

**PATHWAYS ACADEMY**

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**Financial Report  
with Supplemental Information  
June 30, 2020**

# PATHWAYS ACADEMY

## CONTENTS

### FINANCIAL STATEMENTS

Independent auditor's report	1 - 2
Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	3 - 4
Management's discussion and analysis	5 - 9

### BASIC FINANCIAL STATEMENTS

Government-wide financial statements:	
Statement of net position	10
Statement of activities	11
Fund financial statements:	
Governmental funds:	
Balance sheet	12
Reconciliation of the governmental funds balance to the statement of net position	13
Statement of revenues, expenditures, and changes in fund balances	14
Reconciliation of the governmental funds statement of revenues, expenditures, and changes in fund balances to the statement of activities	15
Notes to financial statements	16- 27

### REQUIRED SUPPLEMENTAL INFORMATION

Budgetary comparison schedule - general fund	28
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# Wilkerson & Associate P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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LARRY WILKERSON, C.P.A.  
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## INDEPENDENT AUDITOR'S REPORT

Board of Directors of  
Pathway Academy

### **Report on Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Pathway Academy, 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.

### *Auditor's Responsibility*

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

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

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Pathway Academy as of June 30, 2020 and the respective changes in financial position for the year then ended in accordance with accounting principles accepted in the United States of America.

**Members: A.I.C.P.A. and M.I.C.P.A.**

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the 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 Government Auditing 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 November 17, 2020 on our consideration of Pathway Academy'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 to describe the scope of our testing of internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering Pathway Academy's internal control over financial reporting and compliance.

***Wilkerson & Associate PC***

November 17, 2020

**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 Auditor's Report

To the Board of Directors of  
Pathways Academy

We have audited the financial statements of Pathways Academy as of and for the year ended June 30, 2020, and have issued our report thereon dated November 17, 2020. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Pathways Academy is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Pathways Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pathways Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Pathways Academy's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Members: A.I.C.P.A. and M.I.C.P.A.**

To the Board of Directors of  
Pathways Academy

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

This report is intended for the information and use of the Board of Directors, management and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

*Wilkerson & Associate PC*

*November 17, 2020*

PATHWAYS ACADEMY  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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This section of the Pathways Academy's annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2020. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

**Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy financially as a whole. The Government-wide financial statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Academy's operations in more detail than the Government-wide financial statements by providing information about the Academy's most significant funds - the General Fund, with all other funds presented in one column as non-major funds.

*Management's Discussion and Analysis (MD&A)*

*(Required Supplemental Information)*

Basic Financial Statements

*Government-wide Financial Statements    Fund Financial Statements*

*Notes to the Basic Financial Statements*

*(Required Supplemental Information) Budgetary Information for Major Funds*

*Other Supplemental Information*

**Reporting the Academy as a Whole - Government-wide Financial Statements**

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Academy's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the Academy. The statement of net assets and the statement of activities report the governmental activities for the Academy, which encompass all of the Academy's services, including instruction, support services, and community services. Unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

PATHWAYS ACADEMY  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

**Reporting the Academy's Most Significant Funds • Fund Financial Statements**

The Academy's fund financial statements provide detailed information about the most significant funds - not the Academy as a whole. Some funds are required to be established by State law and by bond covenants. However, the Academy establishes many other funds to help it control and manage money for particular purposes (Agency Funds) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the Academy use the following accounting approach:

- Governmental funds - All of the Academy's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Academy and the services it provides. Governmental fund information 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. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in reconciliation.

**The Academy as a Whole**

Recall that the statement of net assets provides the perspective of the Academy as a whole. The following table provides a summary of the Academy's net assets as of June 30, 2019 and 2020:

	<u>NET ASSETS SUMMARY</u>	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>			
Current Assets		\$877,548	\$1,014,210
Non-Current Assets		116,454	142,561
<u>TOTAL ASSETS</u>		<u>\$994,002</u>	<u>\$1,156,771</u>
<u>LIABILITIES</u>			
Current Liabilities		\$628,825	\$596,401
Long-Term Liabilities		800,000	1,156,000
Total Liabilities		<u>\$1,428,825</u>	<u>\$1,752,401</u>
<u>NET ASSETS</u>			
Investment in Capital Assets		116,454	142,561
Unrestricted		(551,277)	(738,191)
Total Net Assets		<u>(\$434,823)</u>	<u>(\$595,630)</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>		<u>\$994,002</u>	<u>\$1,156,771</u>

