

FINANCIAL REPORT
NORTHWEST ACADEMY
June 30, 2011

**NORTHWEST ACADEMY
FINANCIAL REPORT
Year Ended June 30, 2011**

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	i-v
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	3
Statement of Activities	4
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	5
Reconciliation of Balance Sheet of Governmental Funds to Net Assets	6
Statement of Revenues, Expenditures, and Changes in Fund Balance	7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	8
Fiduciary Fund – Statement of Fiduciary Net Assets	9
Notes to Financial Statements	10-17
Required Supplemental Information	
Budgetary Comparison Schedule – General Fund	18
Other Supplemental Information	
Statement of Account Balances – Fiduciary Fund	19
Internal Control, Compliance and Other Matters	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	20-21

November 14, 2011

Independent Auditors' Report

Board of Education
Northwest Academy
Charlevoix, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of Northwest 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 financial statements are the responsibility of the 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 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 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 and the major fund of Northwest Academy, as of June 30, 2011, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2011, on our consideration of Northwest Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Education
Northwest Academy
Charlevoix, Michigan

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the 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 the 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Northwest Academy's basic financial statements as a whole. The accompanying other supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The statement of receipts and disbursements – Fiduciary Fund has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Hill, Schroeder & Co.

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan

Management's Discussion and Analysis

Overview of the Basic Financial Statements

Northwest Academy's (the "Academy's") basic financial statements include government-wide statements, fund financial statements and notes to the financial statements. This report also contains required and other supplemental information in addition to the basic financial statements

Government-wide Financial Statements

The government-wide financial statements report information on all of the Academy's non-fiduciary funds. The government-wide statements are designed to provide readers with a broad overview of the Academy's finances, in a manner similar to a private-sector business.

The Statement of Net Assets displays all of the Academy's assets and liabilities, with the difference reported as net assets. All long-term assets and debt obligations are presented.

The Statement of Activities focuses on the gross and net cost of the various functions within the Academy (instruction, support services, etc.), which are supported by the Academy's general revenues (unrestricted state aid, etc.).

Fund Financial Statements

The fund financial statements report on the governmental funds, with an emphasis on major funds. Major funds are determined by the level of activity within the various funds. The focus of the fund financial statements is on the sources and uses of funds during the current year.

The fiduciary fund is also presented separately from the governmental funds, due to the fact that these assets do not represent assets of the Academy. These assets are not presented as part of the government-wide financial statements.

Northwest Academy maintains one individual governmental fund. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund which is considered a major fund.

Notes to the Financial Statements

The notes provide additional information which is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

The table below summarizes the Academy's net assets as of June 30, 2011 and 2010:

	2011	2010
Assets		
Current assets	\$ 281,731	\$ 221,183
Capital assets, net of accum dep.	487,456	501,157
Total assets	769,187	722,340
Liabilities		
Current liabilities	131,116	125,553
Noncurrent liabilities	371,506	389,238
Total liabilities	502,622	514,791
Net Assets		
Investment in capital assets, net of related debt	98,451	100,726
Unrestricted	168,114	106,823
Total net assets	\$ 266,565	\$ 207,549

At the end of the fiscal year, Northwest Academy is able to report positive balances in both categories of net assets. The first portion of the Academy's net assets is its investment in capital assets (land, building and equipment) less any related debt used to acquire those assets that is still outstanding. The Academy uses these capital assets in providing educational services; consequently these assets are not available for future spending.

The remaining portion of net assets, unrestricted net assets, may be used at the Academy's discretion to meet ongoing obligations.

The results for the Academy as a whole are reported in the Statement of Activities, which is summarized below:

Northwest Academy
Year Ended June 30, 2011 and 2010

	2011	2010
Revenue		
Program revenue:		
Charges for services	\$ 1,388	\$ 1,089
Grants and contributions	103,763	86,761
General revenue:		
State and federal aid, unrestricted	951,199	838,802
Interest and investment earnings	79	134
Other	2,668	3,982
	1,059,097	930,768
 Function/Program Expenses		
Instruction	628,176	572,771
Support services	326,081	309,597
Interest/fees on long-term debt	26,178	26,881
Depreciation (unallocated)	19,646	17,918
	1,000,081	927,167
 Change in net assets	59,016	3,601
 Net assets - beginning of year	207,549	203,948
 Net assets - end of year	\$ 266,565	\$ 207,549

As reported above, the Academy recorded \$1,059,097 of revenues. The majority of the Academy's revenues were from unrestricted state and federal aid (91%) and grants and contributions (9%). The Academy's increased enrollment provided more state and federal aid revenue than the previous year.

