

FORTIS ACADEMY



Financial Statements as of and for the Year Ended
June 30, 2019, Required Supplemental Information
and Additional Information for the Year Ended
June 30, 2019, and Independent Auditor's Reports

FORTIS ACADEMY

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Independent Auditor's Report

To the Board of Directors
Fortis Academy

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major funds of Fortis Academy (the "Academy") as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise Fortis Academy's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Academy'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 Academy'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 the major funds of Fortis Academy as of June 30, 2019 and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Fortis Academy

Required Supplemental Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Academy's basic financial statements. The statement of revenues - General Fund is presented for purposes of additional analysis and is not a required part of the basic financial statements. The statement of revenues - General Fund has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2019 on our consideration of Fortis Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 Fortis Academy's internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 10, 2019

FORTIS ACADEMY

MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED JUNE 30, 2019

This section of the annual financial report for Fortis Academy (the "Academy") provides an overview of the Academy's financial activities as of and for the fiscal year ended June 30, 2019. It should be read in conjunction with the 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 the Academy financially as a whole. The Academy-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 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 the Academy's operations in more detail than the Academy-wide financial statements by providing information about the Academy's most significant fund — the General Fund — with the other fund presented in one column as the major School Service Fund.

Management's Discussion and Analysis
(Required Supplemental Information)

Basic Financial Statements

Academy-wide Financial Statements Fund Financial Statements

Notes to Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for the Governmental Funds

(Additional Information)
Statement of Revenues — General Fund

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 the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you 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 the cash is received or paid.

The Academy's Statement of Net Position — the difference between assets and liabilities, as reported in the Statement of Net Position — is one way to measure the Academy's financial position. The relationship between revenues and expenses is the Academy's operating results. The Academy's goal is to provide services to our students, not to generate profits as private sector companies do. One must consider nonfinancial factors, such as the quality of the education provided and the safety of the Academy, to assess the overall health of the Academy.

The Statement of Net Position and the Statement of Activities report the activities of the Academy, all of which are classified as governmental. These activities encompass all the Academy's services, including instruction, support services and food services. State aid (based on student count) and state and federal grants finance most of these activities. The Academy has entered into a services agreement (the "agreement") with National Heritage Academies, Inc. (NHA) which requires NHA to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the consideration received under the agreement, NHA also provides the facility in which the Academy operates. Under the terms of the agreement, NHA receives as remuneration for its services an amount equal to the total revenue received by the Academy from all revenue sources.

Reporting the Academy's Fund Financial Statements

The Academy's fund financial statements provide detailed information about the most significant funds — not the Academy as a whole. Some funds are required to be established by state law. However, the Academy establishes other funds to help it control and manage money for particular purposes or as required by state law (the School Service Fund is an example). The governmental funds of the Academy use the following accounting approach:

Governmental Funds — All of the Academy's 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. Only those revenues that are "measurable" and "currently available" are reported. Liabilities are recognized when incurred. The governmental fund statements provide a short-term view of the operations of the Academy and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's 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 reconciliations presented as part of the statements.

The Academy as a Whole

Recall that the Statement of Net Position provides the perspective of the Academy as a whole. The table below provides a summary of the Academy's net position as of June 30:

	2019	2018
Assets:		
Current assets	\$ 1,185,163	\$ 1,110,457
Capital assets, net of accumulated depreciation	<u>7,433</u>	<u>7,833</u>
Total assets	1,192,596	1,118,290
Liabilities - current	<u>1,094,353</u>	<u>1,086,853</u>
Net position:		
Net investment in capital assets	7,433	7,833
Restricted - School Service Fund	77,977	12,423
Unrestricted	<u>12,833</u>	<u>11,181</u>
Total net position	<u>\$ 98,243</u>	<u>\$ 31,437</u>

The unrestricted net position of governmental activities represents the accumulated results of life-to-date operations. These assets can be used to finance day-to-day operations without constraints, such as legislative or legal requirements. The results of the current-year operations for the Academy as a whole are reported in the Statement of Activities, which shows the change in net position.

