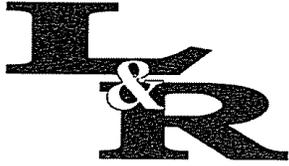


INSIGHT SCHOOL OF MICHIGAN
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
AND
INDEPENDENT AUDITORS' REPORT

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Layton & Richardson, P.C.

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Insight School of Michigan
Lansing, Michigan

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Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Insight School of Michigan, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Insight School of Michigan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Insight School of Michigan, as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2015, on our consideration of Insight School of Michigan'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 Insight School of Michigan's internal control over financial reporting and compliance.



Certified Public Accountants

East Lansing, Michigan
October 26, 2015

Insight School of Michigan Management's Discussion and Analysis June 30, 2015

This section of the Insight School of Michigan (the School) annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year ended June 30, 2015.

Overview of the Financial Statements

This annual report on the first year of operations consists of three parts – management's discussion and analysis (this section – comparative after current year), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the School.

- The first two statements are School-Wide financial statements that provide both short-term and long-term information about the School's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the School, reporting the School's operations in more detail than the School-Wide statements.
- The governmental funds statements tell how basic services like regular and supporting services were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the School's budget for the year.

School-Wide Financial Statements

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

The two School-Wide statements report the School's net position and how it has changed. Net position – the difference between the School's assets and liabilities – is one way to measure the School's financial health or position.

- Over time, increases or decreases in the School's net position is an indicator of whether its financial position is improving or deteriorating, respectively.

In the School-Wide financial statements, the School's activities:

- Governmental Activities – All of the School's basic services are included here, such as instruction and support services. State formula aid finances most of these activities.

**Insight School of Michigan
Management's Discussion and Analysis – Continued
June 30, 2015**

INSIGHT SCHOOL OF MICHIGAN'S NET POSITION

	2015
Assets	
Current and other assets	\$ <u>962,337</u>
Liabilities (all current)	\$ <u>962,337</u>
Net Position	
Unrestricted	<u> </u>
Total Net Position	\$ <u> </u>

CHANGES IN INSIGHT SCHOOL OF MICHIGAN'S NET POSITION

	2015
Expenses	
Instruction	2,783,336
Support services	<u>1,326,160</u>
Total Expenses	<u>4,109,496</u>
Revenues	
Program revenues	
Operating grants	\$ 29,440
General revenues	
State aid – unrestricted	<u>4,080,056</u>
Total Revenues	<u>4,109,496</u>
Change in net position	\$ <u> </u>

Financial Analysis of the School's Funds

The fund financial statements provide more detailed information about the School's funds, focusing on the General Fund, not the School as a whole. The General Fund is an accounting device the School uses to keep track of specific sources of funding and spending on particular programs. Fund balance in the General Fund stands at \$0 (all unassigned).

Insight School of Michigan
Management's Discussion and Analysis – Continued
June 30, 2015

General Fund Budgetary Highlights

This is the first fiscal year of the School's operations. The School's expenditures from General Fund operations exceeded revenues by \$0 for the fiscal year ended June 30, 2015. The General Fund as of June 30, 2015, had an unassigned fund balance of \$0 for the 2014-2015 fiscal year.

We invest in activities and programs that align with our curriculum. The management company and the School Board work closely to plan for these expenditures and monitor them regularly. We feel that this has been a successful approach to keeping the classroom fun and productive, and we are very proud of the results.

Financial Issues

- The School Board, the management company, and parents have worked hard to ensure the focus has been on the education of the children and their success.

This is our first fiscal year of operation after signing our Charter with Central Michigan University. Enrollment is currently capped out at 800 students.

Our School has students from multiple districts. We serve as a unique niche to provide at-risk students as well as students of large school districts that have not been able to provide the individual attention to make their school experience a success. We have many students arrive who have been disciplinary problems in other school districts, but with the attention and standards available at our school, become high achievers and score well in testing usually by the end of the year.

