

Audited Financial Statements

Inkster Preparatory Academy

Inkster, Michigan

June 30, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Inkster Preparatory Academy

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Inkster Preparatory Academy as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Inkster Preparatory 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Inkster Preparatory Academy as of June 30, 2018, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and the other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Inkster Preparatory Academy's basic financial statements. The introductory section, combining and individual non-major fund financial statements, and schedules of revenues and expenditures, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statements and the schedules of revenues and expenditures are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and the schedules of revenues and expenditures are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2018, on our consideration of Inkster Preparatory 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Inkster Preparatory Academy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Inkster Preparatory Academy's internal control over financial reporting and compliance.



Croskey Lanni, PC

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of Inkster Preparatory Academy

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Inkster Preparatory Academy, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Inkster Preparatory Academy's basic financial statements, and have issued our report thereon dated October 30, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Croskey Lanni, PC

October 30, 2018
Rochester, Michigan

MANAGEMENT’S DISCUSSION AND ANALYSIS

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

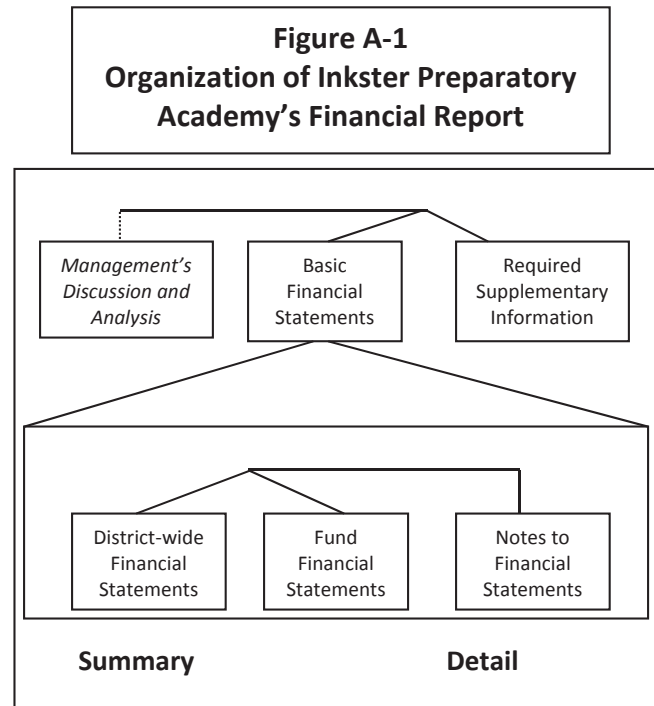
Financial Highlights

- The Academy had an increase in the general fund balance of \$12,678. This gives the Academy a general fund balance of \$23,001.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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



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

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

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

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

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

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

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

Fund Financial Statements

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

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

The Academy has only governmental funds - Most of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

Financial Analysis of the Academy as a Whole

The Academy's combined net position of \$40,432 increased by \$3,029 during the year.

The total revenues increased 16% to \$1,616,442 primarily due to increased enrollment. State aid foundation allowance included in revenue from state sources accounts for 74% of the Academy's revenue. Blended enrollment increased 58.75 students to 158.36 students.

The total cost of instruction increased 18.7% to \$553,084. Support services increased 17.9% to \$1,047,497.

Financial Analysis of The Academy's Funds

The financial operation of the Academy is considered stable. The general fund balance at June 30, 2018 is \$23,001 or 1.4% of expenditures.

General Fund Budgetary Highlights

Over the course of the year, the Academy revised the general fund annual operating budget to stay within its budgetary plan.

While the Academy's final budget for the general fund anticipated revenues would be greater than expenditures and other financing sources or uses by \$12,215, the actual results for the year showed an increase in fund balance of \$12,678.

Actual revenues were \$45,236 more than budget primarily as a result of the receipt of unanticipated local sources of revenue.

Actual expenditures were \$31,955 more than budget primarily due to the underestimate of expenses related to transportation and operations / maintenance.