The Academy incurred \$1,000,081 of expenses. The Academy continues to provide a "seat-time waiver" program, which allows certain students to receive instruction through distance learning. This had resulted in an increase in instruction expense. In addition, the increased enrollment has led to increased instruction and support services expense.

Fund Financial Analysis

As of year end, the governmental fund reported a fund balance of \$168,114 which is \$61,291 more than the beginning of the year. This is a result of the increase in students which the state aid is based on. Those payments are based on a per student amount.

General Fund Budgetary Highlights

Final budgeted expenditures were greater than originally budgeted to reflect the addition of capital outlay expenditures and an increase in purchased services.

Final revenues were greater than originally budgeted. Final expenditures were higher than final budgeted amounts due to the accrual of the playground lease payment.

Capital Assets

At June 30, 2011 the Academy had \$680,499 invested in capital assets. The following table summarizes the capital asset activity for the year:

	<u>July 1, 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2011</u>
Land and improvements	\$ 75,000	\$ -	\$ -	\$ 75,000
Buildings and improvements	562,723	-	-	562,723
Furniture and equipment	<u>36,831</u>	<u>5,945</u>	<u>-</u>	<u>42,776</u>
Total capital assets	674,554	5,945	-	680,499
Less accum. depreciation	<u>173,397</u>	<u>19,646</u>	<u>-</u>	<u>193,043</u>
Net capital assets	<u>\$ 501,157</u>	<u>\$ (13,701)</u>	<u>\$ -</u>	<u>\$ 487,456</u>

Debt Outstanding

At the end of the year, the Academy had \$389,005 outstanding for a building capital lease.

Below is the debt activity for the year:

	<u>July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2011</u>
Leases payable:				
Building capital lease	\$ 399,830	\$ 5,000	\$ 15,825	\$ 389,005
Copier capital lease	<u>601</u>	<u>-</u>	<u>601</u>	<u>-</u>
Total leases payable	<u>\$ 400,431</u>	<u>\$ 5,000</u>	<u>\$ 16,426</u>	<u>\$ 389,005</u>

The reduction in debt was attributable to regular debt payments.

Economic Factors

The economic factors which are most impacting to Northwest Academy with respect to this financial report are our sources of funding and student enrollment.

Northwest Academy is a public school academy. Sources of funding available to public school academies differ significantly from those sources available to traditional public schools. Public school academies are not allowed to float bonds to pay for facilities and extra needs. Approximately 90% of Northwest Academy's funds available to appropriate are generated by the State foundation grant. The grant is based on student enrollment and serves as our largest source of funding for both operations and facilities. Public school academies do receive services from the local Intermediate School District and those funds fall under the Title programs that we qualify to receive. These funds amount to less than 5% of our total income.

Over the past year, Northwest Academy has seen an increase in enrollment due to a recently adopted strategic plan which sets out concrete goals for improving curriculum, increasing enrollment, facility construction and renovation, and fundraising. Our continued funding challenge is due to the fact that public school academics do not receive funding from any other sources than the funds for the per pupil count. Since these funds pay for all of the facility and operating expenses that we incur, additional fundraising measures are currently being researched and implemented. In addition, we believe that by increasing the capacity of our facilities and improving our curriculum beyond state mandates, we will attract new students as well as new donors.

Financial Contact

The Academy's financial statements are designed to present users with a general overview of the Academy's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed towards the Business Office at Northwest Academy.

NORTHWEST ACADEMY
Statement of Net Assets
June 30, 2011

	<u>Governmental Activities</u>
<u>Assets</u>	
Current Assets	
Cash	\$ 31,950
Due from other governmental units	249,781
	<hr/>
Total current assets	281,731
	<hr/>
Noncurrent Assets	
Capital assets, non-depreciable	75,000
Capital assets, depreciable	605,499
Less: accumulated depreciation	(193,043)
	<hr/>
Total noncurrent assets	487,456
	<hr/>
Total assets	\$ 769,187
	<hr/> <hr/>
<u>Liabilities and Net Assets</u>	
Current Liabilities	
Accounts payable	\$ 1,705
Accrued expenses	111,349
Deferred revenue	563
Capital lease, due within one year	17,499
	<hr/>
Total current liabilities	131,116
Noncurrent Liabilities	
Capital lease, net of current portion	371,506
	<hr/>
Total liabilities	502,622
	<hr/>
Net Assets	
Investment in capital assets, net of related debt	98,451
Unrestricted	168,114
	<hr/>
Total net assets	266,565
	<hr/>
Total liabilities and net assets	\$ 769,187
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NORTHWEST ACADEMY
Statement of Activities
Year Ended June 30, 2011

