

Arts and Technology Academy of Pontiac

Financial Statements

June 30, 2020



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Arts and Technology Academy of Pontiac
Members of the Board of Directors and Administration
June 30, 2020

Members of the Board of Directors

Mrs. Lola Miller	President
Ms. Cheralyn Sanford	Vice President and Treasurer
Mrs. Stacy Weaver	Secretary
Mr. Rachard Morris	Member

Administration

Dr. Septembra Williams	Superintendent
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Independent Auditors' Report

To the Board of Directors
Arts and Technology Academy of Pontiac
Pontiac, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Arts and Technology Academy of Pontiac, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Academy'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.

Auditors' 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 auditors' 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 opinion.

Opinion

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 the Arts and Technology Academy of Pontiac, 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.

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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2020 on our consideration of the Arts and Technology Academy of Pontiac'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 Arts and Technology Academy of Pontiac'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 Arts and Technology Academy of Pontiac's internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Flint, Michigan
October 6, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT’S DISCUSSION AND ANALYSIS

Arts & Technology Academy of Pontiac is a Pre-Kindergarten through 12th grade Public School Academy located in Pontiac, Michigan. This Management’s Discussion and Analysis, a requirement of GASB 34, is intended to be the Arts & Technology Academy of Pontiac administration’s discussion and analysis of the financial results for the fiscal year ended June 30, 2020.

FINANCIAL HIGHLIGHTS OF THE ACADEMY

	Current Fiscal Year	Prior Fiscal Year
State Aid Funding Per Pupil	\$7,936	\$7,871
Enrollment	802	814
General Fund Balance Increase/(Decrease)	\$51,757	\$246,657
General Fund Balance as percent of Unrestricted State Aid Revenue	13%	13%

OVERVIEW OF THE FINANCIAL STATEMENTS

U.S. generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: Academy-wide Financial Statements and Fund Financial Statements.

FUND FINANCIAL STATEMENTS:

For the most part, the fund financial statements are comparable to general purpose financial statements. The primary difference is that the Account Groups: General Fixed Assets and General Long-Term Debt are no longer reported. The fund level statements are reported on a modified accrual basis. Only those assets that are “measurable” and “currently available” are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education’s “Accounting Manual.” In the State of Michigan, the Academy’s major instruction and instructional support activities are reported in the General Fund. Additional governmental activities are reported in their relevant Special Revenue Funds.

In the fund financial statement, capital assets purchased are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year’s payments of principal and interest on long-term obligations are recorded as expenditures. Future year’s debt obligations are not recorded.

The academy has one kind of fund:

Governmental fund – Most of the Academy’s basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that 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 differences) between them.

ACADEMY WIDE FINANCIAL STATEMENTS:

The Academy-wide financial statements are maintained using the “full accrual” basis. They report all of the Academy’s assets and liabilities, both short and long term, regardless if they are “currently available” or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the Academy are reported in the Statement of Net Position of the Academy-wide financial statements.

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. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

Figure A-1 Organization of Arts & Technology Academy of Pontiac Annual Financial Report

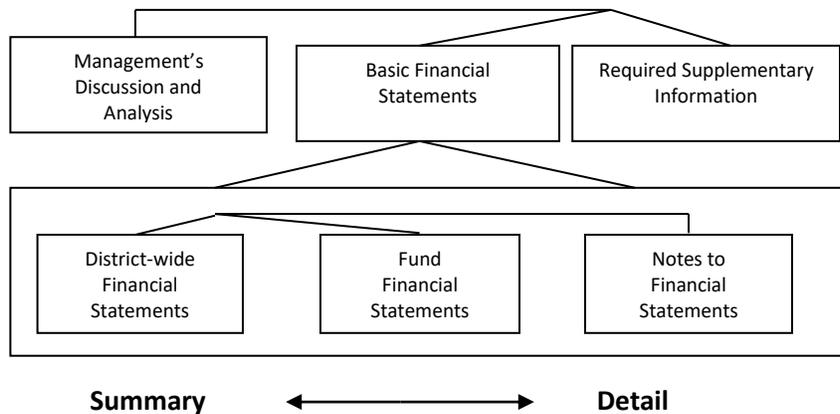


Figure A-2 summarizes the major features of the Academy’s financial statements, including the portion of the Academy’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents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

Figure A – 2 Major Features of the Academy-Wide and Fund Financial Statements

	Academy-wide statements	Fund Financial Statements
Scope	Entire academy (except fiduciary funds)	All activities of the academy that are not fiduciary
Required financial statements	* Statement of net position * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial 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
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

