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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Pontiac Academy For Excellence

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pontiac Academy For Excellence as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Pontiac Academy For Excellence's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Pontiac Academy For Excellence, as of June 30, 2021, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

The financial statements for the year ended June 30, 2021 reflect certain prior period adjustments as described in Note 10 of the financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pontiac Academy For Excellence's basic financial statements. The schedule of expenditures of federal awards as required for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2021, on our consideration of Pontiac Academy For Excellence's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of Pontiac Academy For Excellence's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pontiac Academy For Excellence's internal control over financial reporting and compliance.



Croskey Lanni, PC

Rochester, Michigan

November 1, 2021

PONTIAC ACADEMY FOR EXCELLENCE

STATEMENT OF NET POSITION JUNE 30, 2021

ASSETS

Current Assets

Cash and cash equivalents	\$	444,087
Accounts receivable		19,699
Due from other governmental units		1,518,812
Prepaid expenses		<u>190,065</u>
Total current assets		2,172,663

Capital Assets - Net of Accumulated Depreciation

586,659

Total assets \$ 2,759,322

LIABILITIES AND NET POSITION

Current Liabilities

Accounts payable	\$	16,141
Unearned revenue		161,572
Other accrued expenses		<u>388,125</u>
Total current liabilities		565,838

Net Position

Net investment in capital assets		586,659
Restricted for food operations		183,542
Unrestricted		<u>1,423,283</u>
Total net position		<u>2,193,484</u>
Total liabilities and net position	\$	<u>2,759,322</u>

See accompanying notes to financial statements

PONTIAC ACADEMY FOR EXCELLENCE

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2021

		Program Revenues		Net (Expense) Revenues and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Government Type Activities
Functions				
Instruction				
Basic programs	\$ 1,849,167	\$ -	\$ 81,514	\$ (1,767,653)
Added needs	1,156,296	-	1,250,987	94,691
Support services				
Pupil support services	650,244	-	300,819	(349,425)
Instructional staff support services	485,968	-	186,013	(299,955)
General administration	514,542	-	-	(514,542)
School administration	285,680	-	-	(285,680)
Business support services	292,937	-	-	(292,937)
Operations and maintenance	2,088,105	-	45,989	(2,042,116)
Pupil transportation services	16,099	-	-	(16,099)
Central support services	307,223	-	125	(307,098)
Athletic activities	46,537	-	-	(46,537)
Other student activities	5,349	-	5,524	175
Food services	368,644	-	373,180	4,536
Community services	50,139	-	50,139	-
Unallocated depreciation	63,926	-	-	(63,926)
Total primary government	\$ 8,180,856	\$ -	\$ 2,294,290	(5,886,566)
General Purpose Revenues				
State school aid - unrestricted				4,974,594
Local revenues				309,082
Total general purpose revenues				5,283,676
Change in net position				(602,890)
Net position - July 1, 2020, as restated				2,796,374
Net position - June 30, 2021				\$ 2,193,484

See accompanying notes to financial statements

PONTIAC ACADEMY FOR EXCELLENCE

COMBINED BALANCE SHEET – ALL GOVERNMENTAL FUNDS JUNE 30, 2021

ASSETS

	<u>General</u>	<u>Non-Major Special Revenue - Food Services</u>	<u>Total</u>
Cash and cash equivalents	\$ 444,087	\$ -	\$ 444,087
Accounts receivable	19,699	-	19,699
Due from other governmental units	1,518,812	-	1,518,812
Due from other funds	-	183,542	183,542
Prepaid expenses	190,065	-	190,065
Total assets	<u>\$ 2,172,663</u>	<u>\$ 183,542</u>	<u>\$ 2,356,205</u>

LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE

Liabilities

Accounts payable	\$ 16,141	\$ -	\$ 16,141
Due to other funds	183,542	-	183,542
Unearned revenue	161,572	-	161,572
Other accrued expenses	388,125	-	388,125
Total liabilities	749,380	-	749,380

