

Audited Financial Statements

Pontiac Academy For Excellence

Pontiac, Michigan

June 30, 2020

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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, 2020, 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, 2020, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as 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 combining and individual nonmajor fund financial statements, and schedules of revenues and expenditures, 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 is presented 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*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, schedules of revenues and expenditures, and the schedule of expenditures of federal awards, are the responsibility of management and were derived from and relate 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 combining and individual nonmajor fund financial statements, schedules of revenues and expenditures, and 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 16, 2020, 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Pontiac Academy for Excellence's (the Academy) annual financial report presents our discussion and analysis of the Academy's financial performance during the fiscal year that ended on June 30, 2020. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

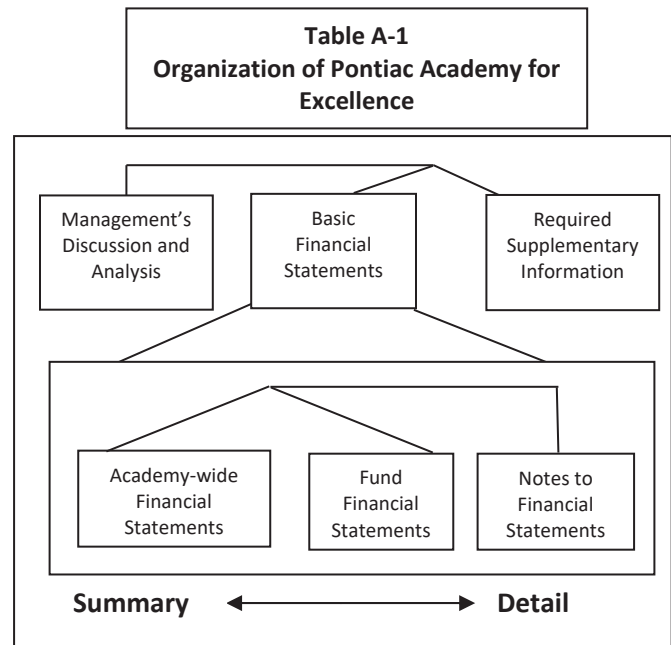
FINANCIAL HIGHLIGHTS

- The Academy had a decrease in fund balance in the general fund of \$984,387 compared to a budgeted decrease of \$819,808. This gives the Academy a fund balance in the general fund of \$1,924,827.
- The total net position decreased by \$1,046,323.
- Overall revenues were \$7,304,054.
- The total cost of instruction programs decreased approximately \$112,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy:

- The first two statements are *Academy-wide financial statements* that provide both *short-term* and *long-term* information about the Academy's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the Academy, reporting the Academy's operations *in more detail* than the Academy-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the Academy acts solely as a *trustee* or *agent* for the benefits of others.



The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the Academy's budget for the year. Table A-1 shows how the various parts of the annual report are arranged and related to one another.

Table A-2 summarizes the major features of the Academy’s financial statements, including the portion of the Academy’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

Table A-2 Major Features of the Academy-wide and Fund Financial Statements

	Academy-wide statements	Governmental funds	Fiduciary funds
Scope	Entire Academy (except fiduciary funds)	The activities of the Academy that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the Academy administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net position * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, the Academy's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

ACADEMY-WIDE STATEMENTS

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

The two Academy-wide statements report the Academy’s net position and how they have changed. Net position - the difference between the Academy’s assets and liabilities, are one way to measure the Academy’s financial health or position.

- Over time, increases or decreases in the Academy’s net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy’s enrollment, the condition of school buildings and other facilities, and the Academy’s ability to be competitive with other public school academies and area school districts.

In the Academy-wide financial statements, the Academy's activities:

- Governmental activities - The Academy's basic services are included in here, such as regular education and special education, transportation and administration. State foundation aid finances most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Academy's funds, focusing on its more significant or "major" funds - not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by debt agreements.
- The Academy establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like food services).

