

The System is administered by the Office of Retirement Services 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 included as a pension and other employee benefit trust fund in the State of Michigan Comprehensive Annual Financial Report and are available at www.michigan.gov/mpsers-cafr. Information provided in this report includes financial data, actuarial assumptions data, and detailed information about the pension plan's fiduciary net position.

Benefits Provided - Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits for DB plan members are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.50%. 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.

Contributions – Public Act 300 of 1980, as amended, requires contributions from both the participating employers and the plan members. The Academy, as a participating employer, is required to contribute amounts necessary to finance the coverage of pension benefits of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature. Under these provisions, each school district's contribution is expected to finance the costs of benefits earned by employees (plan members) during the year, with an additional amount paid in to finance a portion of the unfunded accrued liability.

The System is set up with seven different benefit options which are available to plan members (employees) based on date of hire. Depending on the plan selected, plan member contributions range from 0% up to 7% of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

The Academy's contributions are determined based on employee elections. Contribution rates are adjusted annually by ORS. For the reported year, the rates ranged from 14.56% to 18.95% for the period of July 1, 2016 through September 30, 2016 and 15.27% to 19.03% for the period of October 1, 2016 through June 30, 2017.

The Academy's required and actual contributions to the plan for the year ended June 30, 2017 were $419,811. The Academy's required and actual contributions include an allocation of $126,694 in revenue received from the State of Michigan, and remitted to the System, to fund the MPSERS unfunded actuarial liability (UAAL) stabilization rate for the year ended June 30, 2017.

Note 9 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)

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

Proportionate Share of School Academy's Net Pension Liability - At June 30, 2017, the Academy reported a liability of $4,024,775 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2015. The Academy's proportionate share 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 statutorily required pension contributions from all applicable employers during the measurement period. At September 30, 2016, the Academy's proportionate share percent was .01613189 percent, an increase of .00005077 percent from its proportion measured as of September 30, 2015.

Pension Expense - For the year ended June 30, 2017, the Academy recognized pension expense of $467,873, exclusive of payments to fund the MPSERS UAAL stabilization rate.

Deferred Outflows and Deferred Inflows - At June 30, 2017, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 50,159	$ 9,539
Changes of assumptions	62,924	-
Net difference between projected and actual earnings on pension plan investments	66,892	-
Changes in proportion and differences between reporting unit contributions and proportionate share of contributions	232,801	2,159
Reporting unit contributions subsequent to the measurement date	384,099	125,694
Total	$ 796,875	$ 137,392

$384,099 reported as deferred outflows of resources related to pensions resulting from Academy employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

Other amounts reported as deferred outflows of resources and deferred (inflows) of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	Amount
2018	$ 115,956
2019	110,695
2020	157,676
2021	16,751

Payables to the Pension Plan - The Academy reported an accrued pension plan payable at June 30, 2017 of $35,184. This amount represents employee withholdings and the employer amount payable for wages earned at June 30, 2017 but not yet paid.

Note 9 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)

Actuarial Assumptions

Actuarial Valuations and Assumptions - Actuarial valuations for the pension plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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.

A summary of actuarial assumptions as of the latest actuarial valuation follows:

Valuation date	September 30, 2015
Actuarial cost method	Entry age, normal
Wage inflation rate	3.5%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	8.0%
Pension Plus Plan (hybrid)	7.0%
Projected salary increases	3.5 – 12.3%, including wage inflation at 3.5%
Cost of living pension adjustments	3.0% 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, 2016 is based on the results of an actuarial valuation date of September 30, 2015, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years – 4.6273.
- Recognition period for assets in years is 5.0000.
- Full actuarial assumptions are available in the 2016 MPSERS Comprehensive Annual Financial Report (www.michigan.gov/mpsers-cafr).

Long-Term Expected Rate of 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.

Note 9 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)

Actuarial Assumptions (Continued)

Long-Term Expected Rate of Return on Plan Assets (Continued) – Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2016, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic equity pools	28.0%	5.9%
Alternative investment pools	18.0%	9.2%
International equity	16.0%	7.2%
Fixed income pools	10.5%	0.9%
Real estate and infrastructure pools	10.0%	4.3%
Absolute return pools	15.5%	6.0%
Short-term investment pools	2.0%	0.0%
Total	100.0%	

*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). 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 those 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 benefits payments to determine the total pension liability.

