



Pathways Academy
Audited Financial Statements
June 30, 2018

Prepared by Taylor & Morgan, P.C.

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Pathways Academy
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INDEPENDENT AUDITORS' REPORT

October 12, 2018

Board of Directors
Pathways Academy

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Pathways Academy as of and for the year ended June 30, 2018 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. 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.

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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 the Pathways Academy as of June 30, 2018 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 on pages 3-5 and 20 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

The introductory section titled management's discussion and analysis has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2018 on our consideration of the Pathways Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pathways Academy's internal control over financial reporting and compliance.

Sincerely,

Taylor & Morgan, P.C.

Taylor & Morgan, P.C.
Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS
(MD & A)

PATHWAYS ACADEMY MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Pathways Academy's (the Academy) annual financial report presents our discussion and analysis of the school's financial performance during the fiscal year that ended on June 30, 2018. Please read it in conjunction with the school's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- Government-wide revenues were at \$2,500,884 while expenditures were \$2,316,627.
- At June 30, 2018, the Academy's liabilities exceeded its assets by \$941,275.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of a series of financial statements that show information for the Academy as a whole, its funds, and its fiduciary responsibilities. The Statement of Net Position and the Statement of Activities provide information about the activities of the Academy as a whole and presents a longer-term view of the Academy's finances. Our fund financial statements are included later in the financial report. For our governmental activities, these statements tell how we financed our services in the short-term as well as what remains for future spending. Fund statements may give you some insights into the Academy's overall financial health. Fund financial statements also report operations in more detail than the government-wide financial statements by providing information about the most significant fund, the general fund.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are reported in compliance with GASB 34. These statements present information on the Academy's finances in a manner similar to private sector businesses. One of the most important questions asked about the Academy is, "Is the Academy as a whole better off or worse off financially as a result of the year's activities?" The Statement of Net Position and Statement of Activities report information on the Academy as a whole and its activities in a way that helps answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position shows assets and liabilities, with the difference between the two reported as net position. All capital assets, long-term liabilities, and general government functions are shown in the Statement of Net Position.

The Statement of Activities shows revenues, expenses, and the change in net position for the Academy as a whole. Revenues and expenses attributable to specific functions are segregated from general revenues, to display the extent to which program revenues support each function.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Total assets, liabilities and net position for the years ended June 30, 2018 and 2017, were as follows:

	2018	2017
Assets		
Current and Other Assets	\$ 856,971	\$ 633,405
Capital Assets, net	182,617	222,883
Total Assets	1,039,588	856,288
Liabilities		
Current Liabilities	624,863	610,820
Long-Term Liabilities	1,356,000	1,371,000
Total Liabilities	1,980,863	1,981,820
Net Position		
Investment in Fixed Assets	182,617	222,883
Unrestricted	(1,123,892)	(1,348,415)
Total Net Position	\$ (941,275)	\$ (1,125,532)

The Academy's revenues and expenses were as follows:

	2018	2017
Revenues		
State School Aid - Unrestricted	\$ 2,023,891	\$ 1,735,391
Operating Grants and Contributions	305,422	168,783
Miscellaneous Income	171,571	177,292
Total Revenues	2,500,884	2,081,466
Expenditures		
Instructional	568,244	533,059
Support Services	1,588,441	1,408,654
Custody and Care of Children	58,871	71,286
Interest on Long Term Debt	60,805	49,699
Unallocated Depreciation	40,266	58,846
Total expenditures	2,316,627	2,121,544
Change in Net Position	184,257	(40,078)
Beginning Net Position	(1,125,532)	(1,085,454)
Ending Net Position	\$ (941,275)	\$ (1,125,532)

ANALYSIS OF OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS

During the year ended June 30, 2018, the Academy's expenses of \$2,316,627 exceeded its revenues of \$2,500,884 by \$184,257, ending the year with a net position balance of (\$941,275). Per pupil funding and student enrollment are the primary factors in determining the revenue and expenses for the Academy. The student count for the year ended June 30, 2018 was 267 students, an increase of 36 from the prior year. The Academy's per-pupil state aid allowance was approximately \$7,631.

FUND FINANCIAL STATEMENTS

Governmental funds account for the same functions as are reported as governmental activities in the government-wide financial statements. Governmental fund reporting focuses on how money flows in and out of funds and the balances left at year end that are available for spending. They are reported using the accounting method called “modified accrual” accounting, which measures cash and all other financial assets that can be readily converted to cash. This information is essential for preparation of and compliance with annual budgets. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliations following the government statements. The notes to the financial statements provide additional information that is essential to a complete understanding of the data provided in the financial statements.