The Academy has two kinds of funds:

- Governmental funds - Most of the Academy's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or difference) between them.
- Fiduciary funds - The Academy is the trustee, or fiduciary, for assets that belong to others, such as student activities funds. The Academy is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the Academy-wide financial statements because the Academy cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

Net position - the Academy's combined net position of \$2,754,418 decreased by \$1,046,323 during the year, (see Figures A-3 and A-4).

The total general and program revenues decreased by 17.0% to \$7,304,054 due to a decrease in pupils. State aid foundation allowance included in revenue from state sources accounts for 69% of the Academy's general and program revenues in 2020.

The total cost of instruction decreased by 3.5% to \$3,101,537. Total support service decreased 5.1% to \$4,698,121.

Figure A-3		
Pontiac Academy for Excellence Net Position		
	2020	2019
Current assets	\$ 2,722,774	\$ 3,762,772
Capital assets	575,840	609,102
Total assets	<u>3,298,614</u>	<u>4,371,874</u>
Current liabilities	<u>544,196</u>	<u>571,133</u>
Net position:		
Net investment in capital assets	575,840	609,102
Restricted for food service	253,751	282,425
Unrestricted	<u>1,924,827</u>	<u>2,909,214</u>
Total net position	<u><u>\$ 2,754,418</u></u>	<u><u>\$ 3,800,741</u></u>

Figure A-4		
Changes in Pontiac Academy for Excellence's Net Position		
	2020	2019
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 1,797,662	\$ 2,386,616
Charges for services	-	1,855
Total program revenues	<u>1,797,662</u>	<u>2,388,471</u>
General revenues:		
State aid - unrestricted	5,075,750	5,980,130
Local revenues	<u>430,642</u>	<u>426,998</u>
Total general revenues	<u>5,506,392</u>	<u>6,407,128</u>
Total revenues	<u>7,304,054</u>	<u>8,795,599</u>
Expenses:		
Instruction	3,101,537	3,213,179
Support services	4,698,121	4,948,440
Community service	41,996	56,152
Food service	432,419	534,558
Unallocated depreciation	<u>76,304</u>	<u>93,497</u>
Total expenses	<u>8,350,377</u>	<u>8,845,826</u>
Change in net position	<u><u>\$ (1,046,323)</u></u>	<u><u>\$ (50,227)</u></u>

FINANCIAL ANALYSIS OF THE ACADEMY'S FUNDS

The financial operation of the Academy as a whole is reflected in its governmental funds as well. As the Academy completed the year, its governmental funds reported combined fund balances of \$2,178,578, which is \$1,013,061 lower than last year's ending fund balances of \$3,191,639.

The Academy's general fund had more expenditures than revenue by \$984,387. The food service fund had more expenditures than revenue by \$28,674. Overall, the Academy had an decrease in total fund balance.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Academy's final general fund revenues were less than the final budget by \$103,618 mainly due to the per pupil State funding cut as a result of COVID-19.

The Academy's actual expenditures were more than final budget by \$60,961.

CAPITAL ASSETS

By the end of the year ended June 30, 2020, the Academy had invested \$575,840 in capital assets consisting primarily of land, buildings and improvements, technology and vehicles net of accumulated depreciation. This amount represents a net decrease in capital assets of \$33,262 from the beginning of the year. More detailed information about capital assets can be found in Note 5 to the financial statements. Total depreciation expense for the year was \$76,304.

The Academy's capital assets are as follows:

Figure A-5				
Pontiac Academy for Excellence Capital Assets				
	2020			2019
	Cost	Accumulated depreciation	Net book value	Net book value
Building and improvements	\$ 799,994	\$ 714,222	\$ 85,772	\$ 92,082
Furniture and equipment	153,344	121,479	31,865	38,419
Vehicles	161,000	61,717	99,283	115,383
Technology	56,458	55,788	670	4,968
Land	358,250	-	358,250	358,250
Total	<u>\$ 1,529,046</u>	<u>\$ 953,206</u>	<u>\$ 575,840</u>	<u>\$ 609,102</u>

FACTORS BEARING ON THE ACADEMYS FUTURE

At the time these financial statements were prepared and audited, the Academy was aware of existing circumstances that could significantly affect its financial health in the future.