	Program Revenues			Net Revenue (Expense) and Changes in Net Assets
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Functions/Programs				
Governmental Activities:				
Instruction	\$ 623,935	\$ 1,388	\$ 73,706	\$ -
Support services	330,322	-	10,964	19,093
Interest on long-term debt	26,178	-	-	-
Depreciation (unallocated)	19,646	-	-	-
	<u>\$ 1,000,081</u>	<u>\$ 1,388</u>	<u>\$ 84,670</u>	<u>\$ 19,093</u>
Total governmental activities	<u>\$ 1,000,081</u>	<u>\$ 1,388</u>	<u>\$ 84,670</u>	<u>\$ 19,093</u>
General Revenues:				
State and federal aid, unrestricted				951,199
Interest and investment earnings				79
Other				2,668
				<u>953,946</u>
Total general revenues				<u>953,946</u>
Change in net assets				<u>59,016</u>
Net assets - beginning of year				<u>207,549</u>
Net assets - end of year				<u>\$ 266,565</u>

NORTHWEST ACADEMY
Governmental Funds
Balance Sheet
June 30, 2011

	General
<u>Assets</u>	
Cash	\$ 31,950
Due from other governmental units	249,781
	249,781
Total assets	\$ 281,731
<u>Liabilities and Fund Balance</u>	
Liabilities:	
Accounts payable	\$ 1,705
Accrued expenditures	111,349
Deferred revenue	563
	113,617
Total liabilities	113,617
Fund Balance	
Unassigned	168,114
	168,114
Total liabilities and fund balance	\$ 281,731

NORTHWEST ACADEMY
Governmental Funds
Reconciliation of Balance Sheet of Governmental Funds to Net Assets
June 30, 2011

Total Fund Balances - Governmental Funds	\$	168,114
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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 governmental funds balance sheet.

Cost of capital assets		680,499
Accumulated depreciation		(193,043)

Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds balance sheet.

Building capital lease		<u>(389,005)</u>
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Total net assets - governmental activities	\$	<u><u>266,565</u></u>
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NORTHWEST ACADEMY
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30, 2011

	General
Revenues	
Local sources	\$ 34,027
State sources	961,172
Federal sources	60,015
Interdistrict and other sources	3,883
Total revenues	1,059,097
Expenditures	
Current:	
Instruction	623,935
Support services	330,322
Debt service:	
Principal	16,426
Interest	26,178
Capital outlay	5,945
Total expenditures	1,002,806
Other financing sources (uses)	
Loan proceeds	5,000
Net change in fund balance	61,291
Fund balance - beginning of year	106,823
Fund balance - end of year	\$ 168,114

NORTHWEST ACADEMY
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balance of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2011

Net Change in Fund Balance - Total Governmental Funds \$ 61,291

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital outlay	5,945
Depreciation expense	(19,646)

Proceeds of long-term debt (including capital leases) are recorded as an other financing source for governmental funds, but are not recorded in the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Loan proceeds	(5,000)
Principal repaid	<u>16,426</u>

Change in net assets - governmental activities	<u><u>\$ 59,016</u></u>
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NORTHWEST ACADEMY
Fiduciary Fund
Statement of Fiduciary Net Assets
June 30, 2011

	<u>Student Activities Agency Fund</u>
Assets	
Cash	\$ 9,990
Investments	<u>6,364</u>
Total assets	<u><u>\$ 16,354</u></u>
Liabilities	
Due to student groups	<u><u>\$ 16,354</u></u>

NORTHWEST ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Northwest Academy (the "Academy") operates under a Board-Administrator form of government and provides education services to its residents. The accounting policies of 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 policies used by the Academy:

Reporting Entity

Criteria for determining if other entities are potential component units which should be reported within the Academy's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) Codification of Governmental Accounting and Financial Reporting Standards, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the Academy is financially accountable and other organizations that the nature and significance of their relationship to the Academy are such that exclusion would cause the Academy's basic financial statements to be misleading or incomplete. The Academy has no component units.

