

Creative Technologies Academy

**Financial Report
with Supplemental Information
June 30, 2011**

Creative Technologies Academy

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Independent Auditor's Report

To the Board of Directors
Creative Technologies Academy

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Creative Technologies Academy (the "Academy") as of and for the year ended June 30, 2011, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of Creative Technologies Academy's management. 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Creative Technologies Academy as of June 30, 2011 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the Academy was placed on probation by the Ferris State University Board of Trustees through the remainder of the current contract period. Management's future plans related to this probationary period are described in Note 12.

During the year, the Academy implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as discussed in Note 1. As a result of this requirement implementation, the fund balance classifications in the governmental fund financial statements have been changed to reflect the five new classifications under GASB 54.

To the Board of Directors
Creative Technologies Academy

The management's discussion and analysis and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 31, 2011 on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. 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 opinions 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* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

August 31, 2011

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

To the Board of Directors
Creative Technologies Academy

We have audited the basic financial statements of Creative Technologies Academy as of and for the year ended June 30, 2011 and have issued our report thereon dated August 31, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Creative Technologies Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Directors
Creative Technologies Academy

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Creative Technologies Academy'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the board of directors, others within the Academy, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

August 31, 2011

Creative Technologies Academy

Management's Discussion and Analysis

This section of Creative Technologies Academy's annual financial report presents our discussion and analysis of our financial performance during the year ended June 30, 2011. Please read it in conjunction with our basic financial statements, which immediately follow this section.

Using this Annual Report

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

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Academy-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for Major 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 assets and the statement of activities, which appear first in our financial statements, report information on our Academy as a whole and our activities in a way that helps answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Creative Technologies Academy

Management's Discussion and Analysis (Continued)

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

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

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

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

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

Creative Technologies Academy

Management's Discussion and Analysis (Continued)

The Academy as a Whole

Recall that the statement of net assets provides the perspective of our Academy as a whole. Table I provides a summary of net assets as of June 30, 2011 and 2010:

TABLE I	Governmental Activities	
	June 30	
	2011	2010
Assets		
Current and other assets	\$ 681,125	\$ 677,962
Capital assets	<u>2,449,778</u>	<u>2,494,196</u>
Total assets	3,130,903	3,172,158
Liabilities		
Current liabilities	1,769,838	533,700
Long-term liabilities	<u>102,049</u>	<u>1,561,302</u>
Total liabilities	<u>1,871,887</u>	<u>2,095,002</u>
Net Assets		
Invested in capital assets - Net of related debt	888,500	737,213
Unrestricted	<u>370,516</u>	<u>339,943</u>
Total net assets	<u><u>\$ 1,259,016</u></u>	<u><u>\$ 1,077,156</u></u>

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of our Academy's governmental activities is discussed below. Our net assets were \$1,259,016 at June 30, 2011. Capital assets, net of related debt totaling \$888,500, compares the original cost, less depreciation of our capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from General Fund revenue as the debt service comes due. The remaining amount of net assets of \$370,516 was unrestricted.

The \$370,516 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net assets balance enables us to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

Creative Technologies Academy

Management's Discussion and Analysis (Continued)

The results of this year's operations for our Academy as a whole are reported in the statement of activities (Table 2), which shows the changes in net assets for fiscal years 2011 and 2010.

TABLE 2

	Governmental Activities	
	Year Ended June 30	
	2011	2010
Revenue		
Program revenue:		
Charges for services	\$ 35,449	\$ 41,201
Federal grants and entitlements	206,361	214,403
State categoricals	83,541	90,786
Operating grants	126,031	123,259
General revenue:		
State foundation allowance	2,089,513	2,012,583
Other	30,047	21,937
Total revenue	<u>2,570,942</u>	<u>2,504,169</u>
Functions/Program Expenses		
Instruction	1,099,454	1,090,307
Support services	1,084,663	1,004,719
Food services	26,384	27,659
Community services	152	6,038
Interest on long-term debt	108,594	117,450
Depreciation (unallocated)	69,835	93,915
Total functions/program expenses	<u>2,389,082</u>	<u>2,340,088</u>
Change in Net Assets	<u>\$ 181,860</u>	<u>\$ 164,081</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$2,389,082. Certain activities were partially funded by those who benefited from the programs (\$35,449) or by other governments and organizations that subsidized certain programs with grants and contributions (\$415,933). We paid for the remaining "public benefit" portion of our governmental activities with \$2,089,513 in state foundation allowance, and with our other revenues, i.e., interest and general entitlements.