All this increases the passion that parents and the community feel for the School.

- Direct administrative responsibilities are handled by the school board members and K¹² (management company).

Factors Bearing on the School's Future

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

- State aid funding continues to be uncertain.
- Student enrollment is uncertain and turnover is traditionally high among online schools.

**Insight School of Michigan
Management's Discussion and Analysis – Concluded
June 30, 2015**

Summary

A large majority of our students receive the individual care and learning experience they need to succeed outside of the traditional learning environment.

The School's focus will continue to be to provide a wonderful educational experience for at-risk students who found their passion for learning at our school.

Contacting the School's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional information, contact the Lansing office at 6512 Centurion Drive, Lansing, Michigan, 48917 or by phone at (877) 918-4020.

GENERAL PURPOSE FINANCIAL STATEMENTS

General purpose financial statements provide a summary overview of the financial position of all funds and account groups and of the operating results of all funds. They also serve as an introduction to the more detailed statements and schedules that follow.

INSIGHT SCHOOL OF MICHIGAN
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2015

ASSETS

CURRENT ASSETS	GENERAL FUND	ADJUSTMENTS	STATEMENT OF NET ACTIVITIES
Cash	\$ 196,274	\$	\$ 196,274
Accounts receivable			
State aid receivable	736,623		736,623
Federal aid receivable	29,440		29,440
	<hr/>	<hr/>	<hr/>
 TOTAL ASSETS	 \$ 962,337	 \$	 \$ 962,337
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES			
Accounts payable	\$ 789,179	\$	789,179
Accrued expenditures	173,158		173,158
	<hr/>	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	962,337		962,337
	<hr/>	<hr/>	<hr/>
NET POSITION			
Unrestricted			
	<hr/>	<hr/>	<hr/>
TOTAL NET POSITION			
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES AND NET POSITION	\$ 962,337	\$	962,337
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to financial statements.

INSIGHT SCHOOL OF MICHIGAN
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2015

	GENERAL FUND	ADJUSTMENTS	STATEMENT OF NET ACTIVITIES
EXPENDITURES			
Instruction	\$ 2,783,336	\$	\$ 2,783,336
Support services	<u>1,326,160</u>	<u> </u>	<u>1,326,160</u>
TOTAL EXPENDITURES	<u>4,109,496</u>	<u> </u>	<u>4,109,496</u>
REVENUES			
State sources	\$ 4,080,056	\$	\$ 4,080,056
Federal sources	<u>29,440</u>	<u> </u>	<u>29,440</u>
TOTAL REVENUES	<u>4,109,496</u>	<u> </u>	<u>4,109,496</u>
CHANGE IN NET POSITION			
FUND BALANCE/NET POSITION, JULY 1	<u> </u>	<u> </u>	<u> </u>
FUND BALANCE/NET POSITION, JUNE 30	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>

See accompanying notes to financial statements.

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INSIGHT SCHOOL OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Insight School of Michigan (the School) began its first school year in 2014/2015. It was formed as a Public School Academy (PSA) under Michigan State Law. The PSA is overseen by Central Michigan University for approval of the PSA's Board of Directors, funding, budgeting and most other matters.

The accounting policies of Insight School of Michigan conform to U.S. generally accepted accounting principles, as applicable to governmental units and the Michigan Department of Education. The following is a summary of the more significant policies.

Reporting Entity

Insight School of Michigan's Board of Directors "Board" is the basic level of government which has financial accountability and control over all activities related to the PSA. The Board receives funding from state and federal government sources and must comply with the commitment requirements of these funding source entities. The Board has the ability to significantly influence operations and primary accountability of fiscal matters.

Government-Wide Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the School. For the most part, the effect of interfund activity has been removed from these statements. All of the School's activities are classified as 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 or segment. Program revenues include 1) charges to customers who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid and other unrestricted items are not included as program revenues but instead as general revenues.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

INSIGHT SCHOOL OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2015

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – Continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation – Concluded

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School.