The results of operations for the Academy as a whole are reported in the summarized Statements of Activities (below) which show the changes in net position for the fiscal years ended June 30:

	2019	2018
Revenues:		
State aid	\$ 5,751,233	\$ 5,419,751
Operating grants	1,690,965	1,531,550
Charges for services	<u>23,547</u>	<u>22,078</u>
Total revenues	7,465,745	6,973,379
Expenses—		
Contracted service fee:		
Instruction	3,406,238	3,248,264
Support services	3,728,624	3,445,237
Food services	263,677	272,044
Depreciation (unallocated)	<u>400</u>	<u>400</u>
Total expenses	<u>7,398,939</u>	<u>6,965,945</u>
Change in net position	<u>\$ 66,806</u>	<u>\$ 7,434</u>

As reported in the Statement of Activities, the cost of governmental activities was \$7,398,939. These activities were primarily funded by the Academy's state aid (based on student count) and governments and organizations that subsidized certain programs with grants.

The Academy experienced an increase in net position of \$66,806 in 2019. Under the terms of the agreement with NHA, NHA provides a spending account to the Board of Directors for discretionary expenditures. The primary reason for the change in net position is the timing of these discretionary expenditures.

A reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities appears on page 11.

Fund Financial Statements

As we noted earlier, the Academy uses funds to help it control and manage money for particular purposes or as required by state law. Looking at funds helps the reader to consider whether the Academy is being accountable for the resources that the State and others provide to it and may provide more insight into the Academy's overall financial health.

The Academy's instruction and support services activities are reported in the General Fund. The School Service Fund represents food service activities. The Academy's combined fund balance was \$90,810 at June 30, 2019.

A reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position appears on page 10.

General Fund Budgetary Highlights

Over the course of the year, the Academy revises its budget to reflect changes in revenues and expenditures. 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 the required supplemental information of these financial statements.

Budgeted revenues for the General Fund were increased by \$139,842 from the original budget. Revenues were changed to reflect the following:

State Aid	<i>Increase</i>
Other State Sources	<i>Increase</i>
Interdistrict Sources	<i>Increase</i>
Federal Sources	<i>Increase</i>
Private Sources	<i>Decrease</i>

Budgeted expenditures for the General Fund were increased by \$119,272. This change was to reflect the change in anticipated funding. The Academy did not experience any significant variances between the final budget and actual amounts during the year (Refer to Note 2).

Capital Assets

At June 30, 2019, the Academy had \$7,433 invested in capital assets, primarily land improvements. Capital assets are substantially provided as part of the agreement with NHA.

General Economic Factors and Next Year's Budgets

Our officials and administration consider many factors when setting the Academy's 2020 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 2020 fiscal year is expected to be 90% and 10% of the October 2019 and February 2019 student counts, respectively. The 2020 budget was adopted in May 2019. Approximately 79% of total General Fund revenue is from the foundation allowance. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2020 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2020 budget. Once the final student count and related per pupil funding are validated, state law requires the Academy to amend the budget if actual Academy resources are not sufficient to fund original appropriations.

Since the Academy's 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 revenues to fund its appropriation to public school academies. The State periodically holds a revenue-estimating conference to estimate revenues. If the State estimates funds are not sufficient to fund the appropriation, the legislature must revise the appropriation or proration of state aid will occur. Based on information currently available, no significant changes are expected to occur in the nature of the funding or operations of the Academy in 2020.

Contacting the Academy's Financial Management

The financial report is designed to provide users of the report with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report, contact the Chief Financial Officer of National Heritage Academies, Inc., 3850 Broadmoor SE, Suite 201; Grand Rapids, Michigan 49512.

FORTIS ACADEMY

STATEMENT OF NET POSITION

JUNE 30, 2019

	Governmental Activities
ASSETS	
CURRENT ASSETS:	
Cash	\$ 12,832
Due from governmental revenue sources	<u>1,172,331</u>
Total current assets	<u>1,185,163</u>
NON-CURRENT ASSETS:	
Capital assets	12,000
Less accumulated depreciation	<u>(4,567)</u>
Total capital assets, net of accumulated depreciation	<u>7,433</u>
TOTAL	<u>\$ 1,192,596</u>
LIABILITIES AND NET POSITION	
LIABILITIES:	
Unearned revenue	\$ 22,579
Contracted service fee payable	<u>1,071,774</u>
Total liabilities	<u>1,094,353</u>
NET POSITION:	
Net investment in capital assets	7,433
Restricted - School Service Fund	77,977
Unrestricted	<u>12,833</u>
Total net position	<u>98,243</u>
TOTAL	<u>\$ 1,192,596</u>

See notes to financial statements.