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

	Current Single Discount Rate	
1% Decrease (Non-Hybrid/Hybrid)* 7.0%/6.0%	Assumption (Non-Hybrid/Hybrid)* 8.0%/7.0%	1% Increase (Non-Hybrid/Hybrid)* 9.0%/8.0%
$5,182,897	$4,024,775	$3,048,366

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

Note 9 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)

Related Subsequent Events

On February 23, 2017, in accordance with PA 300 of 1980, as amended, the Michigan Public Schools Employees' Retirement System's Board approved a decrease in the assumed investment rate of return (discount rate) used in the System's annual actuarial valuation for the non-hybrid defined benefit pension plan from 8% to 7.5% effective for the fiscal year 2017 valuation and following.

The September 30, 2016 Annual Actuarial Valuation Report will be used to establish the employer contribution for the fiscal year beginning October 1, 2018 and will be based upon the 7.5% investment rate of return assumption. The actuarial computed employer contributions and the net pension liability will increase as a result of lowering the assumed investment rate of return.

Senate Bill 401 amends the Public School Employees Retirement Act (PA 300 of 1980, as amended). The bill closes the current hybrid plan (Pension Plus) to newly hired employees as of February 1, 2018 and creates a new optional revised hybrid plan with similar plan benefit calculations but contains a 50/50 cost share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the new hybrid plan would equal 6%. Further, the bill provides, under certain conditions, that the new hybrid plan would close to new employees if the actuarial funded ratio falls below 85% for two consecutive years. The bill includes other provisions related to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

Post-Employment Benefits Other than Pensions (OPEB)

Under the MPSERS act, all participating retirees have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the various coverages at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rates to fund the benefits on a pay-as-you-go basis. The employer contribution rate on covered payroll for the period of July 1, 2016 through September 30, 2016 was 6.40% to 6.83% and for the period of October 1, 2016 through June 30, 2017 was 5.69% to 5.91%, dependent upon the employee's date of hire and plan election.

Members can choose to contribute 3.0% of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit or they can elect not to pay the 3.0% contribution and instead choose the Personal Healthcare Fund, which can by used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a plan with 2.0% employee contributions into their 457 account as of their transition date and with a 2.0% employer match into the employee's 403b account.

The Academy's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2017, 2016, and 2015 were approximately $143,961, $123,713, and $46,420 respectively. In addition, a portion ranging from 35-100% of the MPSERS unfunded actuarial accrued liability (UAAL) stabilization rate is considered a contribution to the retiree healthcare plan.

Note 10 – Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, errors, and omissions. The Academy has purchased commercial insurance for general liability and property/casualty claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

Note 11 – Upcoming Accounting and Reporting Changes

GASB has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* which will result in accounting and reporting changes. Statement No. 75 sets standards for governments that provide postemployment benefits other than pensions (OPEB). Similar to the GASB standards set for pension benefits, the Statement requires the Academy, as a cost-sharing employer participating in MPSERS, to recognize and report its proportionate share of the MPSERS' net OPEB liability as well as the related deferred inflows and outflows of resources, and expenses/expenditures. The Statement also addresses standards for OPEB note disclosures and required supplementary information. Statement No. 75 will be effective for the Academy's fiscal year ending June 30, 2018.

Required Supplemental Information

The da Vinci Institute
Budgetary Comparison Schedule - General Fund
Year Ended June 30, 2017

	Budgeted Amounts		
	Original	Final	Actual
Revenues:			
Local sources	$ 27,500	$ 24,350	$ 24,208
State sources	3,125,459	3,260,358	3,237,986
Federal sources	136,000	141,247	135,257
Interdistrict and other	65,000	84,888	94,978
Total revenues	3,353,959	3,510,843	3,492,429
Expenditures:			
Instruction:			
Basic programs	1,554,508	1,591,022	1,642,484
Added needs	439,056	508,740	502,937
Support services:			
Pupil	10,000	-	-
Instructional staff	199,092	245,575	246,493
General administration	262,157	211,446	248,388
School administration	438,822	471,518	486,781
Business	68,670	67,458	67,519
Operation & maintenance	248,476	273,199	289,042
Pupil transportation	39,650	100,094	103,052
Technology	2,327	350	404
Community service	4,831	3,816	3,445
Debt service	94,535	90,072	94,143
Total expenditures	3,362,124	3,563,290	3,684,688
Net Changes in Fund Balance	(8,165)	(52,447)	(192,259)
Fund Balance - Beginning of Year	695,133	695,133	695,133
Fund Balance - End of Year	$ 686,968	$ 642,686	$ 502,874