- The Academy has adopted a general fund budget for 2020/2021 in which expenditures exceed revenues by \$1,510,451, which was conservative at the time based on estimates received from the State of Michigan. Subsequently, the Academy has been notified that the anticipated cuts should be significantly less than originally budgeted.
- The Academy received Federal funds in July and August totaling \$231,750 to help offset anticipated COVID-19 related expenditures for 2020/2021.

CONTACTING THE ACADEMY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the business office at 196 Cesar E Chavez Avenue, Pontiac, Michigan, 48342.

PONTIAC ACADEMY FOR EXCELLENCE

STATEMENT OF NET POSITION JUNE 30, 2020

ASSETS

Current Assets

Cash and cash equivalents	\$	1,032,299
Accounts receivable		7,684
Due from agency fund		3,559
Due from other governmental units		1,503,825
Prepaid expenses		<u>175,407</u>
Total current assets		2,722,774

Capital Assets - Net of Accumulated Depreciation

575,840

Total assets	\$	<u><u>3,298,614</u></u>
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LIABILITIES AND NET POSITION

Current Liabilities

Accounts payable	\$	26,234
Unearned revenue		116,153
Other accrued expenses		<u>401,809</u>
Total current liabilities		544,196

Net Position

Net investment in capital assets		575,840
Restricted for food operations		253,751
Unrestricted		<u>1,924,827</u>
Total net position		<u>2,754,418</u>
Total liabilities and net position	\$	<u><u>3,298,614</u></u>

See accompanying notes to financial statements

PONTIAC ACADEMY FOR EXCELLENCE

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2020

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenues and Changes in Net Position Government Type Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants</u>	
Functions				
Instruction				
Basic programs	\$ 2,018,330	\$ -	\$ 54,040	\$ (1,964,290)
Added needs	1,083,207	-	948,132	(135,075)
Support services				
Pupil support services	651,740	-	242,502	(409,238)
Instructional staff support services	281,157	-	107,834	(173,323)
General administration	452,750	-	-	(452,750)
School administration	319,399	-	-	(319,399)
Business support services	304,833	-	-	(304,833)
Operations and maintenance	2,125,934	-	-	(2,125,934)
Pupil transportation services	204,912	-	-	(204,912)
Central support services	266,706	-	-	(266,706)
Athletic activities	90,690	-	-	(90,690)
Food services	432,419	-	403,745	(28,674)
Community services	41,996	-	41,409	(587)
Unallocated depreciation	76,304	-	-	(76,304)
	<u>\$ 8,350,377</u>	<u>\$ -</u>	<u>\$ 1,797,662</u>	<u>(6,552,715)</u>
General Purpose Revenues				
State school aid - unrestricted				5,075,750
Local revenues				430,642
				<u>5,506,392</u>
Change in net position				(1,046,323)
Net position - July 1, 2019				<u>3,800,741</u>
Net position - June 30, 2020				<u>\$ 2,754,418</u>

See accompanying notes to financial statements

PONTIAC ACADEMY FOR EXCELLENCE

COMBINED BALANCE SHEET – ALL GOVERNMENTAL FUNDS JUNE 30, 2020

ASSETS

	General	Non-Major Special Revenue	Total
Cash and cash equivalents	\$ 1,032,299	\$ -	\$ 1,032,299
Accounts receivable	7,684	-	7,684
Due from other governmental units	1,503,825	-	1,503,825
Due from agency fund	3,559	-	3,559
Due from other funds	-	253,751	253,751
Prepaid expenses	175,407	-	175,407
	<u>\$ 2,722,774</u>	<u>\$ 253,751</u>	<u>\$ 2,976,525</u>
Total assets	<u>\$ 2,722,774</u>	<u>\$ 253,751</u>	<u>\$ 2,976,525</u>