FORTIS ACADEMY

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2019

	Expenses	Program Revenues		Governmental Activities Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants	
FUNCTIONS/PROGRAMS —				
Contracted service fee:				
Instruction	\$ 3,406,238	\$ -	\$ 762,205	\$ (2,644,033)
Support services	3,728,624	-	648,619	(3,080,005)
Food services	263,677	23,547	280,141	40,011
Depreciation (unallocated)	<u>400</u>	<u>-</u>	<u>-</u>	<u>(400)</u>
Total governmental activities	<u>\$ 7,398,939</u>	<u>\$ 23,547</u>	<u>\$ 1,690,965</u>	(5,684,427)
GENERAL PURPOSE REVENUES:				
State aid unrestricted				<u>5,751,233</u>
CHANGE IN NET POSITION				66,806
NET POSITION:				
Beginning of year				<u>31,437</u>
End of year				<u>\$ 98,243</u>

See notes to financial statements.

FORTIS ACADEMY

**BALANCE SHEET — GOVERNMENTAL FUNDS
JUNE 30, 2019**

	General Fund	School Service Fund	Total Governmental Funds
ASSETS			
Cash	\$ 12,832	\$ -	\$ 12,832
Prepaid expenses	-	68,239	68,239
Due from governmental revenue sources	<u>1,159,503</u>	<u>12,828</u>	<u>1,172,331</u>
TOTAL	<u><u>\$ 1,172,335</u></u>	<u><u>\$ 81,067</u></u>	<u><u>\$ 1,253,402</u></u>
LIABILITIES AND FUND BALANCE			
LIABILITIES:			
Unearned revenue	\$ 19,489	\$ 3,090	\$ 22,579
Contracted service fee payable	<u>1,139,356</u>	<u>-</u>	<u>1,139,356</u>
Total liabilities	<u>1,158,845</u>	<u>3,090</u>	<u>1,161,935</u>
DEFERRED INFLOWS OF RESOURCES:			
Unavailable revenue	<u>657</u>	<u>-</u>	<u>657</u>
Total liabilities and deferred inflows of resources	<u>1,159,502</u>	<u>3,090</u>	<u>1,162,592</u>
FUND BALANCE:			
Nonspendable - School Service Fund	-	68,239	68,239
Restricted - School Service Fund		9,738	9,738
Committed	4,503	-	4,503
Unassigned	<u>8,330</u>	<u>-</u>	<u>8,330</u>
Total fund balance	<u>12,833</u>	<u>77,977</u>	<u>90,810</u>
TOTAL	<u><u>\$ 1,172,335</u></u>	<u><u>\$ 81,067</u></u>	<u><u>\$ 1,253,402</u></u>

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

Total governmental fund balance		\$ 90,810
Capital assets used in governmental activities are not financial resources and are not reported in the funds:		
Capital assets cost	\$ 12,000	
Accumulated depreciation	<u>(4,567)</u>	7,433
Due from governmental revenue sources not available to pay current period expenditures therefore deferred in the funds		657
Contracted service fee payable not due and payable in the current period and not reported in the funds		<u>(657)</u>
Net position of governmental activities		<u><u>\$ 98,243</u></u>

See notes to financial statements.

FORTIS ACADEMY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES — GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2019

	General Fund	School Service Fund	Total Governmental Funds
REVENUES:			
State aid	\$ 5,751,233	\$ -	\$ 5,751,233
Other state sources	641,987	2,859	644,846
Federal sources	458,568	277,282	735,850
Private sources	32,590	23,547	56,137
Interdistrict sources	284,744	-	284,744
	<u>7,169,122</u>	<u>303,688</u>	<u>7,472,810</u>
Total revenues			
EXPENDITURES — Contracted service fee:			
Instruction	3,406,238	-	3,406,238
Support services	3,735,689	-	3,735,689
Food services	-	263,677	263,677
	<u>7,141,927</u>	<u>263,677</u>	<u>7,405,604</u>
Total expenditures			
REVENUES OVER EXPENDITURES	27,195	40,011	67,206
OTHER FINANCING (USES) SOURCES			
Operating transfers (out) in	(23)	23	-
Prior food service transfers (out) in	(25,520)	25,520	-
	<u>(25,543)</u>	<u>25,543</u>	<u>-</u>
Total other financing (uses) sources			
NET CHANGE IN FUND BALANCE	1,652	65,554	67,206
FUND BALANCE — Beginning of year	<u>11,181</u>	<u>12,423</u>	<u>23,604</u>
FUND BALANCE — End of year	<u>\$ 12,833</u>	<u>\$ 77,977</u>	<u>\$ 90,810</u>