The da Vinci Institute

Schedule of the Academy's Proportionate Share of the Net Pension Liability
of the Michigan Public School Employees' Retirement Plan
Last Three Fiscal Years (Amounts Determined as of Each Plan Year Ended September 30)

	2016	**2015**	**2014**
Reporting unit's proportion of net pension liability (%)	0.01613189%	0.01608112%	0.01451000%
Reporting unit's proportionate share of net pension liability	4,024,775	3,927,818	3,196,839
Reporting unit's covered-employee payroll	$ 1,368,877	$ 1,369,517	$ 1,307,867
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	294.02%	286.80%	244.43%
Plan fiduciary net position as a percentage of total pension liability	63.27%	63.17%	66.20%

The da Vinci Institute

Schedule of the Academy's Contributions to the Michigan Public School Employees' Retirement Plan

Last Three Fiscal Years (Amounts Determined as of Each Year Ended June 30)

	2017	2016	2015
Statutorily required contributions	$ 419,811	$ 372,102	$ 281,508
Contributions in relation to statutorily required contributions	419,811	372,102	281,508
Contribution deficiency (excess)	$ -	$ -	$ -
Reporting unit's covered-employee payroll	$ 1,576,600	$ 1,387,095	$ 1,356,679
Contributions as a percentage of covered-employee payroll	26.63%	26.83%	20.75%

Changes of Benefit Terms: There were no changes of benefit terms in 2016.

Changes of Assumptions: There were no changes of benefit assumptions in 2016.

Other Supplemental Information

The da Vinci Institute
Schedule of Indebtedness
June 30, 2017

	Date of Issue	Amount of Issue	Interest Rate	Year of Maturity	Fiscal Year Interest Requirements	Amount of Annual Maturity	Balance Outstanding June 30, 2017
Bank Loan - First Merit	September 29, 2004	$ 876,013					
			2.790%	2018	$ 10,561	$ 49,330	$ 49,330
			2.790%	2019	9,144	50,747	50,747
			2.790%	2020	7,689	52,202	52,202
			2.790%	2021	6,150	53,741	53,741
			2.790%	2022	4,588	55,303	55,303
			2.790%	2023	2,980	56,911	56,911
			2.790%	2024	1,328	58,563	58,563
			2.790%	2025	67	14,315	14,315
							$ 391,112
Bank Loan - First Merit	September 29, 2004	$ 362,889					
			3.910%	2018	$ 4,464	$ 29,793	$ 29,793
			3.910%	2019	3,260	30,997	30,997
			3.910%	2020	2,014	32,243	32,243
			3.910%	2021	707	33,099	33,099
							$ 126,132

WILLIS & JURASEK
CPAs AND CONSULTANTS

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
The da Vinci Institute
Jackson, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of The da Vinci Institute as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise The da Vinci Institute's basic financial statements, and have issued our report thereon dated October 10, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The da Vinci Institute'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 da Vinci Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of The da Vinci Institute'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 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 indentify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as 2017-001, 2017-002, and 2017-003, that we consider to be material weaknesses.

Board of Directors
The da Vinci Institute
Jackson, Michigan

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The da Vinci Institute'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 that are required to be reported under *Government Auditing Standards*.

The da Vinci Institute's Response to Findings

The da Vinci Institute's response to the finding identified in our audit is described in the accompanying corrective plan. The da Vinci Institute's response was not subjected to the auditing procedures applied in the audit of 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 result 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.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

October 10, 2017

2017-001 – Budget Overage –

Criteria or Specific Requirement: It is management's responsibility to prepare the financial statements in accordance with generally accepted accounting principles (GAAP) and implement adequate controls over financial reporting including the adherence to a board approved budget.