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

	Current Fiscal Year	Prior Fiscal Year
Ending General Fund Balance	\$1,127,731	\$1,075,974
Total General Fund Revenue	\$8,198,150	\$8,288,029
State Aid Foundation Allowance as percent of Academy Revenues	90%	89%
Total Cost of Instructional Programs	\$4,151,234	\$4,026,394
Instructional Expenditures as percent of Total Expenditures	57%	56%
Total Cost of Support/Operational Services	\$3,017,124	\$3,582,469
Support/Operational Services as percent of Total Expenditures	43%	44%
Total Expenditures transferred to Debt Service	\$877,077	\$843,151
Transfer to Debt Service as percent of Total Expenditures	10%	11%

ACADEMY GOVERNMENTAL ACTIVITIES

Summary of Net Position:

The following summarizes the net position at fiscal year ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Assets		
Current Assets	\$ 3,669,888	\$ 3,467,322
Capital Assets	10,858,013	10,801,613
Less: Accumulated Depreciation	<u>(2,683,083)</u>	<u>(2,334,751)</u>
Capital Assets, Net Book Value	<u>8,174,930</u>	<u>8,866,862</u>
Total Assets and Deferred Outflows	<u>\$ 11,844,818</u>	<u>\$ 12,334,184</u>
Liabilities		
Current Liabilities	\$ 1,141,135	\$ 1,381,700
Long-term Liabilities	<u>10,617,316</u>	<u>10,806,528</u>
Total Liabilities and Deferred Inflows	<u>\$ 11,758,451</u>	<u>\$ 12,188,228</u>
Net Position		
Invested in Capital Assets, Net of Related Debt (Deficit)	\$ (1,429,318)	\$ (1,326,598)
Restricted for Food Service	-	
Restricted for Debt Service	981,703	941,758
Unrestricted	<u>533,982</u>	<u>530,796</u>
Total Net Position	<u>\$ 86,367</u>	<u>\$ 145,956</u>

Results of Operations:

For the fiscal year ended June 30, 2020 and 2019, the Academy wide results of operations were:

	2020		2019	
	Amount	% of Total	Amount	% of Total
General Revenue:				
State of Michigan Aid - All Sources	\$ 6,363,016	74.81%	\$ 6,410,887	72.93%
Other	166,415	1.96%	167,920	1.91%
Total General Revenue	6,529,431	76.77%	6,578,807	74.84%
Program Revenue:				
Charges for Services	38,525	0.45%	46,285	0.53%
Operating Grants - Federal and State	1,937,206	22.78%	2,165,383	24.63%
Total Program Revenue	1,975,731	23.23%	2,211,668	25.16%
Total Revenue	8,505,162	100.00%	8,790,475	100.00%
Expenses:				
Instruction and Instructional Services	3,779,525	44.13%	3,576,204	41.34%
Support Services	3,318,580	38.75%	3,578,544	41.37%
Food Service	489,527	5.72%	616,761	7.13%
Athletics	29,422	0.34%	20,943	0.24%
Community Services	268,302	3.13%	170,671	1.97%
Interest on Long-term Debt	679,395	7.93%	687,865	7.95%
Total Expenses	8,564,751	100.00%	8,650,988	100.00%
Change in Net Position	\$ (59,589)		\$ 139,487	

During the fiscal year ended June 30, 2020, the Academy's net position decreased by \$59,589 as compared to a net increase of \$139,487 in the prior fiscal year. The most significant difference between prior year and current year is the total general fund revenue remained steady but total general fund expenditures decreased. Additional factors affecting the change in net position during the year are discussed below:

- The academy had a decrease of students from FY19.

State of Michigan Aid and Other Factors affecting Revenue

The State of Michigan aid is determined by the following variables:

- Per Student, Foundation Allowance: Annually, the State of Michigan sets the per student foundation allowance. The Arts & Technology Academy of Pontiac foundation allowance was \$7,936.
- Student Enrollment: The Academy's student enrollment for the final blended count of 2019-20 was 801.81 students. To calculate total state aid to be provided by the foundation allowance, a system (Section 25) where the funding follows the student was used. This means adjustments were made to the current year fall count when students enrolled or unenrolled until the current year winter count to calculate the adjusted fall count. A blend of 90% of the adjusted current year fall count and 10% of the prior year spring count is multiplied by the Academy's foundation allowance.
- Total Section 25 adjustment was 4.84 FTE or (\$38,093).
- In mid-March, an executive order was issued from the Governor of the State of Michigan which closed all K-12 schools due to the Coronavirus (COVID-19) pandemic. The academy moved to a strictly virtual learning

platform put together by the Academy’s leadership team. This executive order remained in place for the remainder of the 2019-2020 academic school year.

- As a result of the COVID-19 pandemic and significantly reduced state revenues (primarily sales tax and delay in collecting income tax due to extended filing deadlines), the school aid fund reduced the foundation allowance in August 2020 by \$175 per pupil.
- With the reduction in state aid revenues, the Academy received federal monies in the way of CARES Act funding. These funds are to be used to deliver a continued high quality academic program.