We experienced an increase in net assets of approximately \$182,000. A couple reasons for the increase in net assets were an increase in federal IDEA ARRA funding and a decrease in depreciation expense.

Creative Technologies Academy

Management's Discussion and Analysis (Continued)

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

The Academy's Funds

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

As we completed this year, the governmental funds reported a combined fund balance of \$340,040, which is an increase of \$29,076 from last year. This increase is solely the result of our principal operating fund, the General Fund, and debt retirement.

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

General Fund Budgetary Highlights

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

There were revisions made to our 2010-2011 General Fund original budget. Budgeted revenues were increased approximately \$12,000 due to expected revenue increases. Budgeted expenditures were increased approximately \$82,000 due to expected revenue decreases.

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

Creative Technologies Academy

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2011, we had \$2,449,778 invested in a broad range of capital assets, including land, land improvements, buildings, building improvements, transportation equipment, furniture, and equipment. This amount represents a net decrease (including additions and depreciation) of \$44,418.

	2011	2010
Land	\$ 75,000	\$ 75,000
Land improvements	35,269	42,519
Building and building improvements	2,059,939	2,080,908
Transportation equipment	64,000	68,000
Furniture and equipment	215,570	227,769
Total capital assets	<u>\$ 2,449,778</u>	<u>\$ 2,494,196</u>

This year's additions of \$25,417 included upgrades in computer technology.

No major capital projects are planned for the 2011-2012 fiscal year. We anticipate capital additions will be comparable to the 2010-2011 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

Creative Technologies Academy

Management's Discussion and Analysis (Continued)

Debt

At the end of this year, we had \$1,561,278 in notes and capital leases outstanding versus \$1,756,983 in the previous year - a decrease of approximately 11 percent. Those notes and leases consisted of the following at June 30, 2011 and 2010:

	2011	2010
Lease payable to an individual, collateralized by textbooks, due in monthly installments of \$800 through March 2012, including interest at 6.00 percent	\$ 4,458	\$ 13,268
Note payable to a bank, collateralized by a charter bus, due in monthly installments of \$1,818 through July 1, 2011, including interest of .65 percent below the prime rate or 2.60 percent at June 30, 2010	-	16,159
Note payable to an individual, collateralized by land and buildings, due in monthly installments of \$3,000 through November 2012, including interest at 6.00 percent. This note is due and payable within 13 months of written notice	130,977	158,225
Note payable to a bank, collateralized by land and buildings, due in monthly installments of \$14,397 through June 2012, including interest at 6.50 percent. All remaining unpaid interest and principal are due in a single payment on June 25, 2012	1,359,544	1,439,810
Note payable to a bank, collateralized by land and buildings, due in monthly installments of \$6,244 through June 2012, including interest at 5.25 percent	66,299	129,521
Total	<u>\$ 1,561,278</u>	<u>\$ 1,756,983</u>

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

Creative Technologies Academy

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

Our board of directors and administration consider many factors when setting the 2012 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 2012 fiscal year is 10 percent and 90 percent of the February 2011 and September 2011 student counts, respectively. The 2012 budget was adopted in June 2011, based on an estimate of students who will be enrolled in September 2011. Approximately 82 percent of total General Fund revenue is from the foundation allowance. As a result, our funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2012 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2012 budget. Once the final student count and related per pupil funding are validated, state law requires us to amend the budget if actual resources are not sufficient to fund original appropriations.

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

Creative Technologies Academy

Statement of Net Assets June 30, 2011

	<u>Governmental Activities</u>
Assets	
Cash (Note 3)	\$ 239,098
Due from other governmental units	427,993
Prepaid costs	14,034
Capital assets - Net (Note 4)	<u>2,449,778</u>
Total assets	3,130,903
Liabilities	
Accounts payable	21,188
Accrued payroll-related liabilities	141,146
State aid anticipation note (Note 7)	148,275
Long-term liabilities (Note 6):	
Due within one year	1,459,229
Due in more than one year	<u>102,049</u>
Total liabilities	<u>1,871,887</u>
Net Assets	
Invested in capital assets - Net of related debt	888,500
Unrestricted	<u>370,516</u>
Total net assets	<u><u>\$ 1,259,016</u></u>

Creative Technologies Academy

Statement of Activities Year Ended June 30, 2011

Functions/Programs	Program Revenues			Governmental
	Expenses	Charges for Services	Operating Grants and Contributions	Activities Net (Expense) Revenue and Changes in Net Assets
Primary government - Governmental activities:				
Instruction	\$ 1,099,454	\$ -	\$ 409,402	\$ (690,052)
Support services	1,084,663	-	6,531	(1,078,132)
Food services	26,384	34,849	-	8,465
Community services	152	600	-	448
Interest on long-term debt	108,594	-	-	(108,594)
Depreciation expense (unallocated)	69,835	-	-	(69,835)
Total governmental activities	<u>\$ 2,389,082</u>	<u>\$ 35,449</u>	<u>\$ 415,933</u>	(1,937,700)
General revenues:				
State aid not restricted to specific purposes				2,089,513
Interest and investment earnings				1,188
Other				28,859
Total general revenues				<u>2,119,560</u>
Change in Net Assets				181,860
Net Assets - Beginning of year				<u>1,077,156</u>
Net Assets - End of year				<u><u>\$ 1,259,016</u></u>

Creative Technologies Academy

Governmental Funds Balance Sheet June 30, 2011

	General Fund	Nonmajor Governmental Fund - Food Services	Total Governmental Funds
Assets			
Cash (Note 3)	\$ 238,351	\$ 747	\$ 239,098
Due from other governmental units	427,993	-	427,993
Prepaid costs	14,034	-	14,034
Total assets	<u>\$ 680,378</u>	<u>\$ 747</u>	<u>\$ 681,125</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 21,059	\$ 129	\$ 21,188
Accrued payroll-related liabilities	141,146	-	141,146
State aid anticipation note (Note 7)	148,275	-	148,275
Deferred revenue (Note 5)	30,476	-	30,476
Total liabilities	340,956	129	341,085
Fund Balances			
Nonspendable - Prepaid assets	14,034	-	14,034
Unassigned	325,388	618	326,006
Total fund balances	<u>339,422</u>	<u>618</u>	<u>340,040</u>
Total liabilities and fund balances	<u>\$ 680,378</u>	<u>\$ 747</u>	<u>\$ 681,125</u>

Creative Technologies Academy

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2011

Fund Balance Reported in Governmental Funds	\$	340,040
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds:		
Cost of capital assets	\$	3,345,463
Accumulated depreciation	<u>(895,685)</u>	2,449,778
Other long-term assets not available to pay current period expenditures are deferred in the governmental funds (Note: GASB No. 33)		30,476
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds - Notes and capital leases payable		<u>(1,561,278)</u>
Net Assets of Governmental Activities	\$	<u>1,259,016</u>

Creative Technologies Academy

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2011

	<u>General Fund</u>	<u>Nonmajor Governmental Fund - Food Services</u>	<u>Total Governmental Funds</u>
Revenue			
Local sources	\$ 30,647	\$ 34,849	\$ 65,496
State sources	2,173,054	-	2,173,054
Federal sources	204,864	-	204,864
Intermediate sources	8,000	-	8,000
Interdistrict sources	118,031	-	118,031
Total revenue	2,534,596	34,849	2,569,445
Expenditures			
Current:			
Instruction	1,099,454	-	1,099,454
Support services	1,068,401	-	1,068,401
Food services	-	26,384	26,384
Community services	152	-	152
Debt service:			
Principal	195,705	-	195,705
Interest	108,594	-	108,594
Capital outlay	41,679	-	41,679
Total expenditures	2,513,985	26,384	2,540,369
Excess of Revenue Over Expenditures	20,611	8,465	29,076
Other Financing Sources (Uses)			
Transfers in	10,000	-	10,000
Transfers out	-	(10,000)	(10,000)
Net Change in Fund Balances	30,611	(1,535)	29,076
Fund Balances - Beginning of year	308,811	2,153	310,964
Fund Balances - End of year	\$ 339,422	\$ 618	\$ 340,040

Creative Technologies Academy

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds \$ 29,076

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

Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	\$ (69,835)	
Capitalized capital outlay	<u>25,417</u>	(44,418)

Revenue is reported in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end 1,497

Repayment of note and lease principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 195,705

Change in Net Assets of Governmental Activities \$ 181,860

Creative Technologies Academy

Fiduciary Fund Statement of Fiduciary Assets and Liabilities June 30, 2011

	Student Activities Agency Fund
Assets - Cash	<u>\$ 4,117</u>
Liabilities - Due to student groups	<u>\$ 4,117</u>

Creative Technologies Academy

Notes to Financial Statements June 30, 2011

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Creative Technologies Academy (the "Academy") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy:

Reporting Entity

The Academy was formed as a charter school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994.

On July 1, 2007, the Academy renewed a seven-year contract with the Ferris State University Board of Trustees to charter a public school academy. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. The Ferris State University Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Ferris State University Board of Trustees 3 percent of the state aid foundation allowance as administrative fees. The total administrative fees for the year ended June 30, 2011 paid to the Ferris State University Board of Trustees were approximately \$64,000. Effective July 13, 2011, the Academy was placed on probation by the Ferris State University Board of Trustees through the remainder of the current contract period (see Note 12).

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

Academy-wide and Fund Financial Statements

The Academy-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy's government-wide activities are considered governmental activities.

Creative Technologies Academy

Notes to Financial Statements June 30, 2011

Note I - Summary of Significant Accounting Policies (Continued)

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 (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes unrestricted state aid.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. 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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Creative Technologies Academy

Notes to Financial Statements June 30, 2011

Note I - Summary of Significant Accounting Policies (Continued)

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

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

The Academy reports the following major governmental fund:

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

Additionally, the Academy reports the following fund types:

Special Revenue Fund - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The Academy's Special Revenue Fund includes the Food Services Fund. Any operating deficit generated by this activity is the responsibility of the General Fund.

The Student Activities Agency Fund - The Academy presently maintains an Agency Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

Assets, Liabilities, and Net Assets or Equity

Cash - Cash includes cash on hand and demand deposits.

Receivables - All trade receivables are shown net of an allowance for uncollectible amounts. The Academy considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Prepaid Costs - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both Academy-wide and fund financial statements.

Capital Assets - Capital assets, which include land, buildings, transportation equipment, and furniture and other equipment, are reported in the applicable governmental column in the Academy-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure-type assets.

Creative Technologies Academy

Notes to Financial Statements June 30, 2011

Note I - Summary of Significant Accounting Policies (Continued)

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

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

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

In the fund financial statements, governmental fund types recognize debt issuance costs during the current period.

The face amount of debt issued is reported as other financing sources. Issuance costs are reported as debt service expenditures.

Fund Balance - In March 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 on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved/undesignated were replaced with five new classifications - nonspendable, restricted, committed, assigned, and unassigned. The Academy implemented Statement No. 54 during the year.

In the fund financial statements, governmental funds report the following components of fund balance:

- **Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed:** Amounts that have been formally set aside by the board of directors for use for specific purposes. Commitments are made and can be rescinded only via resolution of the board of directors.
- **Assigned:** Intent to spend resources on specific purposes expressed by the board of directors

Creative Technologies Academy

Notes to Financial Statements June 30, 2011

Note 1 - Summary of Significant Accounting Policies (Continued)

- Unassigned: Residual classification of the General Fund and includes all amounts not contained in other components. Unassigned amounts are technically available for any purpose.

Comparative Data/Reclassifications - Comparative data is not included in the Academy's financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, function, and object. 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 object level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The Academy adjusted budgeted amounts during the year in response to actual and projected activities.

Encumbrance accounting is employed in governmental funds. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services are rendered.

Budgeted Variances - The Academy did not have any significant expenditure budget variances. The Academy improperly budgeted for \$175,000 of debt proceeds and approximately \$30,000 of principal payments related to the state aid anticipation note.

Note 3 - Deposits

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

The Academy has designated two banks for the deposit of its funds.

The Academy's cash is subject to custodial credit risk, which is examined in more detail below:

Creative Technologies Academy

Notes to Financial Statements June 30, 2011

Note 3 - Deposits (Continued)

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the Academy's deposits for custodial credit risk. At year end, the Academy's deposit balance of \$261,353 had \$6,489 in bank deposits (checking accounts) that were uninsured and uncollateralized. The Academy believes that due to the dollar amounts of cash deposits and limits of FDIC insurance, it may be impractical to insure all deposits. As a result, the Academy evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 4 - Capital Assets

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

	Balance July 1, 2010	Additions and Reclassifications	Balance June 30, 2011
Capital assets not being depreciated -			
Land	\$ 75,000	\$ -	\$ 75,000
Capital assets being depreciated:			
Land improvements	69,985	-	69,985
Buildings and improvements	2,421,617	3,333	2,424,950
Furniture and equipment	673,444	22,084	695,528
Transportation equipment	80,000	-	80,000
Subtotal	3,245,046	25,417	3,270,463
Accumulated depreciation:			
Land improvements	27,466	7,250	34,716
Buildings and improvements	340,709	24,302	365,011
Furniture and equipment	445,675	34,283	479,958
Transportation equipment	12,000	4,000	16,000
Subtotal	825,850	69,835	895,685
Net capital assets being depreciated	2,419,196	(44,418)	2,374,778
Net governmental capital assets	\$ 2,494,196	\$ (44,418)	\$ 2,449,778

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

Creative Technologies Academy

Notes to Financial Statements June 30, 2011

Note 4 - Capital Assets (Continued)

During the year ended June 30, 2008, the Academy purchased a charter bus for \$80,000 which is included in the above table under transportation equipment. The Academy subsequently leased this bus to a third party under a five-year lease agreement for \$1 per year. Under the lease agreement, the Academy has access to the bus as necessary for transportation of students. The agreement also calls for expense sharing of certain bus maintenance.

Note 5 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Deferred revenue	\$ 30,476	\$ -

Note 6 - Long-term Debt

The Academy issues notes and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. Notes and installment purchase agreements are general obligations of the Academy.

Long-term obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Notes	\$ 1,743,715	\$ -	\$ 186,895	\$ 1,556,820	\$ 1,454,771
Capital leases	13,268	-	8,810	4,458	4,458
Total governmental activities	<u>\$ 1,756,983</u>	<u>\$ -</u>	<u>\$ 195,705</u>	<u>\$ 1,561,278</u>	<u>\$ 1,459,229</u>

Creative Technologies Academy

Notes to Financial Statements June 30, 2011

Note 6 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above note obligations are as follows:

Years Ending June 30	Principal	Interest	Total
2012	\$ 1,454,771	\$ 96,401	\$ 1,551,172
2013	30,713	5,287	36,000
2014	32,607	3,393	36,000
2015	34,618	1,382	36,000
2016	4,111	26	4,137
Total	<u>\$ 1,556,820</u>	<u>\$ 106,489</u>	<u>\$ 1,663,309</u>

Governmental Activities

Long-term note obligations consist of the following:

Note payable to an organization, collateralized by land and buildings, due in monthly installments of \$3,000 through August 2015, including interest at 6.00 percent. This note is due and payable within 13 months of written notice

\$ 130,977

Note payable to a bank, collateralized by land and buildings, due in monthly installments of \$14,397 through June 2012, including interest at 6.50 percent. All remaining unpaid interest and principal are due in a single payment on June 25, 2012

1,359,544

Note payable to a bank, collateralized by land and buildings, due in monthly installments of \$6,244 through June 2012, including interest at 5.25 percent

66,299

Total

\$ 1,556,820

Creative Technologies Academy

Notes to Financial Statements June 30, 2011

Note 6 - Long-term Debt (Continued)

Capital Leases - The Academy has entered into lease agreements as lessee for financing the purchase of various equipment and textbooks. These leases qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present values are as follows:

Year Ending <u>June 30</u>	<u>Amount</u>
2012	\$ 4,565
Less amount representing interest	<u>107</u>
Present value of net minimum lease payments	<u>\$ 4,458</u>

Note 7 - State Aid Anticipation Note

During the fiscal year, the Academy borrowed \$175,000 in a state aid anticipation note. Throughout the term of the note, the Academy is required to maintain at least \$100,000 in its checking account. The note had a balance of \$148,275 at June 30, 2011. The note bore interest at 4.00 percent and matured on July 2, 2011. Subsequent to year end, the proceeds of a new state aid anticipation note were used to pay off this note (see Note 11).

Note 8 - Risk Management

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

Note 9 - Defined Benefit Pension Plan and Postemployment Benefits

Plan Description - The Academy participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the Academy. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The system also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

Creative Technologies Academy

Notes to Financial Statements June 30, 2011

Note 9 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the pension and postemployment healthcare plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System at 7150 Harris Drive, P.O. Box 30171, Lansing MI 48909.

Pension Benefits - Employer contributions to the pension system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. The employer contribution rate for basic plan members was 10.13 percent of covered payroll for the period from July 1, 2010 through September 30, 2010 and 12.16 percent for the period from October 1, 2010 through June 30, 2011. The employer contribution rate for pension plus plan members was 10.66 percent for the period from October 1, 2010 through June 30, 2011. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages, or up to 6.4 percent of gross wages for members entering the MIP Plus plan on or after July 1, 2008. The Academy's required and actual contributions to the plan for the years ended June 30, 2011, 2010, and 2009 were \$149,747, \$121,604, and \$106,495, respectively.

Postemployment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate was 6.81 percent of covered payroll for the period from July 1, 2010 through September 30, 2010, 7.25 percent for the period from October 1, 2010 through October 31, 2010, and 8.50 percent for the period from November 1, 2010 through June 30, 2011. The Academy's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2011, 2010, and 2009 were \$94,114, \$81,751, and \$74,535, respectively.

Creative Technologies Academy

Notes to Financial Statements June 30, 2011

Note 10 - Interfund Receivables, Payables, and Transfers

Interfund transfers reported in the fund financial statements are comprised of the following:

	Transfer Out - Food Services Fund
Transfer in - General Fund	<u>\$ 10,000</u>

The interfund transfer moved surplus funds generated by food service operations from the Food Services Special Revenue Fund to the General Fund.

Note 11 - Subsequent Events

Subsequent to year end, the Academy borrowed \$148,218 at 3.6 percent annual interest on a state aid anticipation note. One interest-only payment is due on August 2, 2011. Principal and interest payments of \$3,228 are due monthly beginning September 2, 2011 and all unpaid principal and interest are due on July 2, 2012.

Note 12 - Management Plans

During 2010-2011, the Academy had a mid-contract review with the Charter Schools Office (CSO) of Ferris State University. Based on academic performance, the Academy has been placed on probation for the remainder of the contract which expires June 30, 2014. The major restriction placed on the school that affects finances is a limitation on borrowing. There can be no loans secured that mature beyond June 2014. The Academy will comply with this restriction.