PATHWAYS ACADEMY  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

**RESULTS OF OPERATIONS:**

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

<u>REVENUES</u>	<u>2020</u>	<u>2019</u>
<u>General Revenues:</u>		
Local Sources	\$ 172,672	\$ 179,308
State Sources - Unrestricted	1,982,839	2,230,090
Other General Revenues	-	-
Total General Revenues	<u>2,155,511</u>	<u>2,409,398</u>
 <u>Operating Grants:</u>		
Federal	127,287	166,491
State of Michigan	108,525	203,372
Total Operating Grants	<u>235,812</u>	<u>369,863</u>
Total Revenues	<u>2,391,323</u>	<u>2,779,261</u>
 <u>EXPENSES</u>		
Instruction	565,087	653,026
Support Services	1,526,060	1,610,705
Community Services	69,873	63,811
Interest on Long Term Debt	43,389	66,018
Depreciation (unallocated)	26,107	40,056
Total Expenses	<u>2,230,516</u>	<u>2,433,616</u>
 <u>INCREASE IN NET ASSETS</u>	 160,807	 345,645
 <u>BEGINNING NET ASSETS</u>	 <u>(595,630)</u>	 <u>(941,275)</u>
 <u>ENDING NET ASSETS</u>	 <u>\$ (434,823)</u>	 <u>\$ (595,630)</u>

**Analysis of Results of Operations**

The District's overall revenues exceeded expenses for the year in the amount of \$160,807. Total revenues decreased by \$387,938 from the previous year. This was the fifth year of Academy operations and the decrease in revenues was a result of reduced restricted grant expenditures and revenue combined with decreased enrollment. Expenditures decreased by \$203,100 compared to the prior year, which was primarily due to reduced payroll and related expenditures.

PATHWAYS ACADEMY  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

**GOVERNMENT- WIDE FINANCIAL ANALYSIS**

**FINANCIAL ANALYSIS OF GOVERNMENT’S FUNDS – GOVERNMENTAL FUNDS**

Analysis of Financial Position

The focus of the District’s governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the district’s financing requirements. In particular, unreserved fund balance may serve as a useful measure of government’s net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The district’s General Fund is the chief operating fund of the district. The fund balance for the General Fund decreased by \$169,086. Revenues for the year decreased by \$387,938 due to reduced grant expenditures during the year and decrease in enrollment. The major source of General Fund revenues is State Aid. An analysis follows:

1. Per Student, Foundation Allowance:  
 Annually, the State of Michigan establishes the per student foundation allowance. The Academy’s foundation allowance was \$8,111 per student for the 2019-2020 school year which is an increase of \$240 from the prior year.
  
2. Student Enrollment:  
 The District’s blended student enrollment for 2019-2020 was 252 students.

**GENERAL FUND BUDGETARY HIGHLIGHTS:**

**GENERAL FUND BUDGET VS. ACTUAL**

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Original &amp; Final Budget %</u>	<u>Variance Actual &amp; Final Budget %</u>
Revenue	\$ 2,510,398	\$ 2,383,955	\$ 2,391,323	5.04	(0.31)
Expenditures	2,404,035	2,596,693	2,560,409	(8.01)	1.40
<b><u>TOTAL</u></b>	<b><u>\$ 106,363</u></b>	<b><u>\$ (212,738)</u></b>	<b><u>\$ (169,086)</u></b>		

**ANALYSIS OF BUDGETS:**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, the Academy amends its budget during the school year. The June 2020 budget amendment was the final budget for the fiscal year.

PATHWAYS ACADEMY  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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**ANALYSIS OF BUDGETS: (Continued)**

Original vs. Final Budgets

Revenues

Variations between the original and final budget were insignificant.

Expenditures

Variations between the original and final budget were insignificant..

Actual Results vs. Final Budgets

Revenues

Changes between actual revenues and the final budget were insignificant.