BUDGET VARIATIONS

Actual revenue exceeded budgeted revenue by \$96,393, and actual expenses exceeded budgeted amounts by \$13,818. Actual other financing sources and uses exceeded budgeted amounts by \$2,344. This resulted in actual fund balance exceeding budgeted fund balance amounts by \$80,231.

CAPITAL ASSETS

The Academy had \$182,617 invested in capital assets, net of depreciation, at June 30, 2018. Please refer to the notes to the basic financial statements for further information.

OUTSTANDING DEBT AT YEAR END

At June 30, 2018, the Academy had \$1.36 million in long-term debt owed to their Educational Service Provider. Please refer to the notes to the basic financial statements for more information

REQUESTS FOR INFORMATION

Our financial report is designed to provide our parents, teachers, students, investors and creditors with an overview of the Academy’s finances. If you have any questions about this report or need any clarification of information please contact the Pathways Academy offices, located at:

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BASIC FINANCIAL STATEMENTS

PATHWAYS ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2018

		Governmental Activities
Assets		
	Cash and Cash Equivalents	\$ 163,856
	Due from Other Governmental Units	642,808
	Prepaid Expenses	50,307
	Capital Assets Net of Depreciation	182,617
	Total Assets	1,039,588
 Liabilities		
	Accounts Payable	30,455
	Due to Educational Service Provider	511,351
	State Aid Anticipation Note Payable	52,823
	Accrued Expenses	30,234
	Long Term Liabilities	
	Due in less than one year	232,108
	Due in more than one year	1,123,892
	Total Liabilities	1,980,863
 Net Position		
	Investment in Capital Assets	182,617
	Unrestricted	(1,123,892)
	Total Net Position	\$ (941,275)

See accompanying notes to basic financial statements

PATHWAYS ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

		Program Revenues			
Expenses		Charges for Services		Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Functions/Programs					
Governmental Activities					
Instruction	\$ 568,244	\$ -		\$ 305,422	\$ (262,822)
Support Services	1,588,441	-		-	(1,588,441)
Custody and Care of Children	58,871	-		-	(58,871)
Interest on Long Term Debt	60,805	-		-	(60,805)
Unallocated Depreciation	40,266	-		-	(40,266)
Total Governmental Activities	<u>\$ 2,316,627</u>	<u>\$ -</u>		<u>\$ 305,422</u>	<u>(2,011,205)</u>
General Purpose Revenues					
State School Aid - Unrestricted					2,023,891
Miscellaneous					171,571
				Total General Revenue	<u>2,195,462</u>
					Change in Net Position 184,257
					Net Position - July 1 <u>(1,125,532)</u>
					Net Position - June 30 <u>\$ (941,275)</u>

See accompanying notes to basic financial statements

PATHWAYS ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

		General Fund
Assets		
Cash and Cash Equivalents	\$	163,856
Due from Other Governmental Units		642,808
Prepaid Expenses		50,307
Total Assets	\$	856,971
Liabilities and Fund Balance		
Current Liabilities		
Accounts Payable	\$	30,455
Due to Educational Service Provider		511,351
State Aid Anticipation Note Payable		52,823
Accrued Expenses		30,234
Total Current Liabilities		624,863
Fund Balance		
Non-spendable		232,108
Total Fund Balance		232,108
Total Liabilities and Fund Balance	\$	856,971

See accompanying notes to basic financial statements

PATHWAYS ACADEMY
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2018

Total Governmental Fund Balances	\$	232,108
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Cost of Capital Assets	\$	425,874	
Accumulated Depreciation		<u>(243,257)</u>	182,617

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Long-Term Note Payable		<u>(1,356,000)</u>
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Total Net Position - Governmental Activities	\$	<u><u>(941,275)</u></u>
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See accompanying notes to basic financial statements

PATHWAYS ACADEMY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	General Fund
Revenues	
Local Sources	\$ 171,571
State Sources	2,224,076
Federal Sources	105,237
Total Revenues	2,500,884
Expenditures	
Instruction	
Basic Programs	426,781
Added Needs	141,463
Total Instruction	568,244
Support Services	
Pupil Services	168,571
Instructional Staff	94,531
General Administration	401,686
School Administration	282,498
Business Services	55,174
Operation and Maintenance	296,904
Transportation	202,964
Central Services	86,113
Total Support Services	1,588,441
Custody and Care of Children	58,871
Total Expenditures	2,215,556
Excess/(Deficiency) of Revenues Over/(Under) Expenditures	285,328
Other Financing Sources/(Uses)	
Debt Service - Long Term	(75,805)
Total Other Financing Sources/(Uses)	(75,805)
Excess of Revenues Over/(Under) Expenditures and Other Financing Sources/(Uses)	209,523
Fund Balance - July 1	22,585
Fund Balance - June 30	\$ 232,108