The Academy has the following plans in place to address student achievement and ensure retention of its charter contract with Ferris State University:

What We Have Done

- * Prior to the mid-contract review, the Academy developed a plan for improving student achievement in the fall of 2010 and finalized it in January 2011. The plan focused on improving classroom instruction, assessment of student learning, and online resources and educational materials.
- * In addition, the Academy modified its formal School Improvement Plan in June 2011. This plan highlights upgrades in curriculum, assessment, and staffing.
- * In April 2011, the Administrative Council approved the superintendent's recommendation to change the organizational chart of the Academy specifically for the purpose of improving student achievement by reassigning and promoting personnel.

Creative Technologies Academy

Notes to Financial Statements June 30, 2011

Note 12 - Management Plans (Continued)

- * The Academy will have a K-8 Instruction and Achievement Specialist, a new position, in 2011-2012. The superintendent will assume that role in grades 9-12 for 2011-2012.
- * In May 2011, the superintendent had a meeting with the CSO Field Representative for the purpose of improving communication and understanding of the CSO's expectations.
- * In August 2011, the president-elect of CTA's board of directors met with the CSO field representative and other personnel from the CSO for the purpose of improving communication and understanding.

What We Will Be Doing

- * The Administrative Council and K-8 Instruction and Achievement Specialist of the Academy met on August 16, 2011 with the Academic/Assessment Specialist from CSO to review a template for the Academy's Probation Plan. The Academy will finalize its Probation Plan and submit it to the CSO by September 13, 2011.
- * The Academy has an active and supportive board of directors which now has a full membership of seven on August 11, 2011. The board will be actively engaged in supporting academic achievement and the continuation of the charter.

Note 13 - Upcoming Accounting Pronouncement

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position*. This pronouncement provides financial reporting guidance for deferred outflows of resources, and deferred inflows of resources. This statement also amends the net asset reporting in Statement 34, incorporates deferred outflows of resources, and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The Academy is currently evaluating the impact this standard will have on the financial statements when adopted during the Academy's 2013 fiscal year.

Required Supplemental Information

Creative Technologies Academy

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 31,000	\$ 32,600	\$ 30,647	\$ (1,953)
State sources	2,388,625	2,396,839	2,173,054	(223,785)
Federal sources	99,649	101,390	204,864	103,474
Intermediate sources	-	-	8,000	8,000
Interdistrict sources	-	-	118,031	118,031
Total revenue	2,519,274	2,530,829	2,534,596	3,767
Expenditures				
Current:				
Instruction:				
Basic	858,876	880,318	872,150	(8,168)
Added needs	217,720	217,068	227,304	10,236
Total instruction	1,076,596	1,097,386	1,099,454	2,068
Support services:				
Pupil	49,957	49,246	49,382	136
Instructional staff	126,953	134,093	128,001	(6,092)
General administration	172,093	178,148	179,559	1,411
School administration	143,083	167,100	161,897	(5,203)
Business services	86,348	78,875	83,531	4,656
Operations and maintenance	311,969	320,081	319,404	(677)
Central	171,657	174,565	179,380	4,815
Other	10,500	10,000	8,926	(1,074)
Total support services	1,072,560	1,112,108	1,110,080	(2,028)
Community services	6,320	152	152	-
Debt service:				
Principal	200,500	225,352	195,705	(29,647)
Interest	110,000	113,015	108,594	(4,421)
Total expenditures	2,465,976	2,548,013	2,513,985	(34,028)
Other Financing Sources				
Transfers in	6,000	6,000	10,000	4,000
Proceeds from debt issuance	-	175,000	-	(175,000)
Total other financing sources	6,000	181,000	10,000	(171,000)
Net Change in Fund Balance	59,298	163,816	30,611	(133,205)
Fund Balance - July 1, 2010	308,811	308,811	308,811	-
Fund Balance - June 30, 2011	\$ 368,109	\$ 472,627	\$ 339,422	\$ (133,205)