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$ 26,234	\$ -	\$ 26,234
Due to other funds	253,751	-	253,751
Unearned revenue	116,153	-	116,153
Other accrued expenses	401,809	-	401,809
	<u>797,947</u>	<u>-</u>	<u>797,947</u>
Total liabilities	<u>797,947</u>	<u>-</u>	<u>797,947</u>

Fund Balance

Nonspendable	175,407	-	175,407
Restricted	-	253,751	253,751
Assigned	1,510,451	-	1,510,451
Unassigned	238,969	-	238,969
	<u>1,924,827</u>	<u>253,751</u>	<u>2,178,578</u>
Total fund balance	<u>1,924,827</u>	<u>253,751</u>	<u>2,178,578</u>
Total liabilities and fund balance	<u>\$ 2,722,774</u>	<u>\$ 253,751</u>	<u>\$ 2,976,525</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, 2020

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

Total Governmental Fund Balances	\$ 2,178,578
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$1,529,046 and the accumulated depreciation is \$953,206.	<u>575,840</u>
Net Position of Governmental Activities	<u>\$ 2,754,418</u>

See accompanying notes to financial statements

PONTIAC ACADEMY FOR EXCELLENCE

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – ALL GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2020

	<u>General</u>	<u>Non-Major Special Revenue</u>	<u>Total</u>
Revenues			
Local sources	\$ 430,640	\$ -	\$ 430,640
State sources	5,612,597	6,910	5,619,507
Federal sources	857,072	396,835	1,253,907
	<hr/>	<hr/>	<hr/>
Total governmental fund revenues	6,900,309	403,745	7,304,054
Expenditures			
Instruction			
Basic programs	2,018,330	-	2,018,330
Added needs	1,083,207	-	1,083,207
Support services			
Pupil support services	651,740	-	651,740
Instructional staff support services	281,157	-	281,157
General administration	452,750	-	452,750
School administration	319,399	-	319,399
Business support services	304,833	-	304,833
Operations and maintenance	2,125,934	-	2,125,934
Pupil transportation services	204,912	-	204,912
Central support services	266,706	-	266,706
Athletic activities	90,690	-	90,690
Food services	-	432,419	432,419
Community services	41,996	-	41,996
Capital outlay	43,042	-	43,042
	<hr/>	<hr/>	<hr/>
Total governmental fund expenditures	7,884,696	432,419	8,317,115
Excess (deficiency) of revenues over expenditures	(984,387)	(28,674)	(1,013,061)
Fund balance - July 1, 2019	2,909,214	282,425	3,191,639
	<hr/>	<hr/>	<hr/>
Fund balance - June 30, 2020	<u>\$ 1,924,827</u>	<u>\$ 253,751</u>	<u>\$ 2,178,578</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, 2020

Net Change in Fund Balances - Total Governmental Funds \$ (1,013,061)

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	\$ 43,042	
Depreciation and amortization expense	<u>(76,304)</u>	<u>(33,262)</u>

Change in Net Position of Governmental Activities \$ (1,046,323)

PONTIAC ACADEMY FOR EXCELLENCE

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2020

ASSETS

	<u>Agency</u>
Cash and cash equivalents	<u>\$ 41,956</u>

LIABILITIES

Due to student groups	<u>\$ 41,956</u>
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See accompanying notes to financial statements

PONTIAC ACADEMY FOR EXCELLENCE

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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, 2020 were approximately \$150,700.

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, 2020 was approximately \$62,300.

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, 2020

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 - 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.

Fiduciary Fund - The fiduciary fund is used to account for assets held by the Academy in a trustee capacity or as an agent. The agency fund is custodial in nature and does not involve the measurement of results of operations.

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.

PONTIAC ACADEMY FOR EXCELLENCE

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES— Continued

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.