Basic Financial Statements – Overview

The Academy's basic financial statements include both government-wide (reporting the Academy as a whole) and fund financial statements (reporting the Academy's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. 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 activities are considered governmental activities.

Basic Financial Statements – Government-Wide Statements

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government. These statements are reported using the economic resources measurement focus and the full accrual basis of accounting. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. The government-wide focus is more on operational efficiency, the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from the current year's activities.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis. Due to the full accrual, economic resource basis, all long-term assets and receivables, as well as long-term debt and obligations are recognized. The Academy's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Academy first utilizes restricted resources to finance qualifying activities.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basic Financial Statements – Government-Wide Statements - Continued

The government-wide Statement of Activities, due to the full accrual, economic resource basis, records revenue when it is earned and expenses when a liability is incurred, regardless of the timing of related cash flows. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers 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, unrestricted State Aid and other items not properly included among program revenues are reported as general revenue. Any net costs, by function, are allocated to the general revenue.

Basic Financial Statements – Fund Financial Statements

The financial transactions of the Academy are reported in individual funds in the fund financial statements. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. The emphasis in the fund financial statements is on the major funds in the governmental activities category. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures of the governmental funds) for the determination of major funds. The Academy's major fund, as described below, is the General Fund. The Academy has no non-major funds.

The governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded in the accounting period in which they become both available and measurable. Revenues are available when received within the current period or within 60 days after year end. Expenditures are recorded in the accounting period in which the liability is incurred. The exception to this general rule is principal and interest on general obligation long-term debt, if any, is recognized when due.

The focus of the fund financial statements is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources).

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into generic fund types and broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund – The General Fund is used to record the general operations of the Academy pertaining to education and those operations not provided for in other funds. The General Fund is a major fund of the Academy.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basic Financial Statements – Fund Financial Statements - Continued

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the Academy in a trustee or agency capacity for others and therefore are not available to support Academy programs. Since these funds cannot be used to address activities or obligations of the Academy, these funds are not incorporated into the government-wide statements. Fiduciary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting. The following agency fund is presented in the Statement of Fiduciary Net Assets:

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

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits and other accounts that have the general characteristics of demand deposits.

Investments

Investments are stated at fair market value.

Capital Assets

Capital assets, which include land, buildings, equipment and vehicles are reported in the Statement of Net Assets in the government-wide financial statements. Capital assets are defined by the Academy as assets that are purchased or acquired with an original cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date donated. Additions, improvements and other capital outlay that significantly extend the useful life of an asset, or increase its capacity or efficiency, are capitalized. Other costs incurred for repairs and maintenance is expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and improvements	20-50 years
Furniture and other equipment	5-15 years

Fund Balances

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not spendable form – pre-paid items or inventories; or (b) legally or contractually required to be maintained intact.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basic Financial Statements – Fund Financial Statements – Continued

Fund Balances – Continued

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the School Board – the government's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the board removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance. This classification reflects the amounts constrained by the Academy's "intent" to be used for specific purposes, but are neither restricted nor committed. The School Board has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the Academy's policy to use externally restricted resources first, then unrestricted resources – committed, assigned, and unassigned – in order as needed.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENT - CONTINUED

NOTE 2: BUDGETING/COMPLIANCE

The Academy is required under Public Act 621 to adopt a budget for the General Fund. An annual budget is adopted on a basis consistent with generally accepted accounting principles and State law for this fund. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits Academies to amend their budgets during the year. All annual appropriations lapse at year end.

The presentation of budgetary information is required for the General Fund. In the required supplemental information section, the Academy's actual and budgeted expenditures for the General Fund are presented.

Excess of Expenditures Over Appropriations in Budgeted Funds

The Academy is required under Public Act 621 to adopt a budget for the General Fund. During the year, the Academy incurred expenditures in the following fund which were in excess of the amounts appropriated as follows:

<u>Fund</u>	<u>Appropriation</u>	<u>Amount of Expenditures</u>	<u>Variance</u>
General	\$999,810	\$1,002,806	\$ 2,996

NOTE 3: CASH AND INVESTMENTS

Cash Deposits

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

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. At year-end, the carrying amount of the Academy's deposits for both governmental activities and fiduciary funds was \$41,940 and the bank balance was \$42,089, all of which was covered by federal depository insurance. State statutes prohibit security in the form of collateral, surety bonds or another form be taken for the deposit of public funds.