Subsequent to year end June 30, 2020, preliminary student enrollments for 2020-21 indicate that the 2020 fall student enrollment will be slightly lower than the 2019-20 levels.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Uniform Budget Act of the State of Michigan requires that the local Board of Directors approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. Over the course of the year, the Academy revised the annual operating budget two times. These budget amendments fall into several categories:

Changes were made in the second and fourth quarters to account change in student enrollment, federal funding, and changes in assumptions (e.g. staffing changes, instructional, transportation, food services and community services) since the original budget was adopted.

The Academy’s revenues from General Fund operations exceeded expenditures by \$51,757 for the fiscal year ended June 30, 2020.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

The Academy’s net investment in capital assets decreased by \$291,932 during the fiscal year. This can be summarized as follows:

	Beginning Balance 6/30/19	Additions	Disposals	Ending Balance 6/30/20
Depreciable Capital Assets		\$ -	\$ -	\$ -
Non-Depreciable Capital Assets (Land)	400,000	-	-	400,000
Depreciable Capital Assets	10,801,613	56,400		10,858,013
Less: Accumulated Depreciation	(2,334,751)	(348,332)	-	(2,683,083)
Net Investment in Capital Assets	<u>\$ 8,866,862</u>	<u>\$ (291,932)</u>	<u>\$ -</u>	<u>\$ 8,574,930</u>

Depreciation Expense

GASB 34 requires Public School Academies to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation expense is a reduction in net assets in the entity wide financial statements. Depreciation is not recognized in the fund financial statements and has been noted as a reconciling item in the Academy’s financial statements.

For fiscal year ended June 30, 2020, the net increase in accumulated depreciation was \$348,332.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of assets. In accordance with U.S. generally accepted accounting principles (GAAP), depreciation expense is recorded based on the original cost of the asset, less an estimated salvage value.

Debt, Principal Payments

A summary of long-term debt service activities is as follows.

	<u>Balance 6/30/2019</u>	<u>New Financings</u>	<u>Principal Payments</u>	<u>Balance 6/30/2020</u>
Certificates of Participation	\$ 10,806,528	\$ -	\$ 189,212	\$ 10,617,316
Total Long-term Obligations	<u>\$ 10,806,528</u>	<u>\$ -</u>	<u>\$ 189,212</u>	<u>\$ 10,617,316</u>

ECONOMIC FACTORS BEARING ON THE ACADEMY'S FUTURE

The Preliminary Budget for the 2020-21 Fiscal Year was adopted by the Board of Directors in June 2020. Few definite factors were known as the budget was being drafted, and others were unknown and needed to be projected with management's best estimates based on perceived interest from the community. Some key factors and estimates used in the 2020-21 budget preparation process include:

- State Aid Foundation is estimated with a \$375 per pupil decrease.
- Conservative enrollment projections of 800 students in grades K-12.
- Continued improvement of academic achievement through changes in academic programs.

Since the Academy's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to School Districts and Public School Academies. The State periodically holds revenue-estimating conferences to estimate what the State's available resources will be throughout the remainder of its fiscal year. In spite of the current economic uncertainties we remain cautiously confident that the State will find the resources to sufficiently fund current appropriations.

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 Academy's office at 888 Enterprise Drive, Pontiac, Michigan.

BASIC FINANCIAL STATEMENTS

Arts and Technology Academy of Pontiac
Statement of Net Position
June 30, 2020

	Governmental Activities
Assets	
Cash	\$ 597,469
Due from other governmental units	1,340,233
Due from student activities	11,116
Investments	1,278,874
Prepaid items	42,196
Capital assets not being depreciated	400,000
Capital assets - net of accumulated depreciation	8,174,930
Total assets	11,844,818
Liabilities	
Accounts payable	147,666
State aid anticipation note payable	181,819
Accrued expenditures	783,314
Unearned revenue	28,336
Long-term liabilities	
Debt due within one year	200,838
Debt due in more than one year	10,416,478
Total liabilities	11,758,451
Net Position	
Net investment in capital assets	(1,429,318)
Restricted for:	
Debt service	981,703
Unrestricted	533,982
Total net position	\$ 86,367

See Accompanying Notes to the Financial Statements

Arts and Technology Academy of Pontiac
Governmental Funds
Balance Sheet
June 30, 2020