Academy Governmental Activities

Table A-3		
Inkster Preparatory Academy's Net Position		
	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 651,976	\$ 369,652
Capital assets, net	17,431	27,080
Total assets	<u>669,407</u>	<u>396,732</u>
Current liabilities and deferred inflows	<u>628,975</u>	<u>359,329</u>
Net position:		
Investment in capital assets	17,431	27,080
Unrestricted	<u>23,001</u>	<u>10,323</u>
Total net position	<u>\$ 40,432</u>	<u>\$ 37,403</u>

Table A-4		
Changes in Inkster Preparatory Academy's Net Position		
	<u>2018</u>	<u>2017</u>
Revenues:		
Program revenues:		
Federal and state operating grants	\$ 317,201	\$ 640,231
General revenues:		
State aid - unrestricted	1,200,178	750,687
Other	<u>99,063</u>	<u>953</u>
Total revenues	1,616,442	1,391,871
Expenses:		
Instruction	553,084	465,785
Support services	1,047,497	888,683
Unallocated depreciation	<u>12,832</u>	<u>-</u>
Total expenses	<u>1,613,413</u>	<u>1,354,468</u>
Change in net position	<u>\$ 3,029</u>	<u>\$ 37,403</u>

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2018, the Academy had invested \$17,431 in capital assets net of accumulated depreciation as summarized in Figure A-5. This amount represents a net decrease of \$9,649 from the beginning of the year. Total depreciation expense for the year was \$12,832. More detailed information about capital assets can be found in Note 5 to the financial statements.

The Academy's capital assets are as follows:

	<u>2018</u>	<u>2017</u>
Equipment	\$ 38,963	\$ 35,780
Less accumulated depreciation	<u>21,532</u>	<u>8,700</u>
Net book value of assets	<u>\$ 17,431</u>	<u>\$ 27,080</u>

Long-Term Debt

The Academy has no long-term debt as of June 30, 2018.

Factors Bearing on The Academy's Future

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

- The Academy has adopted a balanced general fund budget, as well as entered into a management agreement in which any expenditures that exceed revenue will be covered and assumed by management.
- The charter agreement with Central Michigan University expires June 30, 2021.
- The school aid budget for 2017/2018 has been approved by the state legislature.

The Academy continues to place emphasis upon enrollment increases through new working strategies. Enrollment growth will be imperative in continuing financial growth, and offering additional program opportunities.

Contacting The Academy's Financial Management

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy's Management Company, ACCEL Schools at 26200 Ridgemont, Roseville, MI 48066. Phone (586) 575-9500.

INKSTER PREPARATORY ACADEMY

STATEMENT OF NET POSITION JUNE 30, 2018

ASSETS AND DEFERRED OUTFLOWS

Current Assets

Cash and cash equivalents	\$ 371,156
Due from other governmental units	274,155
Prepaid expenses	<u>6,665</u>
Total current assets	651,976

Capital Assets - Net of Accumulated Depreciation

17,431

Total assets and deferred outflows	<u>\$ 669,407</u>
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LIABILITIES, DEFERRED INFLOWS, AND NET POSITION

Current Liabilities

Accounts payable	\$ 531,564
Unearned revenue	24,604
Other accrued expenses	<u>72,807</u>
Total current liabilities	628,975

Net Position

Net investment in capital assets	17,431
Unrestricted	<u>23,001</u>
Total net position	<u>40,432</u>
Total liabilities, deferred inflows and net position	<u>\$ 669,407</u>

See accompanying notes to financial statements

INKSTER PREPARATORY ACADEMY

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues Operating Grants</u>	<u>Net (Expense) Revenues and Changes in Net Position Government Type Activities</u>
Functions				
Instruction				
Basic programs	\$ 466,073	\$ -	\$ 27,028	\$ (439,045)
Added needs	87,011	-	93,011	6,000.00
Support services				
Pupil support services	16,567	-	16,567	-
Instructional staff support services	82,806	-	74,026	(8,780)
General administration	57,492	-	-	(57,492)
School administration	238,554	-	-	(238,554)
Business support services	386	-	-	(386)
Operations and maintenance	358,630	-	-	(358,630)
Pupil transportation services	138,315	-	-	(138,315)
Central support services	28,686	-	-	(28,686)
Food services	126,061	-	106,569	(19,492)
Unallocated depreciation	12,832	-	-	(12,832)
Total primary government	<u>\$ 1,613,413</u>	<u>\$ -</u>	<u>\$ 317,201</u>	<u>(1,296,212)</u>
General Purpose Revenues				
State school aid - unrestricted				1,200,178
Miscellaneous revenues				<u>99,063</u>
Total general purpose revenues				<u>1,299,241</u>
Change in net position				3,029
Net position - July 1, 2017				<u>37,403</u>
Net position - June 30, 2018				<u>\$ 40,432</u>