Investments

Credit Risk – As of June 30, 2011, the Academy had an investment in Wachovia open-end mutual funds of \$6,364.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 4: CAPITAL ASSETS

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

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2011</u>
Assets not being depreciated:				
Land and improvements	\$ 75,000	\$ -	\$ -	\$ 75,000
Capital assets being depreciated:				
Buildings and improvements	562,723	-	-	562,723
Furniture and equipment	36,831	5,945	-	42,776
Subtotal	<u>599,554</u>	<u>5,945</u>	<u>-</u>	<u>605,499</u>
Accumulated depreciation:				
Buildings and improvements	165,132	13,847	-	178,979
Furniture and equipment	8,265	5,799	-	14,064
Subtotal	<u>173,397</u>	<u>19,646</u>	<u>-</u>	<u>193,043</u>
Net capital assets being depreciated	<u>426,157</u>	<u>(13,701)</u>	<u>-</u>	<u>412,456</u>
Governmental activities net capital assets	<u>\$ 501,157</u>	<u>\$ (13,701)</u>	<u>\$ -</u>	<u>\$ 487,456</u>

Governmental activities depreciation expense was charged as follows:

Unallocated	<u>\$ 19,646</u>
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NOTE 5: LONG-TERM DEBT

The following is a summary of the Academy's governmental activities long-term debt transactions for the year ended June 30, 2011:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Leases payable:					
Building capital lease	\$ 399,830	\$ 5,000	\$ 15,825	\$ 389,005	\$ 17,499
Copier Lease	601	-	601	-	-
	<u>\$ 400,431</u>	<u>\$ 5,000</u>	<u>\$ 16,426</u>	<u>\$ 389,005</u>	<u>\$ 17,499</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 5: LONG-TERM DEBT – CONTINUED

Long-term debt payable at June 30, 2011, is comprised of the following individual instrument:

Building capital lease:

\$404,830 building capital lease in monthly installments of \$3,510 including interest at 6.5% through August, 2015. It is expected that the outstanding amount will be refinanced after that date. The lease is with a related party, Northwest Academy Building Corporation. The terms are identical to those that the lessor has with its lender.

\$ 389,005

The annual requirements to amortize all governmental obligations at June 30, 2011 are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 17,499	\$ 24,615	\$ 42,114
2012	18,671	23,443	42,114
2013	19,921	22,193	42,114
2014	21,256	20,858	42,114
2015	311,658	3,341	314,999
Total	\$ 389,005	\$ 94,450	\$ 483,455

All long-term debt will be liquidated from the General Fund. There are limitations and restrictions contained in the agreement. The Academy is in compliance with all significant limitations and restrictions.

NOTE 6: DEFERRED REVENUE

Deferred revenue in the government-wide and the fund financial statements consists of categorical and other grant monies received but not yet earned at year end. Deferred revenues for the year ended June 30, 2011 are comprised of the following:

<u>Grant</u>	
Title VI	<u>\$ 563</u>

NOTE 7: OPERATING LEASES

In 2007, the Academy entered into a lease agreement for a parcel of land adjacent to the school to be used as playground space. This lease is considered for accounting purposes to be an operating lease. Lease expenditures for the year ended June 30, 2011 were \$3,600. The lease term is three years and is renewable at the end of the three years unless terminated by either party. The lessor donated their rent revenue back to the Academy for the years ended June 30, 2009 through June 30, 2011.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 8: RELATED PARTIES

In addition to Northwest Academy Building Corporation noted in the Long-Term Debt Note, the Academy is related to North West Bookkeeping who contracts with the Academy for most of its personnel. The contractor also keeps the accounting records for the Academy. Payments to North West Bookkeeping during the fiscal year ended June 30, 2011 were \$707,621.