	Major Funds			Nonmajor Fund	Total Governmental Funds
	General Fund	Capital Projects Fund	Debt Service Fund	Food Service Fund	
Assets					
Cash	\$ 596,315	\$ -	\$ -	\$ 1,154	\$ 597,469
Investments	-	28,371	1,250,503	-	1,278,874
Due from other funds	53,154	42,948	-	-	96,102
Due from student activities	11,116	-	-	-	11,116
Due from other governmental units	1,340,233	-	-	-	1,340,233
Prepaid items	42,196	-	-	-	42,196
Total assets	<u>\$ 2,043,014</u>	<u>\$ 71,319</u>	<u>\$ 1,250,503</u>	<u>\$ 1,154</u>	<u>\$ 3,365,990</u>
Liabilities and Fund Balance					
Liabilities					
Accounts payable	\$ 147,666	\$ -	\$ -	\$ -	\$ 147,666
State aid anticipation note payable	181,819	-	-	-	181,819
Due to other funds	42,948	-	-	53,154	96,102
Accrued expenditures	514,514	-	-	-	514,514
Unearned revenue	28,336	-	-	-	28,336
Total liabilities	<u>915,283</u>	<u>-</u>	<u>-</u>	<u>53,154</u>	<u>968,437</u>
Fund Balance					
Non-Spendable					
Prepaid items	42,196	-	-	-	42,196
Restricted for					
Debt service	-	-	1,250,503	-	1,250,503
Assigned for capital projects	-	71,319	-	-	71,319
Unassigned (deficit)	1,085,535	-	-	(52,000)	1,033,535
Total fund balance	<u>1,127,731</u>	<u>71,319</u>	<u>1,250,503</u>	<u>(52,000)</u>	<u>2,397,553</u>
Total liabilities and fund balance	<u>\$ 2,043,014</u>	<u>\$ 71,319</u>	<u>\$ 1,250,503</u>	<u>\$ 1,154</u>	<u>\$ 3,365,990</u>

See Accompanying Notes to the Financial Statements

Arts and Technology Academy of Pontiac
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2020

Total fund balances for governmental funds	\$ 2,397,553
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	400,000
Capital assets - net of accumulated depreciation	8,174,930
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(268,800)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly	
Bonds payable	(10,605,063)
Capital lease	<u>(12,253)</u>
Net position of governmental activities	\$ <u>86,367</u>

Arts and Technology Academy of Pontiac
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2020

	Major Funds			Nonmajor Fund	Total Governmental Funds
	General Fund	Capital Projects Fund	Debt Service Fund	Food Service Fund	
Revenues					
Local sources	\$ 210,850	\$ 289	\$ 14,411	\$ -	\$ 225,550
State sources	7,404,907	-	-	1,929	7,406,836
Federal sources	395,014	-	-	312,922	707,936
Interdistrict sources	187,379	-	-	-	187,379
Total revenues	8,198,150	289	14,411	314,851	8,527,701
Expenditures					
Current					
Education					
Instruction	3,607,574	-	-	-	3,607,574
Supporting services	3,193,889	-	-	-	3,193,889
Food services	-	-	-	467,809	467,809
Community services	256,399	-	-	-	256,399
Athletic activities	29,422	-	-	-	29,422
Capital outlay	56,400	4,470	-	-	60,870
Debt service					
Principal	5,312	-	190,000	-	195,312
Interest	19,362	-	656,533	-	675,895
Total expenditures	7,168,358	4,470	846,533	467,809	8,487,170
Excess (deficiency) of revenues over expenditures	1,029,792	(4,181)	(832,122)	(152,958)	40,531

See Accompanying Notes to the Financial Statements

**Arts and Technology Academy of Pontiac
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2020**

	Major Funds			Nonmajor Fund	Total Governmental Funds
	General Fund	Capital Projects Fund	Debt Service Fund	Food Service Fund	
Other Financing Sources (Uses)					
Transfers in	\$ -	\$ 7,610	\$ 877,077	\$ 100,958	\$ 985,645
Transfers out	(978,035)	-	(7,610)	-	(985,645)
 Total other financing sources (uses)	 (978,035)	 7,610	 869,467	 100,958	 -
 Net change in fund balance	 51,757	 3,429	 37,345	 (52,000)	 40,531
 Fund balance - beginning	 1,075,974	 67,890	 1,213,158	 -	 2,357,022
 Fund balance - ending	 <u>\$ 1,127,731</u>	 <u>\$ 71,319</u>	 <u>\$ 1,250,503</u>	 <u>\$ (52,000)</u>	 <u>\$ 2,397,553</u>

See Accompanying Notes to the Financial Statements

Arts and Technology Academy of Pontiac
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2020

Net change in fund balances - Total governmental funds	\$ 40,531
Total change in net assets reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(348,332)
Capital outlay	56,400
Expenses are recorded when incurred in the statement of activities.	
Interest	2,600
Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	
Repayments of long-term debt	195,312
Amortization of bond discount	<u>(6,100)</u>
Change in net position of governmental activities	<u>\$ (59,589)</u>

Arts and Technology Academy of Pontiac
Notes to the Financial Statements
June 30, 2020

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Arts and Technology Academy of Pontiac (Academy) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the Academy's significant accounting policies:

Reporting Entity

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

On December 20, 2000, the Academy entered into a five-year contract with Bay Mills Community College to charter a public school academy. Subsequently, the contract was extended through June 30, 2023. 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 aid funds pursuant to the state constitution. The Bay Mills Community College Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Bay Mills Community College Board of Trustees three percent of state aid foundation as administrative fees. The total administrative fee paid for the year ended June 30, 2020 was \$208,443.