See accompanying notes to basic financial statements

PATHWAYS ACADEMY
 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, 2018

Total Net Change in Fund Balances - Governmental Funds	\$	209,523
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceed depreciation in the current period

Depreciation Expense	\$	<u>(40,266)</u>	<u>(40,266)</u>
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Repayment of loans is an Other Financing Use in the Governmental Funds, but not in the Statement of Activities (where it reduces Long-term Debt).		<u>15,000</u>
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Change in Net Position of Governmental Activities	\$	<u><u>184,257</u></u>
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See accompanying notes to basic financial statements

NOTES TO FINANCIAL STATEMENTS

PATHWAYS ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

Pathways Academy 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, and began operation in July 2014.

In May 2014, the Academy entered into a contract with Detroit Public Schools' Board of Education to charter a public school academy. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State constitution. The District's Board of Education 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 Detroit Public Schools' Board of Education three percent of state aid as administrative fees. Total administrative fees paid for the year ended June 30, 2018 were approximately \$63,541.

In May 2014, the Academy entered into an agreement with Innovative Educational Programs of Michigan, LLC ("IEP"). Under the terms of this agreement, IEP provides a variety of services including management, curriculum, educational programs and teacher training. The Academy is obligated to pay IEP varying amounts based upon the services provided according to the contract. The fee schedule is mutually agreed upon annually and each payment to IEP is approved by the board at a regularly scheduled open meeting. Payments to IEP are calculated using a percentage of all revenues from all sources. The percentage is based upon the number of students enrolled.

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The Academy receives funding from local, state, and federal government sources and must comply with the accompanying requirements of these funding source entities. However, the Academy is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to determine its budget, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters.

Basic Financial Statements – Government-wide Statements

The Academy's basic financial statements include both government-wide (reporting the Academy as a whole) and fund financial statements (reporting the Academy's major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

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

PATHWAYS ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1 - Summary of Significant Accounting Policies (continued)

Basic Financial Statements – Government-wide Statements (continued)

The government-wide Statement of Activities reports both the gross and net cost of each of the Academy's functions. General government revenues (certain intergovernmental revenues, fines, permits and charges, etc.) also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (state and federal sources, interest income, etc.).

The Academy does not allocate indirect costs.

Basic Financial Statements - Fund Financial Statements

The accounts of the Academy are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report; into one generic fund type in one broad fund category as follows:

Governmental Funds

Governmental funds are those funds 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 governmental funds.

General Fund - The General Fund is used to record the general operations of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Basis of Accounting/Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified

PATHWAYS ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1 - Summary of Significant Accounting Policies (continued)

Basis of Accounting/Measurement Focus/ Modified Accrual (continued)

accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

Cash and Investments – Cash and cash equivalents include amounts in demand deposits, sweep accounts, and certificate of deposits with original maturities less than 180 days. The Academy reports its investments in accordance with Governmental Accounting Standards Board (GASB) *Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and *No. 40, Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at 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. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

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, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), or National Credit Union Administration (NCUA), respectively; and in commercial paper rated at the time of purchase within the three highest classifications established by no 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, mutual funds composed of investments outlined above, and investment pools, as authorized by the surplus funds investment pool act, Act. No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by an academy.

Inventories - Items purchased for future use are recorded as inventory and charged to expenditure accounts when requisitioned for use. Inventory amounts were not material at June 30, 2018.

Capital Assets - The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The Academy's policy is to capitalize assets with a cost that equals or exceeds \$2,000.

Depreciation on all assets is computed on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	20 – 50 years
Buses and other vehicles	5 – 10 years
Furniture and equipment	3 – 20 years

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PATHWAYS ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1 - Summary of Significant Accounting Policies (continued)

Economic Dependency – The Academy receives approximately 89% of its operating revenue from the State of Michigan.

Note 2 - Budget and Budgetary Accounting

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General, Special Revenue, and Debt Retirement Funds and an informational study of Capital Project Funds of academies prior to the expenditure of monies in a fiscal year.