Deferred Inflows of Resources -

Unavailable Revenue	40,370	-	40,370
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Fund Balance

Nonspendable	190,065	-	190,065
Restricted	-	183,542	183,542
Assigned	271,395	-	271,395
Unassigned	921,453	-	921,453
Total fund balance	<u>1,382,913</u>	<u>183,542</u>	<u>1,566,455</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 2,172,663</u>	<u>\$ 183,542</u>	<u>\$ 2,356,205</u>

See accompanying notes to financial statements

PONTIAC ACADEMY FOR EXCELLENCE

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES JUNE 30, 2021

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

Total Governmental Fund Balances	\$ 1,566,455
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$1,603,791 and the accumulated depreciation is \$1,017,132.	586,659
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Deferred inflows of resources (unavailable revenue) not available to benefit the current period and are not reported in the statement of net position.	<u>40,370</u>
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Net Position of Governmental Activities	<u><u>\$ 2,193,484</u></u>
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PONTIAC ACADEMY FOR EXCELLENCE

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – ALL GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2021

	<u>General</u>	<u>Non-Major Special Revenue - Food Services</u>	<u>Total</u>
Revenues			
Local sources	\$ 314,606	\$ -	\$ 314,606
State sources	5,612,876	24,411	5,637,287
Federal sources	1,236,934	348,769	1,585,703
	<hr/>	<hr/>	<hr/>
Total governmental fund revenues	7,164,416	373,180	7,537,596
Expenditures			
Instruction			
Basic programs	1,849,167	-	1,849,167
Added needs	1,156,296	-	1,156,296
Support services			
Pupil support services	650,244	-	650,244
Instructional staff support services	485,968	-	485,968
General administration	514,542	-	514,542
School administration	285,680	-	285,680
Business support services	292,937	-	292,937
Operations and maintenance	2,088,105	-	2,088,105
Pupil transportation services	16,099	-	16,099
Central support services	307,223	-	307,223
Athletic activities	46,537	-	46,537
Other student activities	5,349	-	5,349
Food services	-	368,644	368,644
Community services	50,139	-	50,139
Capital outlay	-	74,745	74,745
	<hr/>	<hr/>	<hr/>
Total governmental fund expenditures	7,748,286	443,389	8,191,675
Excess (deficiency) of revenues over expenditures	(583,870)	(70,209)	(654,079)
Fund balance - July 1, 2020, as restated	<hr/>	<hr/>	<hr/>
	1,966,783	253,751	2,220,534
Fund balance - June 30, 2021	<u>\$ 1,382,913</u>	<u>\$ 183,542</u>	<u>\$ 1,566,455</u>

See accompanying notes to financial statements

PONTIAC ACADEMY FOR EXCELLENCE

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2021

Net Change in Fund Balances - Total Governmental Funds \$ (654,079)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation and amortization expense. This is the amount by which capital outlays exceeded depreciation and amortization in the current period.

Capital outlay	\$ 74,745	
Depreciation and amortization expense	<u>(63,926)</u>	10,819

Revenue is reported in the statement of activities when earned, but not reported in the funds until collected or collectible within 60 days of year end. 40,370

Change in Net Position of Governmental Activities \$ (602,890)

PONTIAC ACADEMY FOR EXCELLENCE

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Pontiac Academy For Excellence (the “Academy”) conform to generally accepted accounting principles applicable to public school academies. The following is a summary of the significant accounting policies:

Reporting Entity

Pontiac Academy For Excellence was formed as a public 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. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, on November 15, 1996, and began operation in July 1997.

In July 2018, the Academy entered into a three year contract with the Saginaw Valley State University Board of Control to charter a public school academy through June 30, 2021. 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 University’s Board of Control 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 Saginaw Valley State University Board of Control three percent of state aid as administrative fees. Total administrative fees paid for the year ended June 30, 2021 were approximately \$147,600.