The Academy is governed by a Board of Directors. 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 financial relationships that determine which of the governmental organizations are a part of the Academy's reporting entity, and which organizations are legally separate component units of the Academy. The Academy has no component units.

Academy-Wide Financial Statements

The Academy's basic financial statements include both Academy-wide (reporting for the Academy as a whole) and fund financial statements (reporting the Academy's major funds). The Academy-wide financial statements categorize all nonfiduciary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of net position presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net position is reported in three parts (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

The statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (certain intergovernmental revenues, investments and earnings, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (state sources, interest income, etc.). The Academy does not allocate indirect costs. In creating the Academy-wide financial statements the Academy has eliminated interfund transactions.

The Academy-wide focus is on the sustainability of the Academy as an entity and the change in the Academy's net position resulting from current year activities.

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Fund Financial Statements

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

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

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

The Academy reports the following major governmental funds:

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

Capital Projects Fund – The Building and Site Fund is used to record the bond proceeds or other revenue and the disbursements of invoices specifically for acquiring new Academy sites, building, equipment, and for remodeling and repairs. This fund is kept open until the purpose for which the fund was created has been accomplished.

Debt Service Fund – Debt Service Fund is used to record other financing sources and the payment of interest principal and other expenditures on long-term debt.

Additionally, the Academy reports the following fund types:

Special Revenue Fund – Special Revenue Fund is used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Academy's Special Revenue Fund includes the Food Service Fund.

Assets, Liabilities and Net Position or Equity

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

The Academy considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

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

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The Academy defines capital assets as assets with an initial cost in excess of \$ 5,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The Academy does not have infrastructure assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	10-50 years
Equipment and furniture	5-20 years

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Long-term Obligations – In the Academy-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period.

In the Academy’s fund financial statements, the face amount of the debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses.

Fund Equity – In the fund financial statements, governmental funds report fund balance in the following categories:

Non-spendable – amounts that are not available in a spendable form.

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed – amounts that have been formally set aside by the Board of Directors for specific purposes. A fund balance commitment may be established, modified, or rescinded by a resolution of the Board of Directors.

Assigned – amounts intended to be used for specific purposes, as determined by the board of directors. The board of directors has granted the Chief Administrative Officer the authority to assign funds.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Academy’s policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the Academy’s policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as well as deferred inflows and deferred outflows of resources at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Eliminations and Reclassifications

In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the “grossing up” effect on assets and liabilities within the governmental activities column.

Adoption of New Accounting Standards

Statement No. 92, *Omnibus 2020* enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following: (1) The effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports (2) Reporting of intra-entity transfers of assets between a primary government employer and a

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component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan. (3) The applicability of Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits. (4) The applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements. (5) Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition. (6) Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers. (7) Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature. (8) Terminology used to refer to derivative instruments. Management has implemented the required portions of this Statement and will implement the remaining requirements as each Statement referenced becomes effective.

Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* provides a temporary relief to governments and other stakeholders in light of the COVID-19 pandemic and provides a postponement of certain GASB Statements. This statement was effective upon issuance in May of 2020.

Upcoming Accounting and Reporting Changes

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the criteria includes the following: (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable are: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that

meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2021.

Statement No. 87, *Leases* increases the usefulness of the District's financial statements by requiring 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 on 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. A lessee will be required to recognize a lease liability and an intangible right-to-use a lease asset, and a lessor will be required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the District's leasing activities. The requirements of this Statement are effective for the fiscal year ending June 30, 2022.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. It requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reporting in a business-type activity or enterprise fund. Interest cost incurred before the end of a construction period should be recognized as an expenditure for financial statements prepared using the current financial resources measurement. The requirements of this Statement are effective for the fiscal year ending June 30, 2022. Statement No. 91, *Conduit Debt Obligations* provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by

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clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This statement is effective for the year ending June 30, 2022.

Statement No. 91, *Conduit Debt Obligations* provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This statement is effective for the year ending June 30, 2023.