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.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government - wide financial statements.

PONTIAC ACADEMY FOR EXCELLENCE

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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, 2020. 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, 2020 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 2020 and are considered current for the purposes of these financial statements.

Prepaid Assets

Payments made to vendors for services that will benefit periods beyond June 30, 2020, 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

PONTIAC ACADEMY FOR EXCELLENCE

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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.

PONTIAC ACADEMY FOR EXCELLENCE

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- 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.

Upcoming Accounting Pronouncements

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. 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 Academy has evaluated the impact this statement will have on the financial statements when adopted. The provisions of this statement are effective for the Academy's financial statements for the year ended June 30, 2021.

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, 2020 the budget was amended in a legally permissible manner. Comparison of board appropriations to actual expenditures is detailed on page 19 of these financial statements.

PONTIAC ACADEMY FOR EXCELLENCE

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2020

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.

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, 2020, 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, 2020, \$1,065,368 of the Academy's cash was exposed to custodial credit risk because it was uninsured. All cash balances were uncollateralized as of June 30, 2020.

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.

PONTIAC ACADEMY FOR EXCELLENCE

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 3 - DEPOSITS AND INVESTMENTS - Continued

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.

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	\$ 115,328
State sources	952,594
Federal sources	<u>435,903</u>
Total	<u><u>\$ 1,503,825</u></u>

PONTIAC ACADEMY FOR EXCELLENCE

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 5 - CAPITAL ASSETS

	Balance July 1, 2019	Additions	Disposals	Balance June 30, 2020
Capital assets not subject to depreciation				
Land	\$ 358,250	\$ -	\$ -	\$ 358,250
Capital assets subject to depreciation				
Building and improvements	766,937	43,042	9,985	799,994
Furniture & equipment	153,344	-	-	153,344
Vehicles	161,000	-	-	161,000
Technology	56,458	-	-	56,458
Sub-total	1,495,989	43,042	9,985	1,529,046
Accumulated depreciation				
Building and improvements	674,855	49,352	9,985	714,222
Furniture & equipment	114,925	6,554	-	121,479
Vehicles	45,617	16,100	-	61,717
Technology	51,490	4,298	-	55,788
Sub-total	886,887	76,304	9,985	953,206
Total net capital assets	<u>\$ 609,102</u>	<u>\$ (33,262)</u>	<u>\$ -</u>	<u>\$ 575,840</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	377,137
University oversight fee	24,672
Total other accrued expenses	<u>\$ 401,809</u>

PONTIAC ACADEMY FOR EXCELLENCE

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 7 – OPERATING LEASE

Lease Information

	<u>Maturity Date</u>	<u>Approximate Payment</u>	<u>Other</u>
Facilities	June, 2029	\$132,011 monthly	Rent increases begin for years after June 30, 2022 by the consumer price index
Gymnasium	September, 2020	\$17,500 monthly	Yearly rent increases will be the lesser of the Consumer Price Index or 2.5% from the prior year
Copiers	March, 2022	\$2,800 monthly	Monthly payment may fluctuate based on maintenance and number of copies produced
Copiers	March, 2022	\$2,387 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:

2021	\$	1,668,947
2022		1,606,172
2023		1,584,131
2024		1,584,131
2025		1,584,131
2026 - 2029		6,336,524

The lease expense included in the statement of activities for the year ended June 30, 2020 amounted to approximately \$1,890,900.

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, 2020

NOTE 9 – CONTINGENCIES

Global efforts to contain the spread of COVID-19, often referred to as the Coronavirus, have significantly impacted many businesses, the economy and school. As a precaution to slow the spread of the virus the 2019 – 2020 school year ended in person education early pursuant to the governor of Michigan’s executive order on March 13, 2020. There were also resulting budget cuts to state aid that resulted in reduced state funding for the last payment of the year. The Academy is economically dependent upon this state funding for normal and continued operations. The reduced funding will be supplemented two for one with federal program funds during the 2020 – 2021 school year however the existence and continuation of federal resources beyond this coming fiscal year is not currently known. While the situation continues to evolve, and the full impact is yet to be determined, it can be reasonably expected that state funding for schools will be affected due to the economic effects of COVID-19.