In July, 2018 the Academy entered into a three year agreement with Charter School Service of Michigan, Inc. (“CSSM”) to provide a variety of services including human resources, employee benefits, and payroll services. Additionally, the Academy leases all of its employees from CSSM. The Academy is obligated to pay CSSM for all costs associated with providing management services to the Academy. The total paid for the year ended June 30, 2021 was approximately \$67,600.

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

Fund Financial Statements

Fund financial statements report detailed information about the Academy. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

PONTIAC ACADEMY FOR EXCELLENCE

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Governmental Funds

A governmental fund is a fund through which most Academy 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 a governmental fund.

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. Included are all transactions related to the approved current operating budget.

Special Revenue Fund (Food Service)- The special revenue fund is used to account for the food service program operations. The special revenue fund is a subsidiary operation and is an obligation of the general fund. Therefore, any shortfall in the special revenue fund will be covered by an operating transfer from the general fund.

Governmental and agency funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within sixty days of the end of the current fiscal period.
- b. Payments for inventorable types of supplies, which are not significant at year end, are recorded as expenditures at the time of purchase.
- c. Principal and interest of general long-term debt are not recorded as expenditures until their due dates.
- d. The State of Michigan utilizes a foundation allowance funding approach, which provides for specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law. A major portion of the Academy's revenue is derived from this state aid. As such, the Academy is considered to be economically dependent on this aid. The Academy's existence is dependent upon qualification for such aid.

Government-Wide Financial Statements

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationships between the government-wide statements and the statements for governmental funds.

PONTIAC ACADEMY FOR EXCELLENCE

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES— Continued

The government-wide Statement of Activities presents a comparison between expenses and program revenues for each segment of the business-type activities of the Academy and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. The Academy does not allocate indirect expenses to programs. In creating the government-wide financial statements the Academy has eliminated inter-fund transactions. In creating the government-wide financial statements the Academy has eliminated inter-fund transactions. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or function is self-financing or draws from the general revenues of the Academy. When both restricted and unrestricted resources are available for use, it is the Academy's policy to use restricted resources first.

Net position should be reported as restricted when constraints placed on net position's use is either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The Academy first utilizes restricted resources to finance qualifying activities.

Cash and Cash Equivalents

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition. The Academy reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and GASB No. 40, Deposit and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity. The Academy held no investments during the year ended June 30, 2021. State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, and or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Corporation or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or Federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Receivables

Receivables at June 30, 2021 consist primarily of state school aid due from the State of Michigan and the federal government. All receivables are expected to be fully collected in July and August of 2021 and are considered current for the purposes of these financial statements.

PONTIAC ACADEMY FOR EXCELLENCE

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Prepaid Assets

Payments made to vendors for services that will benefit periods beyond June 30, 2021, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

Capital Assets and Depreciation

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions or retirements during the year. The Academy follows the policy of capitalizing individual assets with a useful life of more than one year. The Academy does not possess any infrastructure assets.

All reported capital assets, with the exception of land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Building and improvements	6 – 12 years
Furniture and equipment	7 years
Vehicles	10 years
Technology	5 years

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the non-current portion of capital leases that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Net Position

Net position represents the difference between assets, deferred outflows, liabilities, and deferred inflows. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws of regulations of other governments.

PONTIAC ACADEMY FOR EXCELLENCE

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Equity

The Academy has adopted GASB 54 as part of its fiscal year reporting. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the Academy's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on those resources.

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. This category typically includes prepaid items and inventories.

In addition to nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- a. *Restricted fund balance* – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- b. *Committed fund balance* – amounts constrained to specific purposes by the Board; to be reported as committed, amounts cannot be used for any other purpose unless the Board takes action to remove or change the constraint.
- c. *Assigned fund balance* – amounts the Board intends to use for a specific purpose; intent can be expressed by the Board or by an official or committee to which the Board delegates the authority.
- d. *Unassigned fund balance* – amounts that are available for any purpose; these amounts are reported only in the general fund.