Statement No. 93, *Replacement of Interbank Offered Rates* establishes accounting and financial reporting requirements related to the replacement of IBORs in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The requirements of this Statement apply to the financial statements of all state and local governments. The requirements of this Statement apply to the financial statements of all state and local governments. This statement is effective for the year ending June 30, 2022.

Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public

services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. This statement is effective for the year ending June 30, 2023.

The Academy is evaluating the impact that the above pronouncements will have on its financial reporting.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end, thereby canceling all encumbrances. These appropriations are reestablished at the beginning of the year.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the

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function level. State law requires the Academy to have its budget in place by July 1. The Academy is not considered in violation of the law if reasonable procedures are in use by the Academy to detect violations.

The Chief Administrative Officer is authorized to transfer budgeted amounts within functions in any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Directors.

Budgeted amounts are as originally adopted or as amended by the Board of Directors throughout the year. Individual amendments were not material in relation to the original appropriations which were amended.

Excess of Expenditures over Appropriations

During the year, the Academy incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
Pupil transportation services	\$ 14,127	\$ 30,311	\$ 16,184
Athletic activities	26,738	29,422	2,684

Note 3 - Deposits and Investments

The Academy's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities
Cash	\$ 597,469
Investments	1,278,874
Total	<u>\$ 1,876,343</u>

The breakdown between deposits and investments for the Academy is as follows:

Deposits (checking, savings accounts, money markets, certificates of deposit)	\$ 597,469
Investments in securities, mutual funds, and similar vehicles	<u>1,278,874</u>
Total	<u>\$ 1,876,343</u>

As of year end, the Academy had the following investments:

Investment	Fair Value	Maturities	Rating	Rating Organization
First American Government Obligation	<u>\$ 1,278,874</u>	8 days	Aaa-mf	Moody's

Interest rate risk – In accordance with its investment policy, the Academy manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than 24 months.

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

Concentration of credit risk – The Academy’s investment policy does not allow for an investment in any one issuer that is in excess of five percent of the Academy’s total investments.

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. The Academy does not have a deposit policy for custodial credit risk. As of year end, \$ 452,034 of the Academy’s bank balance of \$ 702,034 was exposed to custodial credit risk.

Custodial credit risk – investments – For investments, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of year end, none of the Academy’s investments were exposed to custodial credit risk.

Note 4 - Fair Value measurements

The Academy categorizes its fair value measurements within the fair value hierarchy establish by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Academy has the following recurring fair value measurements as of June 30, 2020:

Amounts invested in First American Government Obligations Fund consists primarily of short-term U.S. government securities and repurchase agreements secured by U.S. Government securities. The amount of \$ 1,278,874 is valued using quoted market prices (Level 1 inputs).

Note 5 - Capital Assets

A summary of the changes in governmental capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 400,000	\$ -	\$ -	\$ 400,000
Total capital assets not being depreciated	400,000	-	-	400,000
Capital assets being depreciated				
Building	9,325,665	-	-	9,325,665
Site improvements	361,643	56,400	-	418,043
Equipment and furniture	1,114,305	-	-	1,114,305
Total capital assets being depreciated	10,801,613	56,400	-	10,858,013
Less accumulated depreciation for				
Building	1,315,562	288,632	-	1,604,194
Site improvements	107,181	26,782	-	133,963
Equipment and furniture	912,008	32,918	-	944,926
Total accumulated depreciation	2,334,751	348,332	-	2,683,083
Net capital assets being depreciated	8,466,862	(291,932)	-	8,174,930
Net capital assets	\$ 8,866,862	\$ (291,932)	\$ -	\$ 8,574,930

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Depreciation expense was charged to activities as follows:

Governmental activities	
Instruction	\$ 166,979
Support services	147,832
Food services	21,653
Community services	<u>11,868</u>
 Total governmental activities	 <u>\$ 348,332</u>

Note 6 - Interfund Receivable and Payable and Transfers

Individual interfund receivable and payable balances at year end were:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Projects Fund	General Fund	\$ 42,948
General Fund	Food Service Fund	<u>53,154</u>
		<u>\$ 96,102</u>

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year. Interfund transfers consist of the following:

	<u>Transfers Out</u>		<u>Total</u>
	<u>General Fund</u>	<u>Debt Service Fund</u>	
Transfers in			
Capital Projects Fund	\$ -	\$ 7,610	\$ 7,610
Debt Service Fund	877,077	-	877,077
Food Service Fund	<u>100,958</u>	<u>-</u>	<u>100,958</u>
	<u>\$ 978,035</u>	<u>\$ 7,610</u>	<u>\$ 985,645</u>

Interfund transfers were made during the year between the general fund and the debt service fund in the total amount of \$ 877,077 to fund a reserve for future debt requirements, transfers between the debt service fund and capital projects fund in the total amount of \$ 7,610 were to cover future building needs and transfers in the amount of \$ 100,958 between the general fund and food service fund were made to cover project costs. Interfund transfers are shown on the statements at their net amounts.