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

Net change in fund balance — total governmental funds	\$ 67,206
Governmental funds report capital outlays as expenditures, in the statement of activities these costs are allocated over their useful lives as depreciation	(400)
Revenue reported in the statement of activities that does not provide current financial resources and are not reported as revenue in the governmental funds	657
Revenue reported in the governmental funds as available and measurable — reported in the statement of activities in prior years	(7,722)
Contracted service fee recognized consistent with the revenue policy	<u>7,065</u>
Change in net position of governmental activities	<u>\$ 66,806</u>

See notes to financial statements.

FORTIS ACADEMY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2019

1. NATURE OF OPERATIONS

Fortis Academy (the “Academy”) is a Michigan Public School Academy that provides education based on rigorous teaching methods, parental involvement, student responsibility, and basic moral values. The Academy provides education, at no cost to the parent, to students in kindergarten through eighth grade. Enrollment is open to all appropriately aged children without regard to gender, ethnic background, disability, and/or religious affiliation. The Academy operates under a charter contract approved by Bay Mills Community College, which is responsible for oversight of the Academy’s operations. The charter contract expires June 30, 2020 and is subject to renewal. Bay Mills Community College Board of Trustees receives three percent of state aid funds as an administrative fee. The total administrative fee for year ended June 30, 2019, paid to the Bay Mills Community College Board of Trustees was \$189,519.

The Academy is exempt from taxation as a governmental entity pursuant to Internal Revenue Code Section 115. The Academy qualifies for public charity status by meeting the requirements of Internal Revenue Code Sections 509(1) and 170(b)(1)(A)(ii).

The Academy’s primary source of revenue is provided by the State of Michigan and consists of an amount per student multiplied by weighted average student counts. The state revenue is recognized ratably over the school year and is funded through payments from October 2018 through August 2019.

The Board of Directors of the Academy has entered into a services agreement (the “agreement”) with National Heritage Academies, Inc. (NHA) which requires NHA to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the consideration received under the agreement, NHA also provides the facility in which the Academy operates. The agreement will continue until the termination or expiration of the charter contract, up to a maximum of five years, unless at least 90 days written notice of intent to terminate or renegotiate is given by either the Academy or NHA.

Under the terms of the agreement, NHA receives as remuneration for its services an amount equal to the total revenue received by the Academy from all revenue sources.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All 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 revenue includes (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues not classified as program revenues are reported instead as general revenue.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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 are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The effect of interfund activity has been eliminated from the Academy-wide financial statements.

When an expense is incurred for purposes for which both restricted and unrestricted net position, or fund balance are available, the Academy's policy is to first apply restricted resources. When an expense is incurred for purposes which amounts in any of the unrestricted fund balance classifications could be used, it is the Academy's policy to spend funds in this order: committed, assigned and unassigned.

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 Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenue not meeting this definition is classified as a deferred inflow of resources. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. The contracted service fee to NHA is recorded consistent with the recognition of revenue. Interfund transfers are used to subsidize operations of the School Service Fund.

Fund Classification — The financial activities of the Academy are organized on the basis of funds. The operation of each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

General Fund — The General Fund is used to account for the general educational programs of the Academy. Its revenues are derived primarily from the State of Michigan.

School Service Fund — The School Service Fund is used to account for the food service operation. Its revenues are derived primarily from a federal grant and student charges.

Capital Assets — Capital assets, which include land improvements, are reported in the applicable governmental column in the Academy-wide financial statements at historical costs of more than \$5,000 and an estimated useful life in excess of one year.

Land improvements are depreciated using the straight-line method over useful lives of 30 years.

Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and expenditures during the reporting period. Actual results could differ from those estimates.

Cash — Cash as of June 30, 2019 represents bank deposits which are covered by federal depository insurance. Accordingly, there are no investments which are required to be categorized according to risk.

Unavailable and Unearned Revenue — Unavailable revenue is reported in connection with receivables for revenue that is not considered available and measurable to liquidate liabilities of the current period. Unearned revenue is reported in connection with funds that have been received for services which have not been performed and is therefore not yet earned. As of June 30, 2019, a deferred inflow for unavailable revenue was recognized for \$657 and a liability for unearned revenue was recognized for \$22,579.