The School reports the following major governmental funds:

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

Estimates

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

Cash and Cash Equivalents

Cash held in savings and checking accounts with no restrictions are considered cash and cash equivalents.

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

INSIGHT SCHOOL OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2015

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – Continued

Capital Assets - Concluded

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

ASSET	DEPRECIABLE LIFE
Buildings and additions	20 years
Furniture and other equipment	3-15 years

The School's capitalization policy is individual amounts exceeding \$1,000.

As of June 30, 2015 no items qualifying as capital assets have been recorded.

Grant Programs

The School participates in several state and federal grant programs, which are governed by regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent, if any, the School has not complied with the regulations governing the grants, refunds of any money received could be required.

Unearned Revenue

Unearned revenue represents amounts for which the School has received or is due to receive but has not yet earned. Unearned revenue is usually caused by the receipt of certain categorical funds that are not expended by the close of the fiscal year. The revenues are unearned until the proceeds have been fully expenses/expended.

Prepaid

Prepaid amounts consist of payments for which the School will have a future benefit and will be used up at a date beyond the current year end.

NOTE 2: **COMPLIANCE WITH AMENDED BUDGET AND MICHIGAN PUBLIC ACT (P.A.) 621 OF 1978 AND OTHER BUDGET INFORMATION**

Stewardship, Compliance and Accountability

Budgetary information – Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and special revenue funds. All annual appropriations lapse at year end.

INSIGHT SCHOOL OF MICHIGAN

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2015

NOTE 2: COMPLIANCE WITH AMENDED BUDGET AND MICHIGAN PUBLIC ACT (P.A.) 621 OF 1978 AND OTHER BUDGET INFORMATION - Concluded

Stewardship, Compliance and Accountability - Concluded

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School to have its budget in play by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan law. State law permits the School to amend its budget during the year.

Michigan Public Act 621 of 1978, Section 18(1), as amended, provides that a school district shall not incur expenditures in excess of the amount appropriated in budget resolutions of the governing body.

The following are the activities for which expenditures were made in excess of budget:

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE (UNFAVORABLE)
General Fund				
Expenditures				
Basic programs	\$ 2,548,741	\$ 2,523,455	\$ 2,540,337	\$(16,882)
Added needs	189,879	189,841	242,999	(53,158)
Pupil support	343,998	248,666	284,405	(35,739)
Instructional support	129,781	63,321	106,524	(43,203)
Operations and maintenance	33,908	33,581	35,906	(2,325)

Over-expenditure exceeds 2% of total budgeted amounts.

NOTE 3: CASH AND CASH EQUIVALENTS

	BOOK BALANCE	BANK BALANCE	FDIC INSURED
Checking	\$ <u>196,274</u>	\$ <u>207,316</u>	\$ <u>207,316</u>

RECONCILIATION TO STATEMENTS

	CASH	TOTAL
Government funds	\$ <u>196,274</u>	\$ <u>196,274</u>

INSIGHT SCHOOL OF MICHIGAN

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2015

NOTE 3: **CASH AND CASH EQUIVALENTS** - Concluded

In accordance with Michigan Compiled Laws, the Director is authorized to invest in the following investment vehicles:

1. Bonds, bill, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a state or nationally-chartered bank or a state or federally-chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office in Michigan under Michigan and federal laws.
3. Commercial paper rated prime 1 or prime 2 at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Investment pools, as authorized by the surplus funds investment pool act, Act. No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district.

The United States Congress has increased Federal Deposit Insurance Corporation (FDIC) deposit insurance from \$100,000 to \$250,000 per depositor. FDIC regulations provide that deposits of governmental units are to be separately insured for the amount of \$250,000 for deposits in an insured bank for savings deposits and \$250,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$250,000. For the purpose of these rules, the term "savings deposits" includes NOW accounts, money market deposit accounts, and other interest-bearing checking accounts.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the School's deposits may not be returned to it. As of June 30, 2015, the carrying amount of the School's deposits was \$196,274 and the bank balance was \$207,316, of which \$207,316 was covered by federal depository insurance.