The Board of Education adopts appropriations utilizing the modified accrual basis of accounting for all governmental funds. The appropriation level adopted by the Board is the level of control authorized by the Act. The Act requires expenditures to be budgeted on a functional basis. An Academy is not considered to be in violation of the Act if reasonable procedures are in use by the Academy to detect violations.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Academy's CEO submits to the Board of Education a proposed budget by July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. The CEO is authorized to transfer budgeted amounts between functions within any fund with the approval of the Board of Education; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
3. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting principles.
4. Budgeted amounts are as originally adopted, or as amended by the Board of Education throughout the year. Individual amendments were not material in relation to the original appropriations, which were amended.
5. Appropriations lapse at year-end and, therefore, cancel all encumbrances. These appropriations are reestablished at the beginning of the following year.

A schedule comparing actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General Fund is presented as required supplementary information.

Budgetary information

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. In the body of the financial statements, the Academy's actual and budgeted expenditures for the period have been shown as adopted by function on a modified accrual basis.

PATHWAYS ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 2 - Budget and Budgetary Accounting (continued)

Excess of expenditures over appropriations in budgeted funds

During the year, the Academy incurred expenditures in the General Fund which were in excess of the amounts appropriated, as follows:

<u>Budget Item</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Basic Programs	\$ 419,613	\$ 426,781	\$ (7,168)
Pupil Services	121,670	168,571	(46,901)
General Administration	399,422	401,686	(2,264)
School Administration	253,279	282,498	(29,219)
Operations and Maintenance	286,030	296,904	(10,874)
Custody and Care of Children	58,066	58,871	(805)
Debt Service – Long Term	73,461	75,805	(2,344)

Note 3 - Cash and Investments

Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Academy's policy provides that to the extent practicable, investments are matched with anticipated cash flows. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities and are invested primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools.

Concentration of Credit Risk

This is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer. Cumulatively, portfolios of the Academy may not be invested in any given financial institution in excess of 5% of such institution's total assets. Additionally, no more than 5% of the total Academy portfolio may be placed with any single financial institution with the exception of repurchase agreements. U.S. government securities and 2a7-like investment pools are excluded from these restrictions.

Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits this exposure by mandating that the Academy's investments in commercial paper and corporate bonds be limited to those with a prime rating or better issued by nationally recognized statistical rating organizations (NRSROs).

Custodial Credit Risk for Deposits

This is the risk that in the event of a bank failure, the Academy's deposits may not be returned or the Academy will not be able to recover collateral securities, if any, in the possession of an outside party. At June 30, 2018, the Academy had no deposit balances uninsured and uncollateralized.

PATHWAYS ACADEMY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

Note 3 - Cash and Investments (continued)

Custodial Credit Risk for Investments

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. This risk is minimized by the Academy through limiting investments to those of a prime or better rating and pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors.

Foreign Currency Risk

This is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Academy is not authorized to invest in investments that would be subject to this type of risk.

Note 4 - Capital Assets

Changes in capital assets for the year ended June 30, 2018 were as follows:

	<u>06/30/17</u>	<u>Additions</u>	<u>Disposals</u>	<u>06/30/18</u>
Leasehold Improvements	\$ 159,627	\$ -	\$ -	\$ 159,627
Computer Equipment	189,804	-	-	189,804
Furniture	76,443	-	-	76,443
Less: Accumulated Depreciation	<u>(202,991)</u>	<u>(40,266)</u>	-	<u>(243,257)</u>
Net Capital Assets	<u>\$ 222,883</u>	<u>\$ (40,266)</u>	<u>\$ -</u>	<u>\$ 182,617</u>

Depreciation expense for the year ended June 30, 2018 was \$40,266. Depreciation expense was not charged to activities as the District considers its assets to impact multiple activities and allocation is not practical.

Note 5 – Defined Benefit Pension Plan

The Academy did not participate in the Michigan Public School Employees' Retirement System (MPSERS). Therefore, no pension plan disclosure is deemed necessary.

Note 6 - Fund Balance

Non-spendable, Restricted, Committed, Assigned and Unassigned

The Board of Education adopts a budget each year that includes the appropriation of fund balance. Non-spendable fund balance represents assets that are not available in spendable form and are not expected to be converted to cash. The Academy had \$232,108 in non-spendable fund balance as of June 30, 2018.

Restricted fund balances are reported separately to show legal constraints from debt covenants and legislation that limits the Academy's ability to use that fund balance for day-to-day operations. The Academy had no amounts restricted at June 30, 2018. Committed fund balance represents constrained amounts imposed by board resolution. The Academy had no amounts committed at June 30, 2018.

Assigned fund balance represents amounts intended to be used for specific purposes expressed by the Board of Education, Finance Committee, or the official authorized by the governing body. Residual amounts in governmental funds other than the General Fund are also assigned. The Academy had no amounts assigned at June 30, 2018.