Note 7 - Leases

Operating Leases

The Academy leases technology equipment and building space under a month-to-month operating leases. Total costs for such leases were \$ 142,965 for the year.

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June 30, 2020

Capital Leases

The Academy has a capital lease for a technology equipment. The future minimum lease payments are as follows:

Year ending June 30,	
2021	\$ 6,749
2022	<u>6,749</u>
Total minimum lease payments	13,498
Less amount representing interest	<u>1,245</u>
Present value of minimum lease payments	<u>\$ 12,253</u>

The assets acquired through capital leases are as follows:

Equipment and furniture	\$ 26,799
Less accumulated depreciation	<u>14,546</u>
Total	<u>\$ 12,253</u>

Note 8 - State Aid Anticipation Note

The Academy issues state aid anticipation notes in advance of state aid collections, depositing the proceeds in the General Fund. These notes are necessary because the Academy receives state aid from October through the following August for its fiscal year ending June 30th. The Academy is required to pledge 100% of their state aid, October through August, or until the note is repaid, whichever is longer. The State has discretion to accelerate repayment terms if they have cause for concern. If the note is in default status, there is a penalty interest rate that may apply.

Short-term debt activity for the year was as follows:

	Beginning Balance	Proceeds	Repayments	Ending Balance
State aid anticipation note	\$ 181,819	\$ 1,000,000	\$ 1,000,000	\$ 181,819

Note 9 - Long-Term Debt

The Academy issues bonds, notes and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. Other long-term obligations may include compensated absences, claims and judgements, termination benefits, and certain risk liabilities. The State can withhold state aid if it has to make a bond payment on behalf of the Academy related to qualified bonds.

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Bonds and notes payable					
Limited Obligation Revenue Bond	\$ 11,135,000	\$ -	\$ 190,000	\$ 10,945,000	\$ 195,000
Discount on bonds	(346,037)	-	(6,100)	(339,937)	-
Total bonds payable	<u>10,788,963</u>	-	<u>183,900</u>	<u>10,605,063</u>	<u>195,000</u>
Other liabilities					
Capital lease	<u>17,565</u>	-	<u>5,312</u>	<u>12,253</u>	<u>5,838</u>
Total	<u>\$ 10,806,528</u>	<u>\$ -</u>	<u>\$ 189,212</u>	<u>\$ 10,617,316</u>	<u>\$ 200,838</u>

Arts and Technology Academy of Pontiac
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June 30, 2020

General obligation bonds payable at year end, consist of the following:

\$5,710,000 serial bond due in annual installments of \$105,000 to \$405,000 through May 2043, interest at 5.0% to 6.0%	\$ 5,300,000
\$5,865,000 serial bond due in annual installments of \$75,000 to \$445,000 through November 2046, interest at 5.0% to 6.0%	5,645,000
Total general obligation bonded debt	\$ 10,945,000

Future principal and interest requirements for bonded debt are as follows:

	Principal	Interest	
Year Ending June 30,			
2021	\$ 195,000	\$ 641,750	
2022	205,000	632,000	
2023	220,000	621,325	
2024	230,000	609,875	
2025	245,000	596,550	
2026-2030	1,440,000	2,754,425	
2031-2035	1,905,000	2,285,825	
2036-2040	2,725,000	1,650,800	
2041-2045	2,915,000	729,000	
2046-2050	865,000	78,600	
Total	\$ 10,945,000	\$ 10,600,150	

The limited obligation revenue bonds are payable from the Debt Service Fund. As of year end, the fund had a balance of \$ 1,250,503 to pay this debt. Future debt and interest will be payable from State Aid payments.

Interest expenditures for the fiscal year in the General Fund and Debt Service Funds were \$ 19,362 and \$ 656,533, respectively.

Debt Covenants

As of the fiscal year ending June 30, 2020 the Academy was in compliance with the Days Cash on Hand and Debt Service Coverage Ratio Covenants under the Academy's 2016 Bonds.

Note 10 - Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, and errors and omissions. The Academy has purchased commercial insurance for general liability, property and casualty. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

Note 11 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time although the Academy expects such amounts, if any, to be immaterial.

Note 12 - Education Services Agreement

The Academy operates under an Education Services Agreement with CS Partners, LLC (CSP) and CSP Management Inc. doing business as Partner Solutions (PS). Under the terms of this agreement, CSP provides a variety of services including management of operational areas, academic program support and compliance. The Academy is obligated to pay CSP nine percent of applicable revenues. Additionally, PS provides staffing for teachers, administrators and other individuals who provide educational programs at the Academy. The Academy is responsible for reimbursing PS for all costs incurred for providing staffing. The total fee for these management services amounted to approximately \$ 584,846 for the year ended June 30, 2020. As of June 30, 2020, \$ 47,132 was owed to CSP. The

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June 30, 2020

Academy also has \$ 267,078 accrued as of June 30, 2020 for July and August contracted employees which are paid as invoices are rendered.