Condition: The Academy overspent the approved budget in several functions for the year ended June 30, 2017.

Recommendation: We recommend the Academy review Actual activity and consider known expenses when preparing budget amendments during the year.

Please see the corrective action plan following.

2017-002 – Material Adjustments –

Criteria or Specific Requirement: It is management's responsibility to prepare the financial statements in accordance with generally accepted accounting principles (GAAP) and implement adequate controls over financial reporting.

Condition: During the course of our audit, the auditors proposed adjustments that had a material impact on the financial statements of the Academy.

Recommendation: We recommend the Academy review year-end adjustments for proper cut-off procedures and for the recording of grant activity to ensure proper adjustments.

Please see the corrective action plan following.

2017-003 – Internal Control over Compliance –

Criteria or Specific Requirement: It is management's responsibility for having controls in place over compliance to ensure the Academy complies with grant requirements.

Condition: The Academy's budget for grant activity did not line up with actual expenditures and adjustments were required for the GSRP program.

Recommendation: We recommend the Academy review and modify controls over the grants to ensure compliance with applicable requirements.

Please see the corrective action plan following.

da Vinci
Student Centered
Education

Corrective Action Plan
Fiscal Year 2016-2017

2017-001 – Budget Overage –

We are aware of the budget overages for the 2016-2017 year

Corrective Action Plan: The Business Manager will meet with the Superintendent to develop a plan for late in the fiscal year expenses to make sure that we are in line with the Fiscal Year Final Budget.

Anticipated Completion Date:

We anticipate this will be corrected 06/01/2018

2017-002 – Material Adjustments –

We agree with the condition that there were material adjustments made by the auditors as a result of cut off procedures not being fully implemented.

Corrective Action Plan: The Business Manager will make sure that all Grant Funds have recorded revenues and expenses that reflect the fiscal year and not the grant year. If adjustments are needed they will be prepared prior to the audit.

Anticipated Completion Date:

We anticipate this will be corrected 06/30/2018

2017-003 – Internal Control over Compliance –

We are aware of the deficiency in that actual expenditures did not line up with budgeted amounts for the GSRP program for the 2016-17 year.

Corrective Action Plan: Consistent with Corrective Action Plan for Finding 2017-002, The Business Manager will make sure that all Grant Funds have recorded revenues and expenses that reflect the fiscal year and not the grant year. If adjustments are needed they will be prepared prior to the audit.

Anticipated Completion Date:

We anticipate this will be corrected 06/30/2018

Sincerely,

Darci Francoeur, LEA Business Manager
The da Vinci Institute

2255 Emmons Rd, Jackson, MI 49201 / P: (517) 796-0031 / F: (517) 796-0320 / daVinciK12.org

WILLIS & JURASEK
CPAs AND CONSULTANTS

October 10, 2017

To the Board of Directors
The da Vinci Institute
2255 Emmons Road
Jackson, MI 49201

We have audited the financial statements of the governmental activities and each major fund of The da Vinci Institute for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), 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 April 12, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by The da Vinci Institute are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2017. We noted no transactions entered into by the The da Vinci Institute during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period

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

> Management's estimate of the capitalized assets and the estimate of related accumulated depreciation. Related depreciation is based upon estimated lives and methods to formulate net book value. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.
>
> The financial statements contain estimates for net pension liability and related deferred inflows and deferred outflows of resources. This information has been provided by ORS to all school districts participating in the MPSERS pension system. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

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 trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as per the auditors' report.

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 da Vinci Institute's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

<u>Other Matters</u>

We applied certain limited procedures to the Budgetary Comparison Schedules, the Schedule of Reporting Unit's Contributions, and the Schedule of Reporting Unit's Proportionate Share of the Net Pension Liability and related notes which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the schedules of indebtedness, which accompany the financial statements but are not RSI. With respect to this supplementary information, 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 State 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.

<u>Recommendations</u>

We recommend you formalize your sick/personal time policies.

We recommend you consider implementing/revising your Grant tracking procedures as both the Title I and GRSP program revenue had audit adjustments.

We recommend, if not completed, establishing written policies and procedures over internal controls to meet Uniform Guidance standards and that you review controls to ensure they are adequate and consistently applied.

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of The da Vinci Institute and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.