PATHWAYS ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 6 - Fund Balance (continued)

Unassigned fund balance is reported only in the General Fund and represents the remaining fund balance after non-spendable, restrictions, and assignments have been made.

The Academy applies restricted resources first for applicable expenditures. Assigned fund equity is applied when expenditures are incurred for the assigned purpose, followed by unassigned fund equity for budgeted expenditures.

Note 7 - Contingencies and Commitments

The Academy has received federal and state grants for specific purposes. These grants are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.

Note 8 - Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions. The Academy purchases commercial insurance coverage to cover potential claims, and management believes this coverage is sufficient to protect the Academy from any significant adverse financial impact.

Note 9 – Leases

The Academy leases its facility at 11340 East Jefferson in Detroit, Michigan. The lease is in effect through August 31, 2019. Lease expense for the year ended June 30, 2018 was \$105,300. Future minimum payments under the lease are as follows:

June 30, 2019	\$	105,300
Thereafter		<u>17,550</u>
Total	\$	<u>122,850</u>

The Academy entered in to a sub-lease agreement for a portion of their leased property commencing in September, 2014. The agreement called for \$2,273 monthly payments to be made through August 31, 2019. Rental income for the year ended June 30, 2018 totaled \$23,332. Future minimum receipts under the lease are as follows:

June 30, 2019	\$	27,276
Thereafter		<u>4,546</u>
Total	\$	<u>31,822</u>

Note 10 - Subsequent Events

Subsequent to year end, the Academy was issued a State Aid Anticipation Loan of \$285,000 dated August 29, 2018 and the proceeds of the loan were received after June 30, 2018. This loan has an interest rate of 5.25% and matures on August 25, 2019. Eleven monthly payments in the amount of \$26,595 beginning on October 25, 2018 are required, with the final payment due on August 25, 2019.

PATHWAYS ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 11 – Long-Term Debt

In April, 2014, the Academy entered in to a Memorandum of Understanding (“MOU”) with Innovative Educational Programs (“IEP”), its Educational Service Provider. The parties agreed that IEP waives and foregoes all recourse for immediate reimbursement of expenses and payment of fees related to opening, organizing, and preparing the Academy. The Academy agreed to use the entirety of its annual surpluses subsequent to the 2014-2015 school year to repay the amount due until such time that the balance due is eliminated. The balance as of June 30, 2018 was \$1,356,000. The June 30, 2018 General Fund balance of \$232,108 was reported as the current portion due within one year.

REQUIRED SUPPLEMENTAL INFORMATION

PATHWAYS ACADEMY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Local Sources	\$ 177,628	\$ 172,921	\$ 171,571	\$ (1,350)
State Sources	2,050,215	2,147,428	2,224,076	76,648
Federal Sources	92,375	84,142	105,237	21,095
Total Revenues	2,320,218	2,404,491	2,500,884	96,393
Expenditures				
Education				
Instruction				
Basic Programs	430,275	419,613	426,781	(7,168)
Added Needs	114,873	192,729	141,463	51,266
Supporting Services				
Pupil Services	121,251	121,670	168,571	(46,901)
Instructional Staff	97,619	109,296	94,531	14,765
General Administration	402,751	399,422	401,686	(2,264)
School Administration	296,524	253,279	282,498	(29,219)
Business Services	109,650	58,127	55,174	2,953
Operation and Maintenance	296,100	286,030	296,904	(10,874)
Transportation	184,800	209,848	202,964	6,884
Central	88,879	93,658	86,113	7,545
Custody and Care of Children	70,042	58,066	58,871	(805)
Total Expenditures	2,212,764	2,201,738	2,215,556	(13,818)
Other Financing Sources/(Uses)				
Debt Service - Long Term	-	(73,461)	(75,805)	(2,344)
Total Other Financing Sources/(Uses)	-	(73,461)	(75,805)	(2,344)
Excess of Revenues Over/(Under) Expenditures and Other Financing Sources/(Uses)	107,454	129,292	209,523	80,231
Fund Balance - July 1	22,585	22,585	22,585	-
Fund Balance - June 30	\$ 130,039	\$ 151,877	\$ 232,108	\$ 80,231

OTHER INFORMATION

INDEPENDENT AUDITORS' 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

October 12, 2018

Board of Directors
Pathways Academy

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 the Pathways Academy as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Pathways Academy's basic financial statements, and have issued our report thereon dated October 12, 2018.

Internal Control Over Financial Reporting

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pathways Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Taylor & Morgan, P.C.

TAYLOR & MORGAN, P.C.
Certified Public Accountants