Expenditures

Changes between actual expenditures and the final budget were insignificant.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

State Aid

The foundation amount for the 2020-2021 school year is expected to remain consistent. The district's September 2021 enrollment is expected to remain consistent.

The Academy's 2020-2021 adopted budget is as follows:

<u>REVENUE</u>	\$ 2,305,866
<u>EXPENDITURES</u>	<u>2,264,022</u>
<u>NET CHANGE IN FUND BALANCE</u>	<u>\$ 41,844</u>

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Chief Administrative Officer or the Board Treasurer.

Pathways Academy  
11340 E. Jefferson Avenue  
Detroit, MI 48214  
Phone: (313) 209-3804  
Fax: (313) 264-1042

**PATHWAYS ACADEMY  
STATEMENT OF NET POSITION  
JUNE 30, 2020**

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and Cash Equivalents	\$ 306,632
Deposits	10,000
Prepaid Expenses	32,186
Due From Other Governmental Units	528,730
Capital Assets, Net of Accumulated Depreciation	116,454
<b>Total Assets</b>	994,002
<b>Liabilities</b>	
Accounts Payable	24,838
Due to Educational Service Provider	464,890
Accrued Expenses	39,525
Unearned Revenue	46,575
Note Payable	52,997
Long-term Liabilities:	
Due within one year	206,537
Due in more than one year	593,463
<b>Total Liabilities</b>	1,428,825
<b>Net Position</b>	
Invested in Capital Assets	116,454
Unrestricted	(551,277)
<b>Total Net Position</b>	\$ (434,823)

**PATHWAYS ACADEMY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2020**

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expenses) Revenues and changes in Net Assets
<b>Governmental Activities</b>				
Instruction	\$ 565,087	\$ -	\$ 111,491	\$ (453,596)
Support Services	1,526,060	-	124,321	(1,401,739)
Community Services	69,873	-	-	(69,873)
Interest on Long Term Debt	43,389	-	-	(43,389)
Depreciation (unallocated)	26,107	-	-	(26,107)
<b>Total Governmental Activities</b>	<b>\$ 2,230,516</b>	<b>\$ -</b>	<b>\$ 235,812</b>	<b>(1,994,704)</b>
		<u>General Revenues</u>		
				1,982,839
				172,672
		<b>Total General Revenues</b>		<b>2,155,511</b>
				160,807
				(595,630)
				<b>\$ (434,823)</b>

**PATHWAYS ACADEMY  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2020**

	<u>General Fund</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	306,632
Deposits	10,000
Prepaid Expenses	32,186
Due From Other Governmental Units	528,730
	<hr/>
<b>Total Assets</b>	<b>\$ 877,548</b>
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<b>LIABILITIES AND FUND BALANCES</b>	
<b>Liabilities</b>	
Accounts Payable	\$ 24,838
Due to Educational Service Provider	464,890
Accrued Expenditures	39,525
Unearned Revenue	46,575
Note Payable	52,997
	<hr/>
<b>Total Liabilities</b>	<b>628,825</b>
<b>Fund Balances</b>	
Non Spendable	42,186
Restricted	206,537
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<b>Total Fund Balances</b>	<b>248,723</b>
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<b>Total Liabilities and Fund Balances</b>	<b>\$ 877,548</b>
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**PATHWAYS ACADEMY  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2020**

<b>Total Fund Balances - Governmental Funds</b>		\$ 248,723
<p>Amounts Reported for Governmental Activities in the Statement of Net Assets are different because</p> <p>Capital Assets used in Governmental Activities are not Financial Resources and therefore, not Reported as Assets in Governmental Funds</p>		
Cost of Capital Assets	425,874	
Accumulated Depreciation	<u>(309,420)</u>	116,454
<p>Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds- Bond payable including premium and deferred charges</p>		
		<u>(800,000)</u>
<b>Total Net Position - Governmental Activities</b>		<u><u>\$ (434,823)</u></u>

**PATHWAYS ACADEMY  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2020**

	<u>General Fund</u>
<b>Revenue</b>	
Federal Sources	\$ 127,287
State Sources	2,091,365
Local Sources	<u>172,671</u>
<b>Total Revenue</b>	<u>2,391,323</u>
 <b>Expenditures</b>	
Instruction:	
Basic Instructions	453,596
Added Needs	111,491
Supporting Services:	
Pupil Support Services	129,749
Instructional Staff Services	99,291
General Administration Services	393,084
School Administration Services	257,209
Business Services	53,782
Operations and Maintenance	300,051
Pupil Transportation Services	176,829
Central Services	116,065
Community Services	69,873
Debt Service:	
Principal & Interest	<u>399,389</u>
<b>Total Expenditures</b>	<u>2,560,409</u>
 <b>Net Change in Fund Balances</b>	 (169,086)
 <b>Fund Balance - July 1, 2019</b>	 <u>417,809</u>
 <b>Fund Balance - June 30, 2020</b>	 <u><u>\$ 248,723</u></u>

**PATHWAYS ACADEMY  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2020**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$	(169,086)
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Amounts Reported for Governmental Activities in the Statement of Activities are different because:

Governmental Funds report Capital Outlay as Expenditure in the Statement of Activities, these Costs are Allocated over their Estimated Useful Lives as Depreciation

Depreciation Expense		(26,107)
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Repayment of note principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		356,000
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<b>Change in Net Position - Governmental Activities</b>	<b>\$</b>	<b><u>160,807</u></b>
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**PATHWAYS ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Pathways Academy (the “Academy”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

**A. Reporting Entity**

Pathways Academy is a public school academy that provides instructional and support services to elementary school students from kindergarten to the fifth grades. The 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 entered into a three-year contract with Detroit Public Schools Community District to charter a public school academy on July 1, 2019, effective July 1, 2019 through June 30, 2022. 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. Detroit Public Schools Community District 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 Detroit Public Schools Community District three percent of State aid as an administrative fee. The total administrative fee paid through June 30, 2020 to the Detroit Public Schools Community District was approximately \$64,200.

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 and 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. Based on application of the criteria, the entity does not contain component units.

**PATHWAYS ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. District-Wide and Fund Financial Statements**

The district-wide financial statements (i.e., the statement of Net Position and the statement of changes in Net Position) report information on all of the nonfiduciary activities of the primary government. Substantially all interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational and capital requirements of a particular function.

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

**District-Wide Statements**

The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The effect of the interfund activity has been substantially eliminated from the government-wide financial statements.

**PATHWAYS ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all unrestricted State aid.

**Fund-Based 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 government considers revenue 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 required under accrual accounting. However, debt service expenditures 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 State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law.

**PATHWAYS ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

The Academy also receives revenue from the State to administer certain categorical educational programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received which are not expected to be expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

The Academy reports the following major governmental fund:

***General Fund***

The General Fund is used to record the general operation 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.

**D. Assets, Liabilities, and Net Position or Equity**

**Deposits, Cash Equivalents, and Investments**

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of twelve months or less when acquired.

The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Academy evaluates each financial institution it deposits Academy funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk are used as depositories.

**PATHWAYS ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Assets, Liabilities, and Net Position or Equity (Continued)**

The Academy is authorized by Michigan Compiled Laws, Section 129.91 to invest surplus monies in federally insured United States banks, credit unions, and savings and loan associations that have offices in Michigan. The Academy is also authorized to invest in bonds and notes, certain commercial paper, U.S. Government repurchase agreements, bankers' acceptances and mutual funds and investment pools that are composed of authorized investment vehicles.

**Capital Assets**

Capital assets, which include equipment only is reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have any infrastructure-type assets.

Equipment is depreciated using the straight-line method over the following useful lives:

Furniture and other equipment 5 – 20 years

**Deferred Revenue**

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

**PATHWAYS ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Assets, Liabilities, and Net Position or Equity (Continued)**

**Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of Net Position. In the fund financial statements, governmental fund types recognize bond proceeds, premiums and discounts, as well as issuance costs, during the current period.

**Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriations or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Comparative Data**

Comparative data is not included in the Academy's financial statements.

District-wide financial statements (statement of Net Position and statement of activities) prepared using full accrual accounting for all of the Academy's activities have been provided.

Capital assets of \$116,454 are currently recorded in the governmental activities column of the statement of Net Position.