SUPPLEMENTARY INFORMATION

PONTIAC ACADEMY FOR EXCELLENCE

REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2020

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Local sources	\$ 395,000	\$ 414,512	\$ 430,640	\$ 16,128
State sources	5,902,846	5,749,814	5,612,597	(137,217)
Federal sources	1,076,306	839,601	857,072	17,471
	<u>7,374,152</u>	<u>7,003,927</u>	<u>6,900,309</u>	<u>(103,618)</u>
Expenditures				
Instruction				
Basic programs	2,621,963	2,070,148	2,018,330	(51,818)
Added needs	967,171	1,106,150	1,083,207	(22,943)
Support services				
Pupil support services	591,741	654,567	651,740	(2,827)
Instructional staff support services	804,667	252,901	281,157	28,256
General administration	509,443	429,082	452,750	23,668
School administration	382,206	320,708	319,399	(1,309)
Business support services	302,943	289,659	304,833	15,174
Operations and maintenance	2,185,549	2,071,863	2,125,934	54,071
Pupil transportation services	188,124	201,429	204,912	3,483
Central support services	323,089	255,312	266,706	11,394
Athletic activities	113,785	86,678	90,690	4,012
Community services	172,519	42,196	41,996	(200)
Capital outlay	43,042	43,042	43,042	-
	<u>9,206,242</u>	<u>7,823,735</u>	<u>7,884,696</u>	<u>60,961</u>
Excess (deficiency) of revenues over expenditures	(1,832,090)	(819,808)	(984,387)	(164,579)
Fund balance - July 1, 2019	2,909,214	2,909,214	2,909,214	-
Fund balance - June 30, 2020	<u>\$ 1,077,124</u>	<u>\$ 2,089,406</u>	<u>\$ 1,924,827</u>	<u>\$ (164,579)</u>

APPENDIX

Federal Awards Report



INDEPENDENT AUDITOR'S 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
of Pontiac Academy For Excellence**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pontiac Academy For Excellence, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Pontiac Academy For Excellence's basic financial statements, and have issued our report thereon dated November 16, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pontiac Academy For Excellence's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 2020-001.

The Academy's Response to Findings

Pontiac Academy For Excellence's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. Pontiac Academy for Excellence's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Croskey Lanni, PC

Rochester, Michigan
November 16, 2020



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

**To the Board of Directors
of Pontiac Academy For Excellence**

We have audited the Pontiac Academy For Excellence's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Pontiac Academy For Excellence's major federal programs for the year ended June 30, 2020. Pontiac Academy For Excellence's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Pontiac Academy for Excellence's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Pontiac Academy For Excellence's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Pontiac Academy for Excellence's compliance.

Opinion on Each Major Federal Program

In our opinion, Pontiac Academy For Excellence complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2020-002. Our opinion on each major program is not modified with respect to this matter.

The Academy's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Academy's response was not subjected to the auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of Pontiac Academy For Excellence is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Pontiac Academy For Excellence's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Pontiac Academy For Excellence's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Croskey Lanni, PC

Rochester, Michigan
November 16, 2020

PONTIAC ACADEMY FOR EXCELLENCE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2020