NOTE 9: FUND BALANCE CLASSIFICATIONS

Amounts for specific purposes by fund and fund balance classifications for the year ended June 30, 2011, are as follows:

<u>Classification/Fund</u>	<u>Purpose</u>	<u>Amount</u>
Unassigned General Fund	-	<u>\$ 168,114</u>

NOTE 10: RISK MANAGEMENT

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which it obtains coverage from commercial insurance companies. The Academy has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

REQUIRED SUPPLEMENTAL INFORMATION

NORTHWEST ACADEMY
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget Over/(Under)
Revenues				
Local sources	\$ 26,231	\$ 23,222	\$ 34,027	\$ 10,805
State sources	837,010	961,038	961,172	134
Federal sources	59,689	55,160	60,015	4,855
Interdistrict and other sources	1,593	2,327	3,883	1,556
Total revenues	924,523	1,041,747	1,059,097	17,350
Expenditures				
Current:				
Instruction:				
Basic programs	507,310	485,886	506,908	21,022
Added needs	59,426	134,294	117,027	(17,267)
Support services:				
Instructional staff	11,272	13,601	15,340	1,739
General administration	106,888	96,064	92,664	(3,400)
School administration	86,455	98,359	95,676	(2,683)
Business services	13,851	9,035	9,035	-
Operation and maintenance	69,728	76,651	80,399	3,748
Central	27,509	37,208	37,208	-
Debt service:				
Principal	16,680	15,231	16,426	1,195
Interest	27,247	27,536	26,178	(1,358)
Capital outlay	-	5,945	5,945	-
Total expenditures	926,366	999,810	1,002,806	2,996
Other financing sources (uses)				
Loan proceeds	5,000	5,000	5,000	-
Other financing sources (uses)	5,000	5,000	5,000	-
Net change in fund balance	3,157	46,937	61,291	14,354
Fund balance - beginning of year	116,889	106,823	106,823	-
Fund balance - end of year	\$ 120,046	\$ 153,760	\$ 168,114	\$ 14,354

OTHER SUPPLEMENTAL INFORMATION

NORTHWEST ACADEMY
Other Supplemental Information
Statement of Account Balances
Fiduciary Fund
Year Ended June 30, 2011

	Balance June 30, 2010	2010-2011		Balance June 30, 2011
		Receipts	Disbursements	
Arts & Theater	\$ 511	\$ -	\$ 200	\$ 311
Athletics	52	1,339	1,415	(24)
Band Trip	3,780	418	661	3,537
Class of 2009	573	-	118	455
Class of 2010	482	18	500	-
Class of 2011	964	111	1,033	42
Class of 2012	209	1,325	1,492	42
Class of 2013	49	-	-	49
Class of 2014	-	862	651	211
Community Service	54	-	-	54
Lunch	664	1,044	988	720
Michelle's Class	88	-	-	88
Music	58	633	667	24
Off Campus Educational Activities	16	-	-	16
Paver Brick	827	454	354	927
Phoebe's Class	172	1,377	1,380	169
Prom & Dances	201	-	-	201
Saunders' Class	190	-	-	190
Library	180	85	89	176
Science	100	-	-	100
Spanish	367	1,599	896	1,070
Student Assistance	23	150	135	38
Student Government	449	-	-	449
Technology	144	-	-	144
Yearbook	456	1,016	593	879
Bank Interest / Charges	104	19	-	123
Luke Pace Memorial Fund	4,876	1,487	-	6,363
Total	\$ 15,589	\$ 11,937	\$ 11,172	\$ 16,354

INTERNAL CONTROL, COMPLIANCE AND OTHER MATTERS

November 14, 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

Board of Education
Northwest Academy
Charlevoix, Michigan

We have audited the financial statements of the governmental activities and the major fund of Northwest Academy (the "Academy") as of and for the year ended June 30, 2011, which collectively comprise Northwest Academy's basic financial statements and have issued our report thereon dated November 14, 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 Northwest Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, and not 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 Northwest 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 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.

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. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency and another deficiency that we consider to be a material weakness.

Documentation supporting the receipt of monies into the Trust and Agency Fund continues to be lacking.

The School District does not have the expertise to prepare financial statements in accordance with generally accepted accounting principles. According to recently issued auditing standards this inability to prepare financial statements in accordance with generally accepted accounting principles is an indicator of a significant deficiency and a strong indicator of a material weakness in internal control.

Board of Education
Northwest Academy
Charlevoix, Michigan

We did note the School District's management does possess the skill necessary to prepare and monitor the annual budget. The accounting system which is designed primarily for budgetary purposes and State of Michigan FID reporting is also used as the source information in preparing the financial statements in accordance with generally accepted accounting principles with some adjustment, format differences and note disclosures.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northwest 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 the management Board of Education, others within the entity, and 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.

Hill, Schroeder & Co.

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan