

PATHWAYS ACADEMY

**Financial Report
with Supplemental Information
June 30, 2022**

PATHWAYS ACADEMY

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Wilkerson & Associate P.C.

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

Independent Auditor's Report

To the Board of Directors of
Pathways Academy

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining information of Pathways Academy (the 'Academy'), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

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 Pathways Academy as of June 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Academy, and meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Academy's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we

- exercise professional judgement and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal controls relevant to the audit 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 internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Academy's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 October 14, 2022, on our consideration of Pathways 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 an audit performed in accordance with *Government Auditing Standards* in considering Pathways Academy's internal control over financial reporting and compliance.

Wilkinson & Associate PC

Dearborn, Michigan
October 14, 2022

**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, 2022, and have issued our report thereon dated October 14, 2022. 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

October 14, 2022

PATHWAYS ACADEMY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022

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, 2022. 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.

PATHWAYS ACADEMY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022

Reporting the Academy as a Whole - Government-wide Financial Statements (Continued)

Unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

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, 2021 and 2022:

<u>NET ASSETS SUMMARY</u>		
	2022	2021
<u>ASSETS</u>		
Current Assets	\$ 1,265,902	\$ 2,048,107
Non-Current Assets	421,889	544,131
<u>TOTAL ASSETS</u>	\$1,687,791	\$2,592,238
<u>LIABILITIES</u>		
Current Liabilities	\$ 423,094	\$ 671,233
Long-Term Liabilities	336,802	1,089,935
Total Liabilities	759,896	1,761,168
<u>NET ASSETS</u>		
Investment in Capital Assets	421,889	104,196
Unrestricted	506,006	726,874
Total Net Assets	927,895	831,070
<u>TOTAL LIABILITIES AND NET ASSETS</u>	\$ 1,687,791	\$ 2,592,238

PATHWAYS ACADEMY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022

RESULTS OF OPERATIONS:

For the fiscal years ended June 30, 2021 and 2022, the District wide results of operations were:

<u>REVENUES</u>	<u>2022</u>	<u>2021</u>
<u>General Revenues:</u>		
Local Sources	\$ 141,219	\$ 106,056
State Sources - Unrestricted	1,829,992	2,681,592
Total General Revenues	<u>1,971,211</u>	<u>2,787,648</u>
<u>Operating Grants:</u>		
Federal	312,911	298,974
State of Michigan	91,225	148,611
Total Operating Grants	<u>404,136</u>	<u>447,585</u>
Total Revenues	<u>2,375,347</u>	<u>3,235,233</u>
<u>EXPENSES</u>		
Instruction	569,422	591,665
Support Services	1,480,572	1,328,588
Community Services	85,973	13,505
Interest on Long Term Debt	20,313	23,324
Depreciation (unallocated)	122,242	12,258
Total Expenses	<u>2,278,522</u>	<u>1,969,340</u>
<u>INCREASE IN NET ASSETS</u>	96,825	1,265,893
<u>BEGINNING NET ASSETS</u>	<u>831,070</u>	<u>(434,823)</u>
<u>ENDING NET ASSETS</u>	<u>\$ 927,895</u>	<u>\$ 831,070</u>

Analysis of Results of Operations

The District's overall revenues exceeded expenses for the year in the amount of \$96,825. Total revenues decreased by approximately \$859,900 from the previous year. The decrease in revenues was due to decreased enrollment at the Academy. Expenditures increased by approximately \$309,200 compared to the prior year, primarily due to increased support service costs for technology support and transportation costs during the school year.

PATHWAYS ACADEMY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022

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 approximately \$534,000. Revenues for the year decreased by approximately \$859,900 due to decreased enrollment at the Academy. 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 \$8,700 per student for the 2021-2022 school year which was approximately \$600 higher than the prior year.

2. Student Enrollment:
 The District’s blended student enrollment for 2021-2022 was 202 students.

GENERAL FUND BUDGETARY HIGHLIGHTS:

GENERAL FUND BUDGET VS. ACTUAL

Fiscal Year	Original Budget	Final Budget	Actual	Variance Original & Final Budget %	Variance Actual & Final Budget %
Revenue	\$ 2,457,278	\$ 2,457,532	\$ 2,375,347	0.01	3.34
Expenditures	2,364,137	2,904,094	2,907,896	(22.84)	(0.13)
<u>TOTAL</u>	<u>\$ 93,141</u>	<u>\$ (446,562)</u>	<u>\$ (532,549)</u>		

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 2022 budget amendment was the final budget for the fiscal year.

PATHWAYS ACADEMY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022

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 2022-2023 school year is expected to increase by approximately \$400 per student. The district's 2022-2023 enrollment is expected to remain consistent.

The Academy's 2022-2023 adopted budget is as follows:

<u>REVENUE</u>	\$ 2,456,982
<u>EXPENDITURES</u>	<u>2,366,897</u>
<u>NET CHANGE IN FUND BALANCE</u>	<u>\$ 90,085</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
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Detroit, MI 48214
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PATHWAYS ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2022

	Governmental Activities
Assets	
Cash and Cash Equivalents	\$ 529,160
Deposits	10,000
Prepaid Expenses	27,142
Due From Other Governmental Units	699,600
Capital Assets, Net of Accumulated Depreciation	421,889
Total Assets	1,687,791
Liabilities	
Accounts Payable	6,877
Due to Educational Service Provider	357,239
Accrued Expenses	58,978
Long-term Liabilities:	
Due within one year	110,032
Due in more than one year	226,770
Total Liabilities	759,896
Net Position	
Invested in Capital Assets	421,889
Unrestricted	506,006
Total Net Position	\$ 927,895

PATHWAYS ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expenses) Revenues and changes in Net Assets
Governmental Activities				
Instruction	\$ 569,422	\$ -	\$ 106,927	\$ (462,495)
Support Services	1,480,572	-	289,673	(1,190,899)
Community Services	85,973	-	7,536	(78,437)
Interest on Long Term Debt	20,313	-	-	(20,313)
Depreciation (unallocated)	122,242	-	-	(122,242)
Total Governmental Activities	\$ 2,278,522	\$ -	\$ 404,136	(1,874,386)
		<u>General Revenues</u>		
				1,829,992
				141,219
				<u>1,971,211</u>
				96,825
				<u>831,070</u>
				<u>\$ 927,895</u>

PATHWAYS ACADEMY
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2022

ASSETS	<u>General Fund</u>
Cash and Cash Equivalents	\$ 529,160
Deposits	10,000
Prepaid Expenses	27,142
Due From Other Governmental Units	<u>699,600</u>
Total Assets	<u><u>\$ 1,265,902</u></u>
LIABILITIES AND FUND BALANCES	
Liabilities	
Accounts Payable	\$ 6,877
Due to Educational Service Provider	357,239
Accrued Expenditures	<u>58,978</u>
Total Liabilities	423,094
Fund Balances	
Non Spendable	37,142
Restricted	<u>805,666</u>
Total Fund Balances	<u>842,808</u>
Total Liabilities and Fund Balances	<u><u>\$ 1,265,902</u></u>

PATHWAYS ACADEMY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2022

Total Fund Balances - Governmental Funds		\$ 842,808
<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	865,809	
Accumulated Depreciation	<u>(443,920)</u>	421,889
<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>(336,802)</u>
Total Net Position - Governmental Activities		<u><u>\$ 927,895</u></u>

PATHWAYS ACADEMY
GOVERNMENTAL FUNDS
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2022

	General Fund
Revenue	
Federal Sources	\$ 312,911
State Sources	1,921,217
Local Sources	141,219
Total Revenue	2,375,347
Expenditures	
Instruction:	
Basic Instructions	427,734
Added Needs	141,688
Supporting Services:	
Pupil Support Services	155,182
Instructional Staff Services	193,008
General Administration Services	337,495
School Administration Services	214,636
Business Services	58,236
Operations and Maintenance	234,428
Pupil Transportation Services	139,747
Central Services	146,323
Community Services	85,973
Debt Service:	
Principal & Interest	773,446
Total Expenditures	2,907,896
Excess (Deficiency) of Revenue over Expenditures	(532,549)
Other Financing Sources (Uses)	
Operating Transfers - Out	(1,517)
Total Other Financing Sources(Uses)	(1,517)
Net Change in Fund Balances	(534,066)
Fund Balance - July 1, 2021	1,376,874
Fund Balance - June 30, 2022	\$ 842,808

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, 2022

Net Change in Fund Balances - Total Governmental Funds	\$ (534,066)
 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	(122,242)
Repayment of note principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	753,133
Change in Net Position - Governmental Activities	\$ 96,825

PATHWAYS ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

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 middle and high school students from seventh to the twelfth 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. On May 13, 2022, a new contract was executed with a term ending June 30, 2025. 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, 2022 to the Detroit Public Schools Community District was approximately \$55,100.

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
FOR THE YEAR ENDED JUNE 30, 2022

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
FOR THE YEAR ENDED JUNE 30, 2022

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
FOR THE YEAR ENDED JUNE 30, 2022

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
FOR THE YEAR ENDED JUNE 30, 2022

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
FOR THE YEAR ENDED JUNE 30, 2022

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

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

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

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

- a. *Restricted fund balance* – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- b. *Committed fund balance* – amounts constrained to specific purposes by the Board; to be reported as committed, amounts cannot be used for any other purpose unless the Board takes action to remove or change the constraint.

PATHWAYS ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund Equity (Continued)

- c. *Assigned fund balance* – amounts the Board intends to use for a specific purpose; intent can be expressed by the Board or by an official or committee to which the Board delegates the authority.
- d. *Unassigned fund balance* – amounts that are available for any purpose; these amounts are reported only in the general fund.

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

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 \$421,889 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
FOR THE YEAR ENDED JUNE 30, 2022

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, 2022. 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, 2022. 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
FOR THE YEAR ENDED JUNE 30, 2022

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	\$ 90,336	\$ 155,182	\$ 64,846
Instructional Staff	104,269	193,008	88,739
General Administration	322,142	337,495	15,353
Business Services	54,553	58,236	3,683
Principal & Interest	663,196	773,446	110,250
Outgoing Transfers and Other Transactions	-	1,517	1,517

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
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 3 - DEPOSITS (Continued)

At year end, the Academy's deposits were reported in the basic financial statements as cash and cash equivalents of \$529,160.

The deposits of the Academy were reflected in the accounts of the financial institution at \$549,011 of which \$250,000 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, 2021</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2022</u>
Assets being depreciated/amortized:				
Right to use assets	\$ 439,935	\$ -	\$ -	\$ 439,935
Leasehold Improvements	159,627	-	-	159,627
Computer Equipment	189,804	-	-	189,804
Furniture	76,443	-	-	76,443
	<u>76,443</u>	<u>-</u>	<u>-</u>	<u>76,443</u>
Total capital assets being depreciated/amortized	865,809	-	-	865,809
Accumulated depreciation/amortization:				
Right to use assets	-	109,984	-	109,984
Leasehold Improvements	69,172	10,642	-	79,814
Computer Equipment	176,063	1,616	-	177,679
Furniture	76,443	-	-	76,443
	<u>76,443</u>	<u>-</u>	<u>-</u>	<u>76,443</u>
Total accumulated depreciation/amortization	321,678	122,242	-	443,920
Net capital assets	<u>\$ 544,131</u>	<u>\$ (122,242)</u>	<u>\$ -</u>	<u>\$ 421,889</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
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 5 - DUE FROM OTHER GOVERNMENTS

Intermediate school district source receivable	20,294
State source receivable	404,157
Federal source receivable	<u>275,149</u>
Total due from other governments	<u><u>699,600</u></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 executed new agreement during the year to align with the new authorizer contract with a term ending June 30, 2025. 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 2021-2022 school year amounted to approximately \$255,400.

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, 2022.

PATHWAYS ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 9 - 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 remaining balance was paid in full as of June 30, 2022.

Long-term obligations as of June 30, 2022 can be summarized as follows:

Loan Information

	Interest Rate	Maturity Date	Other
Building Lease	2.00%	June, 2025	Right to use lease of building for operations
MOU	3.25%	June, 2022	Organizing and start up borrowing for the Academy

Loan Activity

	As Restated Balance July 1, 2021	Additions	Retirements and Payments	Balance June 30, 2022	Due Within One Year
Building Lease	\$ 439,935	\$ -	\$ 103,133	\$ 336,802	\$ 110,032
MOU	650,000	-	650,000	-	-
	<u>\$ 1,089,935</u>	<u>\$ -</u>	<u>\$ 753,133</u>	<u>\$ 336,802</u>	<u>\$ 110,032</u>

Following are maturities of long-term obligations for principal and interest for the next three years:

	Principal	Interest
2023	\$ 110,032	\$ 5,731
2024	112,252	3,511
2025	114,518	1,245

PATHWAYS ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 10 - UPCOMING ACCOUNTING PRONOUNCEMENTS

In May 2020, the GASB issued Statement No. 96, Subscription-based Information Technology Arrangements. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. The Academy is currently evaluating the impact this standard will have on the financial statements when adopted during the 2022-2023 fiscal year.

NOTE 11 - CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2022, the Academy implemented the following new pronouncement: GASB Statement No. 87, *Leases*.

Summary

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017. The objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the 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, thereby enhancing the relevance and consistency of information about governments' leasing activities.

PATHWAYS ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 11 - CHANGE IN ACCOUNTING PRINCIPLE (Continued)

The restatement of the beginning of the year balances had no impact on net position. The changes to capital assets and long-term obligations is as follows:

	<u>Capital Assets</u>	<u>Long Term Obligations</u>
Balances as of July 1, 2021, as previously stated	\$ 104,196	\$ 650,000
Adoption of GASB Statement 87	<u>439,935</u>	<u>439,935</u>
Balances as of July 1, 2021, as restated	<u>\$ 544,131</u>	<u>\$ 1,089,935</u>

NOTE 12 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 14, 2022, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

REQUIRED SUPPLEMENTAL INFORMATION

PATHWAYS ACADEMY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2022

	Original Budget	Final Budget	Actual	<i>Over (Under) Final Budget</i>
Revenue				
Federal Sources	\$ 279,056	\$ 290,836	\$ 312,911	\$ 22,075
State Sources	2,084,608	2,018,629	1,921,217	(97,412)
Local Sources	93,614	148,067	141,219	(6,848)
Total Revenue	<u>2,457,278</u>	<u>2,457,532</u>	<u>2,375,347</u>	<u>(82,185)</u>
Expenditures				
Instruction:				
Basic Instructions	479,333	498,952	427,734	(71,218)
Added Needs	225,787	207,903	141,688	(66,215)
Supporting Services:				
Pupil Support	84,010	90,336	155,182	64,846
Instructional Staff	101,189	104,269	193,008	88,739
General Administration	382,157	322,142	337,495	15,353
School Administration	236,699	243,386	214,636	(28,750)
Business Services	55,400	54,553	58,236	3,683
Operations and Maintenance	347,006	336,437	234,428	(102,009)
Pupil Transportation	223,682	139,893	139,747	(146)
Central	147,155	155,333	146,323	(9,010)
Community Services	60,594	87,694	85,973	(1,721)
Debt Service:				
Principal & Interest	21,125	663,196	773,446	110,250
Total Expenditures	<u>2,364,137</u>	<u>2,904,094</u>	<u>2,907,896</u>	<u>3,802</u>
Excess (Deficiency) of Revenue over Expenditures	93,141	(446,562)	(532,549)	(85,987)
Other Financing Sources (Uses)				
Outgoing Transfers and Other Transactions	-	-	(1,517)	(1,517)
Total Other Financing Sources (Uses)	-	-	(1,517)	(1,517)
Net Change in Fund Balance	93,141	(446,562)	(534,066)	(87,504)
Fund balance - July 1, 2021	<u>1,376,874</u>	<u>1,376,874</u>	<u>1,376,874</u>	<u>-</u>
Fund balance - June 30, 2022	<u>\$ 1,470,015</u>	<u>\$ 930,312</u>	<u>\$ 842,808</u>	<u>\$ (87,504)</u>