Program Title/Project Number Subrecipient Name	Grant/ Project Number	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2019	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2020	Current Year Cash Transferred To Subrecipient
Child Nutrition Cluster - U.S. Department of Agriculture -										
Passed through Michigan Department of Education:										
Noncash Assistance (Commodities) -										
National Lunch Program Bonus Commodities 2019-20	N/A	10.555	\$ 23,874	\$ -	\$ -	\$ -	\$ 23,874	\$ 23,874	\$ -	\$ -
Cash Assistance:										
National School Lunch Program 2018-19	191960	10.555	368,354	328,349	60,749	-	100,754	40,005	-	-
COVID-19 - National School Lunch Program 2019-20	200902	10.555	30,137	-	-	-	26,136	30,137	4,001	-
National School Lunch Program 2019-20	201960	10.555	<u>171,118</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>171,118</u>	<u>171,118</u>	<u>-</u>	<u>-</u>
National School Lunch Program (including commodities) Subtotal		10.555	593,483	328,349	60,749	-	321,882	265,134	4,001	-
National School Breakfast Program 2018-19	191970	10.553	202,761	178,488	33,833	-	58,106	24,273	-	-
National School Breakfast Program 2019-20	201970	10.553	<u>107,428</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>107,428</u>	<u>107,428</u>	<u>-</u>	<u>-</u>
National School Breakfast Program Subtotal		10.553	<u>310,189</u>	<u>178,488</u>	<u>33,833</u>	<u>-</u>	<u>165,534</u>	<u>131,701</u>	<u>-</u>	<u>-</u>
Total Child Nutrition Cluster			903,672	506,837	94,582	-	487,416	396,835	4,001	-
Special Education Cluster - U.S. Department of Ed. -										
Passed through the Oakland County ISD										
IDEA Flowthrough:										
IDEA Flowthrough 1920	200450	84.027A	<u>193,527</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>193,527</u>	<u>193,527</u>	<u>-</u>
Total Special Education Cluster			193,527	-	-	-	-	193,527	193,527	-

See accompanying notes to schedule of expenditures of federal awards

PONTIAC ACADEMY FOR EXCELLENCE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued FOR THE YEAR ENDED JUNE 30, 2020

Program Title/Project Number Subrecipient Name	Grant/ Project Number	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2019	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2020	Current Year Cash Transferred To Subrecipient
Other federal awards:										
US Department of Education:										
Passed through the Michigan Department of Education:										
Title I Part A Passed Through Michigan Department of Education:										
Title I Part A 1819	191530	84.010	801,667	573,189	343,189	-	430,044	86,855	-	-
Title I Part A 1920	201530	84.010	761,584	-	-	-	293,539	514,650	221,111	-
Total Title I Part A		84.010	1,563,251	573,189	343,189	-	723,583	601,505	221,111	-
Title III Part A - English Learners:										
Title III Part A 1819	190580	84.365	43,681	170	170	-	12,963	12,793	-	-
Title II Part A - Supporting Effective Instruction:										
Title II Part A 1819	190520	84.367	118,303	27,628	15,628	-	15,628	-	-	-
Title II Part A 1920	200520	84.367	120,574	-	-	-	15,683	28,824	13,141	-
Total Title II Part A		84.367	238,877	27,628	15,628	-	31,311	28,824	13,141	-
Title IV Part A - Student Support & Academic Enrichment:										
Title IV Part A 1920	200750	84.424	98,998	-	-	-	16,300	18,383	2,083	-
Total noncluster programs passed through the Michigan Department of Education			1,944,807	600,987	358,987	-	784,157	661,505	236,335	-
Other federal awards (continued):										
US Department of Health and Human Services:										
Passed through the Oakland County ISD:										
Medicaid Assistance Program:										
Medicaid Assistance Program 1819	1819	93.788	1,117	1,117	1,117	-	1,117	-	-	-
Medicaid Assistance Program 1920	1920	93.788	2,040	-	-	-	-	2,040	2,040	-
Total noncluster programs passed through the Oakland County ISD		93.788	3,157	1,117	1,117	-	1,117	2,040	2,040	-
Total Federal Awards			<u>\$ 3,045,163</u>	<u>\$ 1,108,941</u>	<u>\$ 454,686</u>	<u>\$ -</u>	<u>\$ 1,272,690</u>	<u>\$ 1,253,907</u>	<u>\$ 435,903</u>	<u>\$ -</u>