See accompanying notes to financial statements

INKSTER PREPARATORY ACADEMY

COMBINED BALANCE SHEET – ALL GOVERNMENTAL FUNDS JUNE 30, 2018

ASSETS

	General	Non-Major Special Revenue	Total
Cash and cash equivalents	\$ 371,146	\$ 10	\$ 371,156
Due from other governmental units	267,791	6,364	274,155
Due from other funds	6,374	-	6,374
Prepaid expenses	6,665	-	6,665
 Total assets	 \$ 651,976	 \$ 6,374	 \$ 658,350

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$ 531,564	\$ -	\$ 531,564
Due to other funds	-	6,374	6,374
Unearned revenue	24,604	-	24,604
Other accrued expenses	72,807	-	72,807
 Total liabilities	 628,975	 6,374	 635,349

Fund Balance

Nonspendable	6,665	-	6,665
Unassigned	16,336	-	16,336
 Total fund balance	 23,001	 -	 23,001
 Total liabilities and fund balance	 \$ 651,976	 \$ 6,374	 \$ 658,350

See accompanying notes to financial statements

INKSTER PREPARATORY ACADEMY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION
OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2018

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

Total Governmental Fund Balances	\$ 23,001
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$38,963 and the accumulated depreciation is \$21,532.	<u>17,431</u>
Net Position of Governmental Activities	<u><u>\$ 40,432</u></u>

INKSTER PREPARATORY ACADEMY

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

	<u>General</u>	<u>Special Revenue</u>	<u>Total</u>
Revenues			
Local sources	\$ 99,063	\$ -	\$ 99,063
State sources	1,341,706	5,521	1,347,227
Federal sources	69,104	101,048	170,152
	<u>1,509,873</u>	<u>106,569</u>	<u>1,616,442</u>
Total governmental fund revenues	1,509,873	106,569	1,616,442
Expenditures			
Instruction			
Basic programs	466,073	-	466,073
Added needs	87,011	-	87,011
Support services			
Pupil support services	16,567	-	16,567
Instructional staff support services	82,806	-	82,806
General administration	57,492	-	57,492
School administration	238,554	-	238,554
Business support services	386	-	386
Operations and maintenance	358,630	-	358,630
Pupil transportation services	138,315	-	138,315
Central support services	28,686	-	28,686
Food services	-	126,061	126,061
Capital outlay	3,183	-	3,183
	<u>1,477,703</u>	<u>126,061</u>	<u>1,603,764</u>
Total governmental fund expenditures	1,477,703	126,061	1,603,764
Excess of revenues over expenditures	32,170	(19,492)	12,678
Other Financing Sources (Uses)			
Operating transfers in	-	19,492	19,492
Operating transfers out	(19,492)	-	(19,492)
	<u>(19,492)</u>	<u>19,492</u>	<u>-</u>
Total other financing sources (uses)	(19,492)	19,492	-
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	12,678	-	12,678
Fund balance - July 1, 2017	<u>10,323</u>	<u>-</u>	<u>10,323</u>
Fund balance - June 30, 2018	<u>\$ 23,001</u>	<u>\$ -</u>	<u>\$ 23,001</u>

See accompanying notes to financial statements

INKSTER PREPARATORY ACADEMY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

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

Net Change in Fund Balances - Total Governmental Funds	\$	12,678
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation and amortization expense. This is the amount by which capital outlays exceeded depreciation and amortization in the current period

Capital outlay	\$	3,183		
Depreciation and amortization expense		<u>(12,832)</u>		<u>(9,649)</u>

Change in Net Position of Governmental Activities	\$	<u>3,029</u>
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INKSTER PREPARATORY ACADEMY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Inkster Preparatory Academy (the “Academy”) conform to generally accepted accounting principles applicable to public school academies. The following is a summary of the significant accounting policies:

Reporting Entity

Inkster Preparatory Academy was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, and began operation in July 2016.

In August 2016, the Academy entered into a five year contract with the Central Michigan University’s Board of Regents to charter a public school academy. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State constitution. The University’s Board of Regents 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 Central Michigan University’s Board of Regents three percent of state aid as administrative fees. Total administrative fees paid for the year ended June 30, 2018 were approximately \$36,100.

In August 2016, the Academy entered into a five year agreement with Accel Schools Michigan, LLC (“ACCEL”). Under the terms of the agreement, ACCEL provides a variety of services including human resources, educational programs, and consulting. ACCEL receives all revenues as its service fee from which it shall pay all operating costs of the Academy. ACCEL is then entitled to retain as compensation for the services provided any residual income in the event of a yearly surplus. In the event of a yearly deficit, ACCEL shall contribute an amount to the Academy to ensure that the fund balance remains positive. As of June 30-, 2018 ACCEL had contributed approximately \$96,900 to the Academy. As of June 30, 2018 \$505,059 was due to ACCEL from the Academy.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the public school Academy. Based on application of criteria, the Academy does not contain component units.

Fund Financial Statements

Fund financial statements report detailed information about the Academy. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

INKSTER PREPARATORY ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Presentation – Fund Accounting

The accounts of the Academy are organized on the basis of funds. The operations of a fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report, into generic fund types in two broad fund categories.

Governmental Funds

A governmental fund is a fund through which most Academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through a governmental fund.

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

Special Revenue Fund - The special revenue fund is used to account for the food service program operations. The special revenue fund is a subsidiary operation and is an obligation of the general fund. Therefore any shortfall in the special revenue fund will be covered by an operating transfer from the general fund. The special revenue fund does not maintain its own assets and liabilities; accordingly, no balance sheet is presented for this fund.

Debt Service Fund - The debt service fund, which the Academy does not currently maintain, is used to record certain revenue and the payment of interest, principal and other expenditures on long-term debt.

Capital Projects Fund - The capital projects fund, which the Academy does not currently maintain, accounts for financial resources to be used for the acquisition, construction, or improvement of capital facilities.

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

Governmental and agency funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

INKSTER PREPARATORY ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within sixty days of the end of the current fiscal period.
- b. Payments for inventorial types of supplies, which are not significant at year end, are recorded as expenditures at the time of purchase.
- c. Principal and interest of general long-term debt are not recorded as expenditures until their due dates.
- d. The State of Michigan utilizes a foundation allowance funding approach, which provides for specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law. A major portion of the Academy's revenue is derived from this state aid. As such, the Academy is considered to be economically dependent on this aid. The Academy's existence is dependent upon qualification for such aid.

Government-Wide Financial Statements

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationships between the government-wide statements and the statements for governmental funds.

The government-wide Statement of Activities presents a comparison between expenses and program revenues for each segment of the business-type activities of the Academy and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. The Academy does not allocate indirect expenses to programs. In creating the government wide financial statements the Academy has eliminated inter-fund transactions. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or function is self-financing or draws from the general revenues of the Academy.

INKSTER PREPARATORY ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net position should be reported as restricted when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The Academy first utilizes restricted resources to finance qualifying activities.

Cash and Cash Equivalents

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition. The Academy reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and GASB No. 40, Deposit and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity. The Academy held no investments during the year ended June 30, 2018. State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, saving accounts, deposit accounts, and or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Corporation or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or Federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Receivables

Receivables at June 30, 2018 consist primarily of state school aid due from the State of Michigan and the federal government. All receivables are expected to be fully collected in July and August of 2018 and are considered current for the purposes of these financial statements.

Prepaid Assets

Payments made to vendors for services that will benefit periods beyond June 30, 2018, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

INKSTER PREPARATORY ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital Assets and Depreciation

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions or retirements during the year. The Academy defines capital assets as assets with an initial individual cost in excess of \$3,000. The Academy follows the policy of not capitalizing assets with a useful life of less than one year. The Academy does not possess any infrastructure assets.

All reported capital assets, with the exception of land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Building and improvements	10 – 50 years
Furniture and equipment	5 – 15 years
Computers and software	3 – 10 years

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the non-current portion of capital leases that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Net Position

Net position represents the difference between assets, deferred outflows and liabilities and deferred inflows. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws of regulations of other governments.