NOTE 4: **OPERATING LEASES**

The School has entered into two operating lease agreements. The lease agreements are as follows:

- Lease for 63 month period from May 1, 2014 through July 31, 2019. Payments of \$1,660 are made on a monthly basis on a rising base scale.
- Lease for 48 month period from September 24, 2014 through September 23, 2018. Payments of \$289 are made on a monthly basis.

Total lease expense was \$20,860 for the year ending June 30, 2015.

INSIGHT SCHOOL OF MICHIGAN
 NOTES TO FINANCIAL STATEMENTS - Continued
 JUNE 30, 2015

NOTE 4: OPERATING LEASES - Concluded

Future annual payments under the operating leases are as follows:

YEAR ENDING	AMOUNT
2015-2016	\$ 23,749
2016-2017	24,161
2017-2018	24,575
2018-2019	21,535

NOTE 5: DETAILS OF FUND BALANCE CATEGORIES AND CLASSIFICATIONS

In February, 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated and unreserved have been replaced with five new classifications: non-spendable, restricted, committed, assigned and unassigned.

Non-spendable – assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

Restricted – amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation.

Committed – amounts constrained on use imposed by formal action of the government’s highest level of decision making authority (i.e., Board, Council, etc.)

Assigned – amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee, or a delegated municipality official.

Unassigned – all other resources; the remaining fund balance after non-spendable, restrictions, commitments, and assignments. This class only occurs in the General Fund except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

INSIGHT SCHOOL OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2015

NOTE 5: DETAILS OF FUND BALANCE CATEGORIES AND CLASSIFICATIONS - Concluded

Fund Balance Classifications and Procedures

For committed fund balance, Insight School of Michigan's highest level of decision-making authority is the Board of Directors. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution.

For assigned fund balance, the Board of Directors is authorized to assign amounts to a specific purpose.

The School has not formally adopted a policy that determines when both restricted and unrestricted fund balances are available which should be used first, therefore restricted resources will be used first, then unrestricted resources if they are needed.

The School has not formally adopted a policy that determines whether committed, assigned, or unassigned amounts are considered to be spent when an expenditure is incurred for purposes which amounts from any of those fund balance classifications could be used.

GENERAL

FUND BALANCE

Unassigned

General

\$ _____

NOTE 6: RISK MANAGEMENT

The School is exposed to various risks of losses to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School has obtained coverage from commercial insurance companies. The School has comprehensive general liability coverage of a \$3,000,000 aggregate limit with no deductible amount.

All risk management activities are accounted for in the General Fund and Special Revenue Funds of the School. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create but for which none have been reported are considered.

NOTE 7: ECONOMIC DEPENDENCY

The School received approximately 99% of their General Fund revenue from the Michigan Department of Education. Due to the significance of this revenue source, the School is considered to be economically dependent on the Michigan Department of Education.

INSIGHT SCHOOL OF MICHIGAN

NOTES TO FINANCIAL STATEMENTS – Continued

JUNE 30, 2015

NOTE 8: COMPONENTS OF NET POSITION

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* was implemented in the current period. This Statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. The Statement of Net Position reports the following components: assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

NOTE 9: OVERSIGHT FEES

Central Michigan University, the School's authorizer, has entered into an agreement with the School allowing it to deduct up to 3% of school aid payments to reimburse the School District Board for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the School's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the period ended June 30, 2015, the School incurred expenses of approximately \$122,402 for oversight fees.

NOTE 10: MANAGEMENT AGREEMENT

The School currently has a management agreement with K¹², Inc. (K¹²) for operations of the School through June, 2019. Under the terms of the management agreement, K¹²'s compensation for operating the School was \$686,117 for the fiscal year 2014-2015. The amount payable to K¹² at June 30, 2015 for management and technology fees was approximately \$591,238. As part of the School's deficit reduction at June 30, 2015 K¹² agreed to a reduction of management and technology fees owed to them of \$217,971.