See accompanying notes to schedule of expenditures of federal awards

PONTIAC ACADEMY FOR EXCELLENCE

RECONCILIATION OF BASIC FINANCIAL STATEMENTS FEDERAL REVENUE AND RECEIVABLES WITH SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2020

Revenues to Expenditures

Revenue from federal sources - As reported on modified accrual financial statements
(includes all funds):

General Fund	\$ 857,072
Special Revenue Fund	<u>396,835</u>
Federal expenditures per the schedule of expenditures of federal awards	<u>\$ 1,253,907</u>

PONTIAC ACADEMY FOR EXCELLENCE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of Pontiac Academy for Excellence under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Pontiac Academy for Excellence, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Pontiac Academy for Excellence.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3 – INDIRECT COST RATE

Pontiac Academy for Excellence has elected to not use the 10-percent *de minimis* indirect cost rate allowed under the Uniform Guidance.

NOTE 4 - NONCASH ASSISTANCE

The value of the noncash assistance received was determined in accordance with the provisions of Uniform Guidance.

NOTE 5 - GRANT AUDITOR'S REPORT

Management has utilized the Grant Auditor's report in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.

PONTIAC ACADEMY FOR EXCELLENCE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2020

SECTION I - SUMMARY OF THE AUDITOR'S RESULTS

Financial Statements

Type of Auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ___yes no
- Significant deficiency(ies) identified that are not considered to be a material weakness(es)? ___yes no
- Noncompliance material to financial statements noted? ___yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ___yes no
- Significant deficiency(ies) identified that are not considered to be a material weakness(es)? ___yes no

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516 (a)? yes ___no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
#10.553, 10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? yes ___no

PONTIAC ACADEMY FOR EXCELLENCE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued FOR THE YEAR ENDED JUNE 30, 2020

SECTION II – FINANCIAL STATEMENT FINDINGS

**Reference
Number**

Findings

2020-001

Finding Type – Noncompliance

Criteria – The Michigan Public School Accounting Manual, Section IV, indicates that, when used appropriately, a budget provides the school board and administration with the ability to control and evaluate the use of the Academy’s funds.

Condition – Actual expenditures exceeded appropriations by \$60,961.

Cause / Effect – The budget while amended during the year, did not accurately reflect actual final expenditures. The effect was a violation of the Uniform Budgeting and Accounting Act.

Recommendation – The Academy should fully review actual and anticipated revenues and expenditures and in response amend the budget accordingly in order to comply with state law.

Auditee Response – The auditee agrees with the finding. The Academy has reviewed and revised its accounting procedures to ensure actual results are properly and timely reviewed resulting in budget amendments throughout the year.

PONTIAC ACADEMY FOR EXCELLENCE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued FOR THE YEAR ENDED JUNE 30, 2020

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reference
Number

Findings

2020-002

Finding Type – Noncompliance with laws and regulations.

Criteria – In accordance with 7 CFR 210.19(a)(2), the Academy’s Nonprofit School Food Service Account’s (NSFSA) fund balance, or net cash resources, must not exceed three months’ average expenditures.

Condition – The Academy’s NSFSA’s fund balance exceeded the allowable three months’ average expenditures balance as of June 30, 2020. The Academy had approximately 5.3 months of expenditures as fund balance as of June 30, 2020. The Academy will be required to submit a Plan of Action and obtain Michigan Department of Education’s (MDE) prior approval to improve the food quality or take other action designed to improve the program in accordance with 7 CFR 210.19(a)(2).

Questioned Costs – None

Cause – Unknown

Effect – The Academy is not in compliance with U.S. Department of Agriculture regulations.

Recommendation – The Academy should submit a Plan of Action and obtain Michigan Department of Education’s (MDE) prior approval to improve the food quality or take other action designed to improve the program in accordance with 7 CFR 210.19(a)(2).

Auditee Response – The Academy agrees with the finding and is implementing procedures in order to prevent this noncompliance in the future.