Fund Equity

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

INKSTER PREPARATORY ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Equity

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

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

- a. *Restricted fund balance* – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- b. *Committed fund balance* – amounts constrained to specific purposes by the Board; to be reported as committed, amounts cannot be used for any other purpose unless the Board takes action to remove or change the constraint.
- c. *Assigned fund balance* – amounts the Board intends to use for a specific purpose; intent can be expressed by the Board or by an official or committee to which the Board delegates the authority.
- d. *Unassigned fund balance* – amounts that are available for any purpose; these amounts are reported only in the general fund.

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

Estimates

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a consistent basis with accounting principles generally accepted in the United States of America and state law for the general fund. All annual appropriations lapse at fiscal year end and encumbrances are not formally recorded.

INKSTER PREPARATORY ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. The Academy is required by law to adopt general and special revenue fund budgets. During the year ended June 30, 2018 the budget was amended in a legally permissible manner. The Academy had expenditures in certain budgetary functions that were in excess of the amounts appropriated for the year ended June 30, 2018 as detailed on page 17 of these financial statements.

NOTE 3 - DEPOSITS AND INVESTMENTS

Interest Rate Risk

In accordance with its investment policy, the Academy will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Academy's cash requirements.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2018, the Academy did not hold any investments.

Concentration of Credit Risk

The Academy will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2018, no cash was exposed to custodial credit risk because it was uninsured. All cash balances were uncollateralized as of June 30, 2018.

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

INKSTER PREPARATORY ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 3 - DEPOSITS AND INVESTMENTS – Continued

The Academy will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Academy will do business.

Foreign Currency Risk

The Academy is not authorized to invest in investments which have this type of risk.

Fair Value

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Academy has the ability to access.
- b. Level 2 inputs are inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly.
- c. Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The observable inputs should be developed based on the best information available in the circumstances and may include the Academy's own data.)

The Academy does not have any investments that are subject to the fair value measurement.

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

Amounts due from other governmental units consist of the following:

State sources	\$ 239,003
Federal sources	<u>35,152</u>
Total	<u><u>\$ 274,155</u></u>

INKSTER PREPARATORY ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 5 - CAPITAL ASSETS

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

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2018</u>
Capital assets subject to depreciation				
Equipment	\$ 35,780	\$ 3,183	\$ -	\$ 38,963
Accumulated depreciation	<u>8,700</u>	<u>12,832</u>	<u>-</u>	<u>21,532</u>
Total net capital assets	<u>\$ 27,080</u>	<u>\$ (9,649)</u>	<u>\$ -</u>	<u>\$ 17,431</u>

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

NOTE 6 – OTHER ACCRUED EXPENSES

Other accrued expenses may be summarized as follows:

Purchased services - payroll and benefits	\$ 37,364
Oversight Fee	10,960
Other	<u>24,483</u>
Total other accrued expenses	<u>\$ 72,807</u>

INKSTER PREPARATORY ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 7 - OPERATING LEASES

Lease Information

	<u>Maturity Date</u>	<u>Approximate Payment</u>	<u>Other</u>
Facilities - Related Party	June, 2021	\$15,800 monthly	Related party lease whereas the Academy will pay equal to 15% of the total estimated annual funding to be received per student divided by twelve months, updated based on actual state funding received periodically through throughout the school year.
Copier	June, 2019	\$440 monthly	Terms of agreement state that Academy shall also pay for incidental items such as paper, toner, and repairs.
School bus lease	June, 2019	\$11,700 monthly	Terms of this lease indicate that the Academy shall pay annually 10% of the annual net transportation budget.

The approximate amount of lease obligations coming due during the next three years are as follows:

	<u>Copier</u>	<u>Transportation</u>	<u>Facilities</u>
2019	\$ 520	\$ 140,000	\$ 198,000
2020	-	-	198,000
2021	-	-	198,000

Total lease expense for the year ended June 30, 2018 amounted to approximately \$367,000.

NOTE 8 - RETIREMENT PLAN

All leased employees of the Academy are eligible to participate in a retirement plan established by New Paradigm for Education, Inc. the "Employer", which qualifies under the provisions of Section 401(k) of the Internal Revenue Code. The Employer's contribution, under this plan, is a discretionary match of the employee's contribution, up to 5%, after one year of service.

