

GENESEE STEM ACADEMY

**Financial Report
with Supplemental Information
June 30, 2018**

GENESEE STEM ACADEMY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Genesee Stem Academy

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Genesee Stem Academy, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

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

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

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Genesee Stem Academy’s basic financial statements. The nonmajor funds combining statement of revenues, expenditures, and changes in fund balances – special revenue funds is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The nonmajor funds combining statement of revenues, expenditures, and changes in fund balances, statement of revenue and expenditures – budget and actual 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 applies 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 nonmajor funds combining statement of revenues, expenditures, and changes in fund balances, statement of revenue and expenditures – budget and actual are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2018, on our consideration of Genesee Stem Academy’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering Genesee Stem Academy’s internal control over financial reporting and compliance.

Wilkerson & Associate PC

August 27, 2018

Wilkerson & Associate P.C.

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

To the Board of Directors of
Genesee Stem Academy

We have audited the financial statements of Genesee Stem Academy as of and for the year ended June 30, 2018, and have issued our report thereon dated August 27, 2018. 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

Genesee Stem Academy is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Genesee Stem 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 Genesee Stem Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Genesee Stem 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
Genesee Stem Academy

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Genesee Stem 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

August 27, 2018

**Genesee STEM Academy
Management's Discussion and Analysis**

Genesee STEM Academy Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. Those statements are organized so the reader can understand Genesee STEM 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. These 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 operation in more detail than the government-wide financial statements by providing information about the Academy's most significant fund- The General Fund- with all other presented in one column as non-major funds. The components of the annual report are as follows:

Management's Discussion and Analysis (MD&A)
(Required Supplementary Information)

Basic Financial Statements
Government-wide Financial Statements- Fund Financial Statements
Notes to the Basic Financial Statements
(Required Supplementary Information)
Budgetary Information for Major Fund

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 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 students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of 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 encompasses all of the Academy's services, including instruction, support services, and athletics. Unrestricted state aid (foundation allowance revenue) and state and federal grants finance most of these activities.

**Genesee STEM Academy
Management's Discussion and Analysis (Continued)**

Reporting the Academy's Governmental Fund – Fund Financial Statements

The Academy's fund financial statements provide detailed information about the General Fund not the Academy as a whole. The governmental funds of the Academy use the following accounting approach:

Governmental Funds- All of the Academy's services are reported in the 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 operations of the Academy and 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 difference) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund reconciliations.

The School District as a Whole

As discussed above, the Statement of Net Assets provides information of the Academy as a whole. Table 1 provides a summary of Genesee STEM Academy net position as of June 30, 2017 and 2018.

	Governmental Activities	
Assets	2018	2017
Current assets	\$ 623,095	\$ 529,524
Total Assets	<u>623,095</u>	<u>529,524</u>
Liabilities		
Current Liabilities	254,578	263,223
Unrestricted	<u>368,517</u>	<u>266,301</u>
Total Net Position	<u>368,517</u>	<u>266,301</u>
Total Liabilities and Net Position	<u>\$ 623,095</u>	<u>\$529,524</u>

Net Position - The Academy's financial position increased from the prior period, based on an enrollment increase. The Academy's financial position remains stable. At year end, the Academy's net position increased by \$93,571. The above analysis focuses on the net position (see Table 1). The change in net position (see Table 2) of the Academy's governmental activities is discussed below. The unrestricted net assets balance will enable the Academy to meet working capital and cash flow requirements as well as to provide for future uncertainties.

**Genesee STEM Academy
Management's Discussion and Analysis (Continued)**

The results of this year's operations for the Academy as a whole are reported in the statement of activities, which shows the change in net position for fiscal year ended June 30, 2018.

Table 2- Summary of the Statement of Activities

	Governmental Activities	
Revenues	2018	2017
Program Revenues:		
Operating Grants and Contributions	\$ 724,149	\$ 673,623
General Revenues:		
State foundation allowance	2,462,289	2,202,879
Other	13,550	33,907
Total revenue	\$ 3,199,988	\$2,910,409
Function/Program Expenses:		
Instruction	\$ 1,246,967	\$1,145,239
Support Services	1,567,665	1,461,414
Food services	252,039	228,609
Other Financing	31,102	6,270
Total expenses	\$ 3,097,773	\$2,841,562
Increase in net position	\$ 102,215	\$ 68,847

Increase in Net Assets

As reported in the statement of activities, the cost of all of our governmental activities this year was \$3,097,773. Certain activities were partially funded from those who benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions of \$724,149. We paid for the remaining "public benefit" portion of our governmental activities with \$2,475,839 in state foundation allowance and other revenues.

As discussed above, the net cost shows the financial burden that was placed on the Academy by each of these functions. Since unrestricted state aid constitutes the vast majority of the Academy operating revenue sources, the board of directors and administration must annually evaluate the needs of the Academy and balance those needs with state-prescribed available unrestricted resources.

The Academy's Funds

As we noted earlier, the Academy uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Academy is being accountable for the resources the state and others provide to it and may provide insight into the Academy's overall financial health.

General Fund Budgetary Highlights:

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditure does not exceed appropriations. The final amendment to the budget was actually adopted just before year end. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in the required supplementary information of these financial statements.

There were revisions made to the 2017-2018 General Fund original budgets. Budgeted revenues decreased to represent actual amounts received in State Aid and Federal allocations.

Economic Factors Affecting Next Year's Budgets:

The Academy's administration considered many factors when setting the Academy's 2019 fiscal year's budget. One of the most important factors affecting the budget is the Academy's student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. Currently the foundation allowance is \$7,631 for fiscal year 2017-2018. The blended count for the 2017-2018 fiscal years is 10 percent and 90 percent of February 2017 and September 2018 student count, respectively. This type of funding is based on parameters set by the Michigan Department of Education that schools must meet to receive performance based funding. The 2019 budget was adopted in June 2018, based on estimated number of students that will be enrolled in September 2018. Approximately 85 percent of the total general fund revenue is from the foundation allowance. As a result, the Academy funding is heavily dependent on the state's ability to fund local school operations, thus the Academy is looking for an increase in student enrollment for the 2018 fiscal year of approximately 17% percent through the advertisement of Genesee STEM Academy and expansion of grades K-10.

**GENESEE STEM ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2018**

	Governmental Activities
	General Fund
Assets	
Cash	
Due from other governmental units	\$ 585,056
Deposits	28,122
Prepaid Expenses	9,917
Total assets	\$ 623,095
Liabilities	
Accounts payable	50,600
Notes payable	98,640
Accrued Wages	
Accrued Liabilities	105,338
Total liabilities	\$ 254,578
Net Position	
Unrestricted	368,517
Total net position	\$ 368,517

See accompanying notes to financial statements

**GENESEE STEM ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expenses) Revenues and Changes in Net Position</u>
Governmental Activities				
Governmental activities:				
Instruction	\$ 1,246,967	\$ -	\$ 331,023	\$ (915,944)
Support services	1,567,665		138,487	(1,429,179)
Food Services	252,039		252,039	
Other financing uses	31,102		2,600	
	<hr/>	<hr/>	<hr/>	<hr/>
Total governmental activities	<u>\$ 3,097,773</u>	<u>\$ -</u>	<u>\$ 724,149</u>	<u>(2,373,625)</u>
General revenues				
				2,462,289
				13,550
				<hr/>
				2,475,839
Change in Net Position				
				102,215
Net Position - Beginning of year				
				<hr/>
				266,301
Net Position - End of year				
				<hr/>
				\$ 368,516

See accompanying notes to financial statements

**GENESEE STEM ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018**

ASSETS

	General Fund	Total Governmental Funds
	<u> </u>	<u> </u>
Cash		
Due from other governmental units	\$ 585,056	\$ 585,056
Deposits	28,122	
Prepaid Expenses	9,917	
	<u> </u>	<u> </u>
Total Current Assets	\$ 623,095	\$ 623,095
	<u> </u>	<u> </u>
Total assets and deferred outflows	\$ 623,095	\$ 623,095
	<u> </u>	<u> </u>

LIABILITIES AND FUND BALANCES

Liabilities		
Accounts payable	50,600	50,600
Notes payable	98,640	98,640
Accrued liabilities	105,338	105,338
	<u> </u>	<u> </u>
Total liabilities	\$ 254,578	\$ 254,578
 Fund Balances		
Non-Spendable Fund Balance:		
Unassigned fund balance	368,517	368,517
	<u> </u>	<u> </u>
Total fund balances	\$ 368,517	\$ 368,517
	<u> </u>	<u> </u>
Total liabilities and fund balances	\$ 623,095	\$ 623,095
	<u> </u>	<u> </u>

See accompanying notes to financial statements

**GENESEE STEM ACADEMY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018**

Total Fund Balances - Governmental Funds \$ 368,517

Amounts reported for governmental activities in the statement of net position are not different.

There are no reconciling differences.

Total Net Position - Governmental Activities	_____	_____	\$ 368,517
			<u><u> </u></u>

See accompanying notes to financial statements

**GENESEE STEM ACADEMY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	General Fund	School Service Fund	Total Governmental Funds
Revenues			
Local sources	\$ 13,550	\$ 5	\$ 13,555
State sources	2,662,331	4,908	2,667,239
Federal sources	272,068	218,624	490,692
Incoming Transfers and Other Transaction		28,502	28,502
Total revenues	\$ 2,947,949	\$ 252,039	\$ 3,199,988
Expenditures			
Current:			
Instruction	1,246,967		1,246,967
Support services:			0
Pupil support services	65,111		65,111
Instructional staff services	77,156		77,156
General administration services	137,165		137,165
School administration services	187,978		187,978
Business services	70,699		70,699
Operations and maintenance	719,852		719,852
Transportation	136,368		136,368
Food Service		252,039	252,039
Central	135,245		135,245
Community Services	38,091		38,091
Fund Modifications	31,102		31,102
Total expenditures	\$ 2,845,734	\$ 252,039	\$ 3,097,773
Excess (Deficiency) of Revenues Over Expenditures	102,215		102,215
Net Change in Fund Balances	\$ 102,215		\$ 102,215
Fund Balances - Beginning of Year	266,301		266,301
Fund Balances - End of Year	\$ 368,516		\$ 368,516

**GENESEE STEM ACADEMY
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

Total Net Change in Fund Balances - Governmental Funds \$ 102,215

Amounts reported for governmental activities in the statement of activities
are not different.

There are no reconciling differences.

Change in Net Position of Governmental Activities	_____	_____
		<u>\$ 102,215</u>

See accompanying notes to financial statements

GENESEE STEM ACADEMY
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Genesee STEM 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 used by the Academy:

A) REPORTING ENTITY

The Academy was formed as a charter school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy received its initial charter approval from Saginaw Valley State University on July 1, 2013.

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

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

B) ACADEMY-WIDE FUND FINANCIAL STATEMENTS

The Academy-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government. All of the Academy's activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Intergovernmental payments and other items not properly included among program revenue are reported instead as general revenue.

C) MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

Academy-wide Financial Statements - The Academy-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.

Amounts reported as program revenue include operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes unrestricted state aid.

GENESEE STEM ACADEMY
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION
(Continued)

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Revenue not meeting this definition is classified as a deferred inflow of resources. For this purpose, the Academy considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

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 Academy.

The School Academy reports the following major governmental fund:

General Fund - The General Fund is the Academy's primary operating fund. It accounts for all financial resources of the Academy.

The School District reports the following fund type:

Special Revenue Funds - Special revenue funds are used to segregate, for administrative purposes, the transactions of the School Academy's food service operations from General Fund revenue and expenditure accounts. The School Academy maintains full control of these funds. Any deficits generated by these activities are the responsibility of the General Fund. The main sources of revenue for these funds are food sales to pupils, free/reduced breakfast and lunch reimbursement from federal funds and funds received from the State.

During the course of operations the Academy has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in the fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In the fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in the fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

D) CASH AND CASH EQUIVALENTS/INVESTMENTS

Cash and cash equivalents include amounts in demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

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 district intends to hold the investment until maturity.

GENESEE STEM ACADEMY
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D) CASH AND CASH EQUIVALENTS/INVESTMENTS (Continued)

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by no less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

E) RECEIVABLES

The Academy considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. The balance of accounts receivable at June 30, 2018 is primarily composed of amounts due from other governmental units.

F) PREPAID ASSETS

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both government-wide and fund financial statements.

G) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Academy does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

As of June 30, 2018, the Academy has no assets which meet their capitalization threshold.

H) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the statement of net position.

I) DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

Deferred Outflows

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The Academy does not have any of this type of item.

GENESEE STEM ACADEMY
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I) DEFERRED OUTFLOWS/INFLOWS OF RESOURCES (Continued)

Deferred Inflows

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period (s) and so will not be recognized as an inflow of resources (revenue) until that time. The Academy does not have any of this type of item.

J) FUND BALANCE

Fund balances for each of the Academy's governmental funds are displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- * Nonspendable fund balance - amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- * Restricted fund balance - amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation. The Academy's Food Service balances is considered restricted.
- * Committed fund balance - amounts that have been formally set aside by specific purposes. Commitments are made and can be rescinded only via resolution of the Board of Education.
- * Assigned fund balance - amounts the Academy intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. The intent is expressed by the Board of Education.
- * Unassigned fund balance - amounts that are available for any purpose; these amounts can be reported only in the Academy's General Fund.

The Academy would typically use restricted fund balance first, followed by committed resources, and then assigned resources as appropriate opportunities arise, but reserve the right to selectively spend unassigned resources first to defer the use of these classified funds.

K) NET POSITION

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

GENESEE STEM ACADEMY
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L) REVENUES

Program Revenues – Amounts reported as program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

M) CONTRACT WITH THE MANAGEMENT COMPANY

The Academy does not contract with a full-service management company. The Academy has entered into an agreement with Access Point HR for the staffing of the school. That agreement was entered into on July 1, 2016b and was extended until August 30, 2019. During the 2017-18 school year, the Academy paid Access Point HR a total of \$54,137 in fees.

2) DEPOSITS AND INVESTMENTS

As of June 30, 2018, the Academy had no 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.

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, \$0 of the Academy's bank balance was exposed to custodial credit risk.

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.

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.

GENESEE STEM ACADEMY
NOTES TO FINANCIAL STATEMENTS

2) DEPOSITS AND INVESTMENTS (Continued)

Fair value measurement. The District is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

The asset or liability's fair measurement level with the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The District does not have any investments subject to the fair value measurement.

3) RECEIVABLES

Receivables at June 30, 2018, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	\$ 482,946
Federal Grants	<u>102,110</u>
 <u>TOTAL GOVERNMENTAL ACTIVITIES</u>	 <u>\$ 585,056</u>

4) SHORT-TERM DEBT

In August, 2017, the Academy borrowed \$550,000 at 3.75% on a State Aid Anticipation Note. The note proceeds were used to meet cash flow needs for the 2017-2018 fiscal year.

	Balance Beginning	Additions	Deductions	Balance Ending
State Aid Note	\$0	\$550,000	\$451,360	\$98,640

GENESEE STEM ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

5) OPERATING LEASE

In May, 2016, the District entered into a 20 year lease with AEP Charter Genesee, LLC for the purpose of leasing their facilities. The lease payments commenced on September 1, 2016. The lease was amended July 1, 2018, monthly rent payments range from \$30,621 to \$33,257. Throughout the course of the lease, the lease calls for an increase or decrease of no more than 2.5% based upon the U.S. Consumers Price Index beginning on September 1, 2019 and is redetermined annually thereafter.

The following is a schedule, by year, of future minimum rental payments required under the non-cancelable operating leases as of June 30, 2018:

June 30, 2019	367,452
June 30, 2020	367,452
June 30, 2021	367,452
June 30, 2022	367,452
June 30, 2023-2027	2,041,079
June 30, 2028-2032	2,308,294
June 30, 2033-2036	<u>1,091,852</u>
 <u>TOTAL</u>	 <u><u>\$6,911,033</u></u>

6) INTERFUND ACTIVITY

Interfund balances at June 30, 2018 consisted of the following:

	<u>DUE TO</u>	
		General Fund
		<u> </u>
<u>DUE FROM</u>		
Food Service		<u><u>\$0</u></u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

GENESEE STEM ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

7) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2018, consisted of the following:

	<u>TRANSFERS FROM</u>	
	General	
	Fund	
	<hr/>	
<u>TRANSFERS TO</u>	Food Services	<u><u>\$28,502</u></u>

Transfers are made to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

8) RISK MANAGEMENT

The Academy is exposed to various risks of loss related to loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The risk of employee injuries and medical benefits for employees of the management company are covered by insurance held by the management company. The Academy has purchased commercial insurance for all other claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since inception.

The shared-risk pool program in which the Academy participates operates as a common risk-sharing management program for school Academy's in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

9) SUBSEQUENT EVENTS

In August, 2018, the Academy borrowed \$675,000 at 5.3% on State Aid Anticipation Notes. The note proceeds will be used to meet cash flow needs for the 2018-2019 fiscal year.

REQUIRED SUPPLEMENTAL INFORMATION

**GENESEE STEM ACADEMY
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances Over/(Under)</u>
	<u>Original</u>	<u>Final</u>		<u>Final to Actual</u>
Revenues				
Local revenues	\$ 50,250	\$ 12,375	\$ 13,550	\$ 1,175
State program revenues	3,218,503	2,662,427	2,662,331	\$ (96)
Federal program revenues	304,623	333,952	272,068	\$ (61,884)
Other revenue				
Total revenues	<u>3,573,376</u>	<u>3,008,754</u>	<u>2,947,949</u>	<u>(60,805)</u>
Expenditures				
Current				
Instructional services	1,590,143	1,354,210	1,246,967	107,243
Supporting services				
Pupil support services	73,165	83,272	65,111	18,161
Staff support services	161,449	96,587	77,156	19,431
General administration services	207,776	141,733	137,165	4,568
School administration services	229,265	199,775	187,978	11,797
Business services	91,889	79,889	70,699	9,190
Operations and maintenance	914,999	715,781	719,852	(4,071)
Transportation	155,500	144,000	136,368	7,632
Central	130,500	144,050	135,245	8,805
Community services	13,690	36,550	38,091	(1,541)
Fund Modifications	5,000	50,000	31,102	18,898
Total expenditures	<u>3,573,376</u>	<u>3,045,847</u>	<u>2,845,734</u>	<u>200,113</u>
Excess (Deficiency) of Revenues Over Expenditures	-	(37,093)	102,215	139,308
Other Financing Sources (Uses)				
Operating transfers - out				-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	-	(37,093)	102,215	139,308
Fund Balance - Beginning of year	<u>160,241</u>	<u>266,301</u>	<u>266,301</u>	
Fund Balance - End of year	<u>\$ 160,241</u>	<u>\$ 229,208</u>	<u>\$ 368,516</u>	<u>\$ 139,308</u>

See accompanying notes to financial statements