The fund financial statements focus on major funds rather than fund types.

**Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**PATHWAYS ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Assets, Liabilities, and Net Position or Equity (Continued)**

**Budgetary Data**

The Academy is legally subject to the budgetary control requirements of the State of Michigan P.A. 621 of 1978 (the Uniform Budgetary Act). The following is a summary of the requirements of the Act:

1. Budgets must be adopted for the General Fund and Special Revenue Funds.
2. The budgets must be balanced.
3. The budgets must be amended when necessary.
4. Public hearings must be held before budget adoptions.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures must be authorized by a budget before being incurred.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

The Academy formally adopted General Fund budgets by function for the fiscal year ended June 30, 2020. Expenditures at this level in excess of amounts budgeted are a violation of Michigan law. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. No encumbrances were outstanding in the General Fund and Special Revenue Funds at June 30, 2020. During the current year, the budget was amended in a legally permissible manner.

The combined statement of revenues, expenditures and changes in fund balances – all governmental fund types is presented in conformity with generally accepted accounting principles. The combined statement of revenues, expenditures and changes in fund balances – budget and actual is presented on the same basis of accounting used in preparing the adopted budget.

**PATHWAYS ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)**

Excess of Expenditures over Appropriations in Budgeted Funds - During the year, the Academy incurred expenditures in the General Fund, which in the aggregate were not in excess of the overall department amounts budgeted.

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Pupil Support	\$ 125,873	\$ 129,749	\$ 3,876
Instructional Staff	99,257	99,291	34
General Administration	389,914	393,084	3,170
Central	111,440	116,065	4,625

**NOTE 3 - DEPOSITS**

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

The Academy's cash is subject to custodial credit risk, which is examined in more detail below:

**Custodial Credit Risk of Bank Deposits** – Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy evaluates its depositories and only those with an acceptable risk level are used for the Academy's deposits. The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

**PATHWAYS ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 3 - DEPOSITS (Continued)**

At year end, the Academy's deposits were reported in the basic financial statements as cash and cash equivalents of \$306,632.

The deposits of the Academy were reflected in the accounts of the financial institution at \$366,998 of which \$288,426 is covered by federal depository insurance.

**NOTE 4 - CAPITAL ASSETS**

Capital assets activity of the Academy's governmental activities was as follows:

	<u>Balance</u> <u>July 1, 2019</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2020</u>
Assets being depreciated:				
Leasehold Improvements	\$ 159,627	\$ -	\$ -	\$ 159,627
Computer Equipment	189,804	-	-	189,804
Furniture	<u>76,443</u>	<u>-</u>	<u>-</u>	<u>76,443</u>
Subtotal	425,874	-	-	425,874
Accumulated depreciation:				
Leasehold Improvements	47,888	10,642		58,530
Computer Equipment	163,385	11,062		174,447
Furniture	<u>72,040</u>	<u>4,403</u>	<u>-</u>	<u>76,443</u>
Subtotal	283,313	26,107	-	309,420
Net capital assets	<u>\$ 142,561</u>	<u>\$ (26,107)</u>	<u>\$ -</u>	<u>\$ 116,454</u>

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

**PATHWAYS ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 5 - DUE FROM OTHER GOVERNMENTS**

Intermediate School District source receivable	\$ 13,223
State source receivable	413,657
Federal source receivable	101,850
Total due from other governments	<u>\$ 528,730</u>

All receivables were collected subsequent to year end.

**NOTE 6 - RISK MANAGEMENT**

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions and employees injuries (workers compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since inceptions.

**NOTE 7 - MANAGEMENT AGREEMENT**

In June 2019, the Academy entered into a management agreement with Innovative Educational Programs of Michigan, LLC ("IEP") to provide education management services. The Academy is obligated to pay IEP varying amounts based upon the services provided according to the contract. The fee is mutually agreed upon annually and each payment to IEP is approved by the board at a regularly scheduled open meeting. The fee for the 2019-2020 school year amounted to approximately \$277,200.

**NOTE 8 - MSPERS LIABILITY**

The Academy contracted with Innovative Educational Programs of Michigan, LLC to provide all staffing personnel during the year under audit. Consequently, all staffing cost is treated as purchased services in these financial statements.

The Academy has no obligation to fund the Michigan Public School Employees Retirement System for the year ended June 30, 2020.

**PATHWAYS ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 9 - OPERATING LEASE**

The Academy entered into an operating lease agreement with NY Jefferson, LLC effective September 1, 2019 to lease its facility located at 11340 East Jefferson in Detroit, Michigan. The lease includes a three-year original term with two additional five-year renewal options available at the Academy's discretion. The Academy is responsible for insurance, repairs and maintenance for the building. Rent expense related to this lease is \$109,425 for the period ended June 30, 2020.

June 30, 2021	\$ 110,250.00
June 30, 2022	<u>110,250.00</u>
<b>Total</b>	<b>\$ 220,500.00</b>

The Academy entered into a sub-lease agreement for a portion of their leased property commencing September 1, 2019. The agreement called for \$2,379 in monthly payments to be made through August 31, 2022. Rental income for the year ended June 30, 2020 totaled \$28,336. Future minimum receipts under the lease are as follows:

June 30, 2021	\$ 28,548.00
June 30, 2022	28,548.00
June 30, 2023	<u>4,758.00</u>
<b>Total</b>	<b>\$ 61,854.00</b>

**NOTE 10 - SUBSEQUENT EVENTS**

On September 3, 2020, the Academy borrowed \$285,000 in a State Aid Note. The note bears an interest rate of 3.45% percent, maturing on August 20, 2021.

**PATHWAYS ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 11 - LONG-TERM DEBT**

In April, 2014, the Academy entered into 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, 2020 was \$800,000. The June 30, 2020 General Fund Balance available for repayment of \$206,537 was reported as the current portion due within one year.

**NOTE 12 - CONTINGENCIES**

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

**REQUIRED SUPPLEMENTAL INFORMATION**

**PATHWAYS ACADEMY**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	Original Budget	Final Budget	Actual	<i>Over (Under) Final Budget</i>
<b>Revenue</b>				
Federal Sources	\$ 169,700	\$ 177,655	\$ 127,287	\$ (50,368)
State Sources	2,203,263	2,077,353	2,091,365	14,012
Local Sources	137,435	128,947	172,671	43,724
<b>Total Revenue</b>	<u>2,510,398</u>	<u>2,383,955</u>	<u>2,391,323</u>	<u>7,368</u>
<b>Expenditures</b>				
Instruction:				
Basic Instructions	423,746	457,606	453,596	(4,010)
Added Needs	245,975	132,427	111,491	(20,936)
Supporting Services:				
Pupil Support	136,859	125,873	129,749	3,876
Instructional Staff	81,851	99,257	99,291	34
General Administration	407,496	389,914	393,084	3,170
School Administration	277,960	261,664	257,209	(4,455)
Business	57,650	54,168	53,782	(386)
Operations and Maintenance	337,135	316,652	300,051	(16,601)
Pupil Transportation	187,950	177,799	176,829	(970)
Central	118,322	111,440	116,065	4,625
Community Services	68,401	70,478	69,873	(605)
Debt Service:				
Principal & Interest	60,690	399,415	399,389	(26)
<b>Total Expenditures</b>	<u>2,404,035</u>	<u>2,596,693</u>	<u>2,560,409</u>	<u>(36,284)</u>
<b>Net Change in Fund Balance</b>	106,363	(212,738)	(169,086)	43,652
<b>Fund balance - July 1, 2019</b>	<u>417,809</u>	<u>417,809</u>	<u>417,809</u>	<u>-</u>
<b>Fund balance - June 30, 2020</b>	<u>\$ 524,172</u>	<u>\$ 205,071</u>	<u>\$ 248,723</u>	<u>\$ 43,652</u>

PATHWAYS ACADEMY  
REPORT TO THE BOARD OF DIRECTORS

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JUNE 30, 2020

# Wilkerson & Associate P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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3 PARKLANE BLVD. SUITE 612  
DEARBORN, MICHIGAN 48126  
313-982-4340 FAX 313-982-4342

LARRY WILKERSON, C.P.A.  
THOMAS E. WILKERSON, C.P.A.

To the Board of Directors of  
Pathways Academy

We have recently completed our audit of the basic financial statements of Pathways Academy (the "Academy") as of and for the year ended June 30, 2020. In addition to our audit report, we are providing the following required audit communication, recommendations, and informational items which impact the Academy:

	<u>Page(s)</u>
<b>Results of Audit</b>	<b>2-5</b>
<b>Recommendations</b>	<b>6</b>
<b>Informational Items</b>	<b>6-7</b>

We are grateful for the opportunity to be of service to Pathways Academy. Should you have any questions regarding the comments in this report, please do not hesitate to call.

*Wilkerson & Associate PC*

November 17, 2020

**Members: A.I.C.P.A. and M.I.C.P.A.**

To the Board of Directors  
Pathways Academy  
November 17, 2020

## **Results of the Audit**

We have audited the financial statements of Pathways Academy (the “Academy”) as of and for the year ended June 30, 2020 and have issued our report thereon dated November 17, 2020. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated June 26, 2020, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Academy. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Our audit of the Academy’s financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of the Academy’s compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated November 17, 2020 regarding our consideration of the Academy’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

To the Board of Directors  
Pathways Academy  
November 17, 2020

We are also obligated to communicate certain matters related to our audit of those responsible for the governance of the Academy, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* require disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters during the preliminary audit phase.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter. We will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Academy are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2020

We noted no transactions entered into by the Academy during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates included in this year's financial statements.

To the Board of Directors  
Pathways Academy  
November 17, 2020

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statements disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive disclosures included in the financial statements.

***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no such misstatements identified.

***Disagreements with Management***

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statement or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

***Management Consultants with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultant involves application of an accounting principle to the Academy's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

To the Board of Directors  
Pathways Academy  
November 17, 2020

***Other Audit Findings or Issues***

In the normal course of our professional association with the Academy, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Academy, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the Academy's auditors.

**Other Information in Documents Containing Audited Financial Statements**

Our responsibility for other information in documents containing the Academy's financial statements and report does not extend beyond the financial statements. We do not have an obligation to determine whether or not such information is properly stated. However, we read the management's discussion and analysis and budgetary comparison schedule and nothing came to our attention that caused us to believe that such information, or its manner of presentation is materially inconsistent with the information or manner of its presentation in the financial statements.

In addition to the comments and recommendations in this letter, our observations and comments regarding the Academy's internal controls, including any significant deficiencies or material weaknesses that we identified, have been reported to you in the 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*.

This information is intended solely for the use of the board of directors and management of Pathways Academy and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Wilkerson & Associate PC*

Larry D. Wilkerson, CPA

## Recommendations

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### PATHWAYS ACADEMY RECOMMENDATIONS

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As a result of auditing standards required to be implemented last year, the audit continues to require a strong emphasis to be placed on the Academy's internal control systems. The primary goal of internal controls is to provide a reasonable (as opposed to absolute) protection to the Academy and its assets and financial information. During this year's audit process, we noted no items that required management to make changes; therefore, no recommendations are made for this year.

## Informational Items

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### PATHWAYS ACADEMY

November 17, 2020

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### GASB Statement No. 87 – Leases

This statement is effective for the first time in the Academy's June 30, 2022 financial statements. The statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows or outflows of resources based on payment provisions of the lease. The statement was issued to improve accounting and financial reporting for leases by governments. The statement establishes a single model for lease accounting for both lessees and lessors based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Academy will have to identify and analyze all significant lease contracts to determine the lease asset and lease liability or deferred inflow or outflow of resources that will be required to be recognized upon implementation of the standard.

### Lessee Accounting under GASB 87

A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the maximum lease term per the lease contract is 12 months or less, or it transfers ownership of the underlying asset. The lease liability is measured at the present value of lease payments expected to be made during the lease term (less any lease incentives). The right-to use asset is measured at the amount of initial measurement of the lease liability, plus any payments made to the lessor at or before commencement of the lease term and certain direct costs incurred to place the leased asset in service. The lessee should reduce the lease liability as payments are made and recognize an outflow of resources (i.e., expense) for interest on the liability. The lease asset should be amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.