INKSTER PREPARATORY ACADEMY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 9 – INTERFUND TRANSFERS

During the normal course of the school year the Academy transferred amounts between its funds as follows:

	<u>General</u>	<u>Special Revenue</u>
Transfer In	\$ -	\$ 19,492
Transfer Out	19,492	-

The Academy subsidized its food service program with resources from the General Fund as shown in the above schedule.

NOTE 10 - RISK MANAGEMENT

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

NOTE 11 – RELATED PARTY TRANSACTIONS

The Academy leases a building under a 5 year non-cancelable operating lease with PanSophic Learning, a subsidiary of ACCEL. Expenditures of approximately \$138,000 were incurred and paid under the lease with this Organization during the year ended June 30, 2018. There were no amounts outstanding that were due to the Organization as of the year ended June 30, 2018.

SUPPLEMENTARY INFORMATION

INKSTER PREPARATORY ACADEMY

REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Local sources	\$ -	\$ 3,000	\$ 99,063	\$ 96,063
State sources	1,842,672	1,368,701	1,341,706	(26,995)
Federal sources	83,505	92,936	69,104	(23,832)
Total general fund revenues	1,926,177	1,464,637	1,509,873	45,236
Expenditures				
Instruction				
Basic programs	667,429	473,534	466,073	(7,461)
Added needs	169,222	137,468	87,011	(50,457)
Support services				
Pupil support services	31,807	-	16,567	16,567
Instructional staff support services	80,960	87,312	82,806	(4,506)
General administration	149,440	39,823	57,492	17,669
School administration	212,514	231,678	238,554	6,876
Business support services	5,100	15,029	386	(14,643)
Operations and maintenance	408,312	335,018	358,630	23,612
Pupil transportation services	141,304	112,800	138,315	25,515
Central support services	41,430	31,760	28,686	(3,074)
Capital outlay	-	-	3,183	3,183
Total general fund expenditures	1,907,518	1,464,422	1,477,703	13,281
Excess (deficiency) of revenues over expenditures	18,659	215	32,170	31,955
Other Financing Sources (Uses)				
Operating transfers in	-	12,000	-	(12,000)
Operating transfers out	(18,658)	-	(19,492)	(19,492)
Total other financing sources (uses)	(18,658)	12,000	(19,492)	(31,492)
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	1	12,215	12,678	463
Fund balance - July 1, 2017	10,323	10,323	10,323	-
Fund balance - June 30, 2018	\$ 10,324	\$ 22,538	\$ 23,001	\$ 463

INKSTER PREPARATORY ACADEMY

SCHEDULE OF REVENUES – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2018

Local Sources

Other local revenues	\$ 99,063
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State Sources

At risk	78,120
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Special education	63,408
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State aid	<u>1,200,178</u>
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Total state sources	1,341,706
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Federal Sources

IDEA	8,309
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Title I	51,670
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Title II A	<u>9,125</u>
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Total federal sources	<u>69,104</u>
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Total general fund revenues	<u><u>\$ 1,509,873</u></u>
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INKSTER PREPARATORY ACADEMY

SCHEDULE OF EXPENDITURES – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2018

Basic Programs

Purchased services	\$ 458,002
Supplies and materials	<u>8,071</u>
Total basic programs	466,073

Added Needs

Purchased services	86,051
Supplies and materials	<u>960</u>
Total added needs	87,011

Pupil Support Services

Health services	8,309
Social work services	<u>8,258</u>
Total pupil support services	16,567

Instructional Staff Support Services

Purchased services	82,806
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General Administration

Purchased services	46,156
Other expenditures	<u>11,336</u>
Total general administration	57,492

School Administration

Purchased services	189,017
Rentals	40,539
Supplies and materials	7,195
Other expenditures	<u>1,803</u>
Total school administration	238,554

INKSTER PREPARATORY ACADEMY

SCHEDULE OF EXPENDITURES - GENERAL FUND - Continued FOR THE YEAR ENDED JUNE 30, 2018

Business Support Services

Other expenditures	386
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Operations and Maintenance

Purchased services	36,666
Repairs and maintenance	73,034
Rentals	188,867
Other purchased services	6,238
Supplies and materials	53,825

Total operations and maintenance	358,630
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Pupil Transportation Services

Purchased services	138,315
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Central Support Services

Purchased services	28,167
Supplies and materials	519

Total central support services	28,686
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Capital Outlay

	3,183
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Total general fund expenditures	<u>\$ 1,477,703</u>
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