Note 13 - COVID-19 Pandemic

As result of the global coronavirus pandemic of 2020, the financial picture for Michigan School Districts has seen an unanticipated change. The duration and full effects of the outbreak are currently unknown, as the local and global picture continues to change frequently. To reduce the chance of spreading COVID-19; in March 2020, public schools were closed for the remainder of the 2019-2020 school year. As a result of the pandemic, the State of Michigan encountered a revenue shortfall resulting in a revenue reduction for Districts of \$175 per pupil which reduced the state aid payment in August of 2020. Subsequent to year end, multiple new revenue sources were approved; including Public Act 123 of 2020 which provides Districts an approximate \$12.32 per pupil and Public Act 146 of 2020 which provides Districts \$350 per pupil. These new revenue streams approved after June 30, 2020 will be recognized in the fiscal year ended June 30, 2021 in accordance with reporting criteria established by the Governmental Accounting Standards Board. Additionally, the "Return to Learn" legislation passed subsequent to year end which modifies the per pupil foundation allowance calculation and allows flexibilities in the days and attendance requirements for Districts. Local districts are able to decide whether to provide instruction virtually or face to face for the 2020-2021 school year. Currently, it is not possible to estimate the full extent of any potential impacts to the District or to determine if any changes in fair values are other than temporary in nature. Accordingly, no adjustments to the financial statements were made as a result of these events.

REQUIRED SUPPLEMENTARY INFORMATION

Arts and Technology Academy of Pontiac
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2020

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
Revenues				
Local sources	\$ 192,219	\$ 208,739	\$ 210,850	\$ 2,111
State sources	7,536,655	7,320,925	7,404,907	83,982
Federal sources	525,531	646,708	395,014	(251,694)
Interdistrict sources	142,136	183,173	187,379	4,206
Total revenues	<u>8,396,541</u>	<u>8,359,545</u>	<u>8,198,150</u>	<u>(161,395)</u>
Expenditures				
Instruction				
Basic programs	2,999,123	2,849,220	2,773,096	(76,124)
Added needs	845,265	909,450	834,478	(74,972)
Supporting services				
Pupil	551,826	472,809	459,616	(13,193)
Instructional staff	79,286	85,165	84,288	(877)
General administration	885,184	872,746	869,044	(3,702)
School administration	471,702	519,550	481,661	(37,889)
Business	1,167	1,049	735	(314)
Operations and maintenance	1,087,482	1,122,645	1,064,041	(58,604)
Pupil transportation services	57,127	14,127	30,311	16,184
Central	185,153	219,000	204,193	(14,807)
Community services	162,214	262,000	256,399	(5,601)
Athletic activities	20,317	26,738	29,422	2,684
Capital outlay	20,000	56,400	56,400	-
Debt service				
Principal	5,312	5,312	5,312	-
Interest	19,362	19,362	19,362	-
Total expenditures	<u>7,390,520</u>	<u>7,435,573</u>	<u>7,168,358</u>	<u>(267,215)</u>
Excess of revenues over expenditures	<u>1,006,021</u>	<u>923,972</u>	<u>1,029,792</u>	<u>105,820</u>

Arts and Technology Academy of Pontiac
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2020

	Budgeted Amounts			Over (Under) Budget
	Original	Final	Actual	
Other Financing Uses				
Transfers out	\$ (993,936)	\$ (1,015,510)	\$ (978,035)	\$ 37,475
Net change in fund balance	12,085	(91,538)	51,757	143,295
Fund balance - beginning	1,075,974	1,075,974	1,075,974	-
Fund balance - ending	\$ 1,088,059	\$ 984,436	\$ 1,127,731	\$ 143,295



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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*

Independent Auditors' Report

Management and the Board of Directors
Arts and Technology Academy of Pontiac
Pontiac, Michigan

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 Arts and Technology Academy of Pontiac as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Arts and Technology Academy of Pontiac's basic financial statements, and have issued our report thereon dated October 6, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Arts and Technology Academy of Pontiac '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 Arts and Technology Academy of Pontiac's internal control. Accordingly, we do not express an opinion on the effectiveness of Arts and Technology Academy of Pontiac'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.

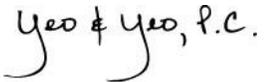
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

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.

Handwritten signature in black ink that reads "Yeo & Yeo, P.C." in a cursive style.

Flint, Michigan
October 6, 2020