Part of the agreement with K¹², involves the leasing of school personnel. Teachers, management and administrative personnel are employees of K¹², as such K¹² administers reporting and benefits for employees of the School and amounts are billed to the School monthly. For the year ended June 30, 2015 \$780,434 in payroll related expense was recorded.

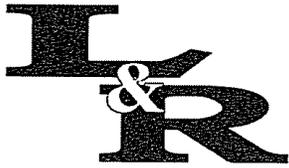
NOTE 11: UPCOMING GASB PRONOUNCEMENTS

In March 2015, the GASB issued Statement No. 72, *Fair Value Measurements and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an assets or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The School is currently evaluating the impact this standard will have on the financial statements when adopted for the 2016-2017 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

INSIGHT SCHOOL OF MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES				
State sources	\$ 5,067,530	\$ 4,175,844	\$ 4,080,056	\$ (95,788)
Federal sources	5,589	79,418	29,440	(49,978)
	<u>5,073,119</u>	<u>4,255,262</u>	<u>4,109,496</u>	<u>(145,766)</u>
TOTAL REVENUES	<u>5,073,119</u>	<u>4,255,262</u>	<u>4,109,496</u>	<u>(145,766)</u>
EXPENDITURES				
Instruction				
Basic programs	2,548,741	2,523,455	2,540,337	(16,882)
Added needs	189,879	189,841	242,999	(53,158)
	<u>2,738,620</u>	<u>2,713,296</u>	<u>2,783,336</u>	<u>(70,040)</u>
Total Instruction	<u>2,738,620</u>	<u>2,713,296</u>	<u>2,783,336</u>	<u>(70,040)</u>
Support Services				
Pupil support	343,998	248,666	284,405	(35,739)
Instructional staff	129,781	63,321	106,524	(43,203)
General administration	958,835	799,072	620,711	178,361
School administration	117,864	68,588	60,304	8,284
Operations and maintenance	33,908	33,581	35,906	(2,325)
Central support	355,118	297,868	218,310	79,558
	<u>1,939,504</u>	<u>1,511,096</u>	<u>1,326,160</u>	<u>184,936</u>
Total Support Services	<u>1,939,504</u>	<u>1,511,096</u>	<u>1,326,160</u>	<u>184,936</u>
TOTAL EXPENDITURES	<u>4,678,124</u>	<u>4,224,392</u>	<u>4,109,496</u>	<u>114,896</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	394,995	30,870	(0)	(30,870)
FUND BALANCE, JULY 1	<u> </u>	<u> </u>	<u> </u>	<u> </u>
FUND BALANCE, JUNE 30	<u>\$ 394,995</u>	<u>\$ 30,870</u>	<u>\$ (0)</u>	<u>\$ (30,870)</u>



Layton & Richardson, P.C.

Certified Public Accountants

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 Education
Insight School of Michigan
Lansing, Michigan

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We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of Insight School of Michigan, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Insight School of Michigan's basic financial statements, and have issued our report thereon dated October 26, 2015.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be a material weaknesses.

Finding 2015-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Insight School of Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of finding and response as **Item 2015-001**.

Insight School of Michigan's Response to Finding

Insight School of Michigan's response to the finding identified in our audit is described in the accompanying schedule of finding and response. Insight School of Michigan's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

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



Certified Public Accountants

East Lansing, Michigan
October 26, 2015

INSIGHT SCHOOL OF MICHIGAN
SCHEDULE OF FINDING AND RESPONSE
FOR THE YEAR ENDED JUNE 30, 2015

Finding 2015-001:

Finding considered material noncompliance:

Criteria: Compliance with the Uniform Budgeting and Accounting Act. Section 18 and 19 (MCL141.438 and 141.439) states that an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body.

Condition: Comparison of the School's amended budget to the actual appropriations (expenditures) shows that instructional expenditures exceeded budget in excess of 2.6% overall.

Cause: The School is in its first year of operations. Management and the board were unable to take appropriate action regarding appropriations in time to effect the financial results at June 30, 2015.

Effect: The final appropriations budget for instruction was exceeded by a net amount of \$70,040.

Recommendation: Policies and procedures for the monitoring and amending of budgets on a regular basis for both management and the board should be in place and followed. The School is required to report the Budget variances to the Michigan Department of Education and Central Michigan University.

Management's Response: Management will revamp procedures to ensure that budget variations are eliminated by putting into place a more robust process of final budget estimates prior to presentation to the Board of Directors.



Layton & Richardson, P.C.

Certified Public Accountants

LETTER OF COMMENTS AND RECOMMENDATIONS

Board of Education
Insight School of Michigan
Lansing, Michigan

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In planning and performing our audit of the financial statements of Insight School of Michigan as of and for the year ended June 30, 2015, 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, we considered Insight School of Michigan's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency. Listed below are our comments and suggestions regarding those matters. A separate report dated October 26, 2016, contains our report on significant deficiencies or material weaknesses in the School's internal control. This letter does not affect our report dated October 26, 2015, on the financial statements of Insight School of Michigan.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various School personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

CURRENT YEAR RECOMMENDATIONS

BUDGETING COMPLIANCE

It was noted during our audit that the School's actual revenues and expenditures are materially unfavorable when compared with the amended budget. This is not in compliance with the Uniform Budgeting and Accounting Act (MCL 141.439). We recommend that the School and Board regularly monitor budgeted items against actual and take appropriate action to eliminate material variances on a timely basis.

FULL TIME EQUIVALENT REPORTING

It was noted during our audit that the reports and supporting records for reporting of full time equivalent (FTE) students were not maintained at the school. We recommend that copies of state reporting be retained at the school

CURRENT YEAR RECOMMENDATIONS - Concluded

RECORDED TRANSACTION

During our review of journal entries, payroll and other recorded transactions, we noted that significant items are being recorded to the books and records of the organization with only approval of the account manager. We recommend that policies and procedures are reviewed and approved by the board before recording. This will help increase board awareness of expenditures and allow for timely review of budgets.

PHYSICAL INVENTORY OF ASSETS

We recommend that an annual inventory of physical assets be undertaken. These items, whether or not capitalized, are part of the fund balance of the School and should be tracked to record valuation and to prevent defalcation.

We are grateful to the employees of the Insight School of Michigan for their assistance and cooperation which we received during the audit, and we thank them.

Very truly yours,

A handwritten signature in cursive script that reads "Layton & Richardson, P.C.".

Certified Public Accountants

East Lansing, Michigan
October 26, 2015



Layton & Richardson, P.C.

Certified Public Accountants

October 26, 2015

To the Board of Education
Insight School of Michigan
Lansing, Michigan

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We have audited the financial statements of the governmental activities and the major fund of Insight School of Michigan for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 27, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Insight School of Michigan are described in Note 1 to the financial statements. No new accounting policies were adopted during the year ended June 30, 2015. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 estimate affecting the financial statements was:

Management's estimate of the liabilities from Related Services. The estimate is based on internal reporting from the School's contracted management company. We evaluated the key factors and assumptions used to develop the receivables in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of budgets and budgetary accounting in Note 2 to the financial statements. Violations of P.A. 621 of 1978 may be considered significant or material to the financial statements.

Difficulties Encountered During the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

For purposes of this letter, a disagreement with management 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 October 26, 2015.

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

Other Matters

We applied certain limited procedures to the statement of revenues, expenditures, and changes in fund balance – budget and actual for the general fund, which is 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.

Restrictions on Use

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

Very truly yours,

A handwritten signature in black ink that reads "Layton & Richardson, P.C." in a cursive, slightly slanted script.

Certified Public Accountants

East Lansing, Michigan
October 26, 2015