The Academy follows the policy that restricted, committed, or assigned amounts will be considered to have been spent when an expenditure is incurred for purposes for which both unassigned and restricted, committed, or assigned fund balances are available. There are no governmental funds with a deficit.

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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

PONTIAC ACADEMY FOR EXCELLENCE

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Upcoming Accounting Pronouncements

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based upon the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Academy is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Academy's financial statements for the year ending June 30, 2022.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a consistent basis with accounting principles generally accepted in the United States of America and state law for the general fund. All annual appropriations lapse at fiscal year end and encumbrances are not formally recorded.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. The Academy is required by law to adopt a general fund budget. During the year ended June 30, 2021 the budget was amended in a legally permissible manner. Comparison of board appropriations to actual expenditures is detailed on page 18 of these financial statements.

NOTE 3 - DEPOSITS AND INVESTMENTS

Interest Rate Risk

In accordance with its investment policy, the Academy will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Academy's cash requirements.

PONTIAC ACADEMY FOR EXCELLENCE

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2021

NOTE 3 - DEPOSITS AND INVESTMENTS - Continued

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2021, the Academy held no investments.

Concentration of Credit Risk

The Academy will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2021, \$470,532 of the Academy's cash was exposed to custodial credit risk because it was uninsured. All cash balances were uncollateralized as of June 30, 2021.

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Academy will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Academy will do business.

Foreign Currency Risk

The Academy is not authorized to invest in investments which have this type of risk.

Fair Value

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

PONTIAC ACADEMY FOR EXCELLENCE

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2021

NOTE 3 - DEPOSITS AND INVESTMENTS – Continued

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Academy has the ability to access.
- b. Level 2 inputs are inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly.
- c. Level 3 are unobservable inputs for the asset or liability and rely on management’s own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The observable inputs should be developed based on the best information available in the circumstances and may include the Academy’s own data.)

The Academy does not have any investments that are subject to the fair value measurement.

NOTE 4 – DUE FROM OTHER GOVERNMENTAL UNITS

Amounts due from other governmental units consist of the following:

Local sources	\$ 34,354
State sources	1,028,966
Federal sources	<u>455,492</u>
Total	<u>\$ 1,518,812</u>

PONTIAC ACADEMY FOR EXCELLENCE

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2021

NOTE 5 - CAPITAL ASSETS

	<u>Balance</u> <u>July 1, 2020</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2021</u>
Capital assets not subject to depreciation				
Land	\$ 358,250	\$ -	\$ -	\$ 358,250
Capital assets subject to depreciation				
Building and improvements	799,994	-	-	799,994
Furniture & equipment	153,344	74,745	-	228,089
Vehicles	161,000	-	-	161,000
Technology	56,458	-	-	56,458
Sub-total	1,529,046	74,745	-	1,603,791
Accumulated depreciation				
Building and improvements	714,222	36,491	-	750,713
Furniture & equipment	121,479	10,665	-	132,144
Vehicles	61,717	16,100	-	77,817
Technology	55,788	670	-	56,458
Sub-total	953,206	63,926	-	1,017,132
Total net capital assets	<u>\$ 575,840</u>	<u>\$ 10,819</u>	<u>\$ -</u>	<u>\$ 586,659</u>

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

NOTE 6 – OTHER ACCRUED EXPENSES

Other accrued expenses may be summarized as follows:

Purchased services - payroll and benefits	\$ 361,269
University oversight fee	<u>26,856</u>
Total other accrued expenses	<u>\$ 388,125</u>