Contracted Service Fee Payable — Contracted service fee payable as of June 30, 2019 represents a timing difference between funds received from governmental sources and amounts payable to NHA in accordance with the agreement.

Fund Balance — Fund balances may be classified as nonspendable, restricted, committed, assigned, or unassigned. The terms nonspendable and restricted are used either to indicate that certain assets do not represent spendable resources available for general educational programs or to earmark a portion of fund balance as legally segregated for a specific future use. The term committed represents amounts that can only be used for the specific purpose determined by a formal resolution of the board. The term assigned is used to classify the fund balance intended to be used by the board, but does not meet the criteria to be restricted or committed. The term unassigned is used for amounts that have not been restricted, committed, or otherwise assigned for future uses. At June 30, 2019, the Academy had \$68,239 in nonspendable fund balance, \$9,738 in restricted fund balance, \$4,503 in committed fund balance, and \$8,330 in unassigned fund balance. The committed fund balance has been committed by resolutions of the Board of Directors for student, parent and staff appreciation, athletics, and board training and development.

Budgetary Information — Annual budgets are adopted on a basis utilizing generally accepted accounting principles and consistent with state law for the general and special revenue funds.

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. The budgets can be amended by the Board of Directors as considered necessary. The budgets were amended to increase budgeted revenues and expenditures for

the General Fund by \$139,842 and \$119,272, respectively, and to increase budgeted revenues and expenditures for the School Service Fund by \$9,061 and \$9,640, respectively.

During the year ended June 30, 2019, the Academy incurred expenditures within the School Service Fund which exceed appropriations at the fund level by \$3,693. This overage was funded by revenues in excess of amounts budgeted of \$5,364, resulting in a net increase of \$1,671 to the fund balance.

Recent Accounting Pronouncements - In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, Leases, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Academy is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Academy's financial statements for the year ending June 30, 2021.

3. DUE FROM GOVERNMENTAL REVENUE SOURCES

Receivables as of June 30, 2019 for the Academy included \$1,045,712 in state aid receivable, \$55,212 in other state sources, \$43,096 in federal grants receivable, and \$28,311 in other receivables. The Academy considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

4. RISK MANAGEMENT

The Academy is exposed to various risks of loss related to general liability. Commercial insurance policies to cover certain risks of loss have been obtained. There have been no significant reductions in insurance coverage during fiscal year 2019, and claims did not exceed coverage less retained risk deductible amounts in the past three fiscal years.

5. CAPITAL ASSETS

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

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental activities —				
Land improvements	\$ 12,000	\$ -	\$ -	\$ 12,000
Total accumulated depreciation	<u>4,167</u>	<u>400</u>	<u>-</u>	<u>4,567</u>
Total governmental activities —				
Capital assets, net	<u>\$ 7,833</u>	<u>\$ (400)</u>	<u>\$ -</u>	<u>\$ 7,433</u>

6. CONTINGENCIES

The Academy has received proceeds from several federal and state grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. During the year ended June 30, 2019, a Resource Management Review of the School Service Fund by the Michigan Department of Education was completed, resulting in \$49,182 of expenditures that were deemed as not allowable by the regulators under the grant agreement. During 2019, the Academy was required to pay \$25,520 back to the state, resulting in a transfer out of the General Fund and into the School Service Fund.

7. OPERATING LEASE

The Academy has entered into a sublease agreement with NHA for a facility to house the Academy. The lease term is from July 1, 2018 through June 30, 2019. Annual rental payments required by the lease are \$1,071,680 payable in twelve monthly payments of \$89,307. This lease is automatically renewed on a year-to-year basis unless a notice of non-renewal is provided by either the Academy or NHA.

The Academy subsequently renewed the sublease with NHA for the period of July 1, 2019 through June 30, 2020, at the same rental rate.