PONTIAC ACADEMY FOR EXCELLENCE

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2021

NOTE 7 – OPERATING LEASE

Lease Information

	<u>Maturity Date</u>	<u>Approximate Payment</u>	<u>Other</u>
Facilities	June, 2029	\$131,000 monthly	Rent increases begin for years after June 30, 2022 by the consumer price index
Gymnasium	December, 2021	\$20,300 monthly	Yearly rent increases will be the lesser of the Consumer Price Index or 2.5% from the prior year
Copiers	March, 2022	\$4,600 monthly	Monthly payment may fluctuate based on maintenance and number of copies produced

The approximate amount of lease obligations coming due during the next five years and in total is as follows:

2022	\$	1,613,400
2023		1,572,000
2024		1,572,000
2025		1,572,000
2026		1,572,000
2027 - 2029		4,716,000

The lease expense included in the statement of activities for the year ended June 30, 2021 amounted to approximately \$1,884,500.

NOTE 8 - RISK MANAGEMENT

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's 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.

PONTIAC ACADEMY FOR EXCELLENCE

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2021

NOTE 9 – CONTINGENCIES

The COVID-19 pandemic that the world is experiencing is unprecedented. It is nearly impossible to fully anticipate the long term effects the impact it will have on the economy and the Academy's operations. As of the date of these financial statements, the Academy continues to evaluate and implement risk mitigation tactics including all aspects of the Academy's activities related to public school education, relationships with local, state, and federal government funding sources, compliance with the requirements of these funding sources and with business transactions with customers, vendors and human interaction within and outside of the Academy.

NOTE 10 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT

The Academy implemented Governmental Accounting Standards Board (GASB) Statement No. 84, Fiduciary Activities, for the fiscal year ended June 30, 2021. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements.

The implementation of GASB 84 has the following effect on net position and fund balance as reported on June 30, 2020:

	<u>Government Wide</u>	<u>General Fund</u>
Net position / Fund balance- July 1, 2020	\$ 2,754,418	\$ 1,924,827
Prior period adjustments		
To reclassify funds as a result of the implementation of GASB No. 84	<u>41,956</u>	<u>41,956</u>
Net position / Fund balance - July 1, 2020, as restated	<u>\$ 2,796,374</u>	<u>\$ 1,966,783</u>

SUPPLEMENTARY INFORMATION

PONTIAC ACADEMY FOR EXCELLENCE

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2021

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Local sources	\$ 406,835	\$ 281,013	\$ 314,606	\$ 33,593
State sources	4,699,617	5,655,937	5,612,876	(43,061)
Federal sources	1,353,157	1,333,379	1,236,934	(96,445)
	<u>6,459,609</u>	<u>7,270,329</u>	<u>7,164,416</u>	<u>(105,913)</u>
Expenditures				
Instruction				
Basic programs	2,134,772	1,998,164	1,849,167	(148,997)
Added needs	1,032,407	1,307,142	1,156,296	(150,846)
Support services				
Pupil support services	622,725	661,073	650,244	(10,829)
Instructional staff support services	236,041	494,684	485,968	(8,716)
General administration	420,506	524,527	514,542	(9,985)
School administration	320,708	337,995	285,680	(52,315)
Business support services	270,347	350,117	292,937	(57,180)
Operations and maintenance	2,157,565	2,008,215	2,088,105	79,890
Pupil transportation services	201,429	20,579	16,099	(4,480)
Central support services	444,870	320,704	307,223	(13,481)
Athletic activities	86,678	48,931	46,537	(2,394)
Other student activities	-	340	5,349	5,009
Community services	42,011	45,712	50,139	4,427
	<u>7,970,059</u>	<u>8,118,183</u>	<u>7,748,286</u>	<u>(369,897)</u>
Excess (deficiency) of revenues over expenditures	(1,510,450)	(847,854)	(583,870)	263,984
Fund balance - July 1, 2020, as restated	1,966,783	1,966,783	1,966,783	-
Fund balance - June 30, 2021	<u>\$ 456,333</u>	<u>\$ 1,118,929</u>	<u>\$ 1,382,913</u>	<u>\$ 263,984</u>