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REQUIRED SUPPLEMENTAL INFORMATION

FORTIS ACADEMY

**REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2019**

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>(Under) Over Final Budget</u>
REVENUES:				
State aid	\$ 5,725,210	\$ 5,751,975	\$ 5,751,233	\$ (742)
Other state sources	675,410	715,184	641,987	(73,197)
Interdistrict sources	350,244	393,805	284,744	(109,061)
Federal sources	485,573	521,495	458,568	(62,927)
Private sources	31,900	25,720	32,590	6,870
Total revenues	<u>7,268,337</u>	<u>7,408,179</u>	<u>7,169,122</u>	<u>(239,057)</u>
EXPENDITURES - Contracted service fee:				
Instruction:				
Basic instruction	2,320,389	2,325,370	2,335,872	10,502
Added needs	829,955	753,861	704,774	(49,087)
Special education	367,011	372,606	365,592	(7,014)
Support services:				
Pupil services	222,672	296,818	210,949	(85,869)
Instructional staff services	699,340	819,308	717,647	(101,661)
Board of education	68,684	68,438	65,922	(2,516)
Executive administration	219,209	213,199	218,825	5,626
Grant procurement	33,590	31,405	34,372	2,967
Office of the principal	331,639	345,261	322,334	(22,927)
Other school administration	165,728	167,379	173,081	5,702
Business support services	111,041	108,129	105,759	(2,370)
Central services	449,110	394,474	387,159	(7,315)
Pupil transportation services	3,000	7,580	7,972	392
Operations and maintenance	1,446,969	1,483,781	1,491,669	7,888
Total expenditures	<u>7,268,337</u>	<u>7,387,609</u>	<u>7,141,927</u>	<u>(245,682)</u>
REVENUES OVER EXPENDITURES	-	20,570	27,195	6,625
OTHER FINANCING USES				
Operating transfers out	-	-	(23)	(23)
Prior Food Service transfers out	-	(25,520)	(25,520)	-
Total other financing uses	<u>-</u>	<u>(25,520)</u>	<u>9,884,750</u>	<u>9,910,270</u>
NET CHANGE IN FUND BALANCE	-	(4,950)	1,652	6,602
FUND BALANCE - Beginning of year	<u>15,569</u>	<u>11,181</u>	<u>11,181</u>	<u>-</u>
FUND BALANCE - End of year	<u>\$ 15,569</u>	<u>\$ 6,231</u>	<u>\$ 12,833</u>	<u>\$ 6,602</u>

FORTIS ACADEMY

**REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
SCHOOL SERVICE FUND
YEAR ENDED JUNE 30, 2019**

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>(Under) Over Final Budget</u>
REVENUES:				
Other state sources	\$ 4,637	\$ 4,684	\$ 2,859	\$ (1,825)
Federal sources	261,352	271,256	277,282	6,026
Private sources	23,274	22,384	23,547	1,163
Total revenues	<u>289,263</u>	<u>298,324</u>	<u>303,688</u>	<u>5,364</u>
EXPENDITURES - Contracted service fee:				
Food services	<u>250,344</u>	<u>259,984</u>	<u>263,677</u>	<u>3,693</u>
REVENUES OVER EXPENDITURES	38,919	38,340	40,011	1,671
OTHER FINANCING SOURCES				
Operating transfers in	-	-	23	23
Prior Food Service transfers in	-	25,520	25,520	-
Total other financing sources	<u>-</u>	<u>25,520</u>	<u>25,543</u>	<u>23</u>
NET CHANGE IN FUND BALANCE	38,919	63,860	65,554	1,694
FUND BALANCE - Beginning of year	<u>-</u>	<u>12,423</u>	<u>12,423</u>	<u>-</u>
FUND BALANCE - End of year	<u>\$ 38,919</u>	<u>\$ 76,283</u>	<u>\$ 77,977</u>	<u>\$ 1,694</u>

ADDITIONAL INFORMATION

FORTIS ACADEMY

ADDITIONAL INFORMATION STATEMENT OF REVENUES — GENERAL FUND YEAR ENDED JUNE 30, 2019

State aid	\$	5,751,233
Other state sources:		
Special education		134,459
At-risk		482,815
Grants		<u>24,713</u>
Total		641,987
Federal sources — grants		458,568
Private sources — other		32,590
Interdistrict sources		<u>284,744</u>
TOTAL	\$	<u><u>7,169,122</u></u>

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

Independent Auditor's Report

To Management and the Board of Directors
Fortis Academy

We have audited, 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, the basic financial statements of the governmental activities and the major funds of Fortis Academy (the "Academy") as of and for the year ended June 30, 2019 and the related notes to the basic financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated October 10, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Fortis Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

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

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

To Management and the Board of Directors
Fortis Academy

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fortis Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



October 10, 2019