



WEINLANDER FITZHUGH

BAY CITY ACADEMY
BAY CITY, MICHIGAN
FINANCIAL STATEMENTS
JUNE 30, 2020

TABLE OF
CONTENTS

Independent Auditor's Report	1 - 3
Management's Discussion and Analysis	4 - 9
Basic Financial Statements	
Academy-wide Financial Statements	
Statement of Net Position	10
Statement of Activities	11
Fund Financial Statements	
Governmental Funds:	
Balance Sheet	12
Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Position	13
Statement of Revenues, Expenditures and Changes in Fund Balance	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	15
Notes to Financial Statements	16 - 28
Required Supplemental Information	
Budgetary Comparison Schedule - General Fund	29
Budgetary Comparison Schedule - Food Services Fund	30
Other Supplemental Information	
Balance Sheet - Nonmajor Governmental Fund	31
Statement of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Governmental Fund	32
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	33 - 34
Schedule of Findings and Responses	35 - 39
Summary of Prior Year Findings	40



WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

October 23, 2020

Board of Directors
Bay City Academy
Bay City, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Bay City Academy (Academy), as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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 U.S. generally accepted auditing standards 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 Academy'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 Academy'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 Bay City Academy as of June 30, 2020 and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

1600 Center Avenue | PO Box 775 | Bay City, MI 48707-0775

1.800.624.2400 | 989.893.5577 | Fax: 989.895.5842 | www.wf-cpas.com

Bay City | Clare | Gladwin | West Branch

An independently owned member
RSM US Alliance





Board of Directors
Bay City Academy
October 23, 2020

Emphasis of Matter

As discussed in Note 16 to the financial statements, the Academy implemented Governmental Accounting Standards Board Statement No. 84, Fiduciary Activities. Our opinion is not modified with respect to this matter.

Substantial Doubt about the Academy's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Academy will continue as a going concern. As discussed in Note 18 to the financial statements, the Academy has incurred a significant operating deficit in 2015 resulting in a cash flow shortage. These conditions raise substantial doubt about its ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding those matters also are described in Note 18. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis and budgetary comparison information as noted 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 U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Academy's basic financial statements. The nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements 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 U.S. generally accepted auditing standards. In our opinion, the nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.



WEINLANDER FITZHUGH

Board of Directors
Bay City Academy
October 23, 2020

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2020, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements 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 the 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 the Academy's internal control over financial reporting and compliance.

Weinlander Fitzhugh

BAY CITY ACADEMY
Management's Discussion & Analysis
For the Year Ended June 30, 2020

Our discussion and analysis of Bay City Academy's (Academy) financial performance provides an overview of the Academy's financial activities for the fiscal year ended June 30, 2020.

Financial Highlights

The Academy's net position increased by \$277,630. Program revenues were \$863,998 or 22% of total revenues, and general revenues were \$3,030,936 or 78%.

The General Fund reported a negative fund balance of \$(811,258). The Food Service Fund reported a positive fund balance of \$133,098.

Using this Annual Financial Report

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

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

Basic Financial Statements

- Academy-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Budgetary Information for the General Fund and Food Services Fund (Required Supplemental Information)

Other Supplemental Information

BAY CITY ACADEMY
Management's Discussion & Analysis
For the Year Ended June 30, 2020

Reporting the Academy as a Whole

The Statement of Net Position and Statement of Activities

One of the most important questions asked about the Academy's finances is: "Is the Academy better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Academy as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the Academy's net position as a way to measure the Academy's financial position. The change in net position provides the reader a tool to assist in determining whether the Academy's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as student enrollment growth and facility conditions in arriving at their conclusion regarding the overall health of the Academy.

Reporting the Academy's Most Significant Funds

Fund Financial Statements

The Academy's fund financial statements provide detailed information about the most significant funds - not the Academy as a whole. Some funds are required to be established by State law. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using grants and other sources of revenue. The Academy's governmental funds accounting approach is further described in the notes to the financial statements.

Governmental Funds

Most of the Academy's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Academy's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the Academy's programs.

BAY CITY ACADEMY
Management's Discussion & Analysis
For the Year Ended June 30, 2020

Academy-wide Financial Analysis

The statement of net position provides the perspective of the Academy as a whole. Exhibit A provides a summary of the Academy's net position as of June 30, 2020 and 2019:

Exhibit A	Governmental Activities	
	2020	2019
Assets		
Current and other assets	\$ 1,139,062	\$ 1,039,155
Capital assets - net of accumulated depreciation	105,756	110,776
Total assets	1,244,818	1,149,931
Liabilities		
Current liabilities	1,789,196	2,000,373
Total liabilities	1,789,196	2,000,373
Net Position		
Net investment in capital assets	105,756	56,308
Restricted	133,098	61,852
Unrestricted	(783,232)	(968,602)
Total net position	\$ (544,378)	\$ (850,442)

The analysis above focuses on net position (see Exhibit A). The Academy's net position of governmental activities was \$(544,378) at June 30, 2020. Restricted net position is reported separately to show legal constraints from legislation that limit the Academy's ability to use that net position for day-to-day operations.

The \$(783,232) in unrestricted net position of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

BAY CITY ACADEMY
Management's Discussion & Analysis
For the Year Ended June 30, 2020

The results of this year's operations for the Academy as a whole are reported in the statement of activities. Exhibit B provides a summary of the changes in net position for the years ended June 30, 2020 and 2019.

Exhibit B	Governmental Activities	
	2020	2019
Revenues		
Program revenue:		
Charges for services	\$ 22	\$ 42
Grants and categoricals	863,976	717,161
General revenue:		
State aid	3,024,541	2,798,185
Other	6,395	19
	3,894,934	3,515,407
Function/Program Expenses		
Instruction	1,765,108	1,571,495
Support services	1,574,700	1,458,896
Food service	204,015	206,425
Student/school activities	45,682	2,494
Interest	2,779	0
Depreciation (Unallocated)	25,020	22,417
	3,617,304	3,261,727
Change in Net Position	\$ 277,630	\$ 253,680

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$3,617,304. Certain activities were partially funded by the other governments and organizations that subsidized certain programs with grants and categoricals of \$863,976. We paid for the remaining "public benefit" portion of our governmental activities with, \$3,024,541 in state aid and with our other revenues, such as interest and entitlements.

The Academy's governmental activities had an increase in net position of \$277,630.

The Academy's Funds

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 taxpayers and others provide to it and may provide more insight into the Academy's overall financial health.

BAY CITY ACADEMY
Management's Discussion & Analysis
For the Year Ended June 30, 2020

The Academy's governmental funds reported a combined fund balance of \$(650,134), which is above last year's total of \$(896,464). The schedule below indicates the fund balance and the total change in fund balances as of June 30, 2020 and 2019.

	Fund Balance <u>6/30/2020</u>	Fund Balance <u>6/30/2019</u>	Increase (Decrease)
General	\$ (811,258)	\$ (986,750)	\$ 175,492
Food Services	133,098	61,852	71,246
Student/School Activities	28,026	28,434	(408)
	<u>\$ (650,134)</u>	<u>\$ (896,464)</u>	<u>\$ 246,330</u>

- Our General Fund increase is mainly attributable to the management team's appropriate controls over expenditures.
- Our Food Services Fund had an increase due to COVID-19. The Academy received higher federal revenue and had lower non-food related expenditures due to students learning virtually rather than at the Academy.

General Fund Budgetary Highlights

Over the course of the year, the Academy revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

- Budgeted revenues increased over original budget by \$287,482 due to local, state and federal sources being different than anticipated. The original budget was based on estimated pupil counts and the amended budget was based on actual pupil counts.
- Budgeted expenditures increased over original budget by \$110,125 due to increased expenditures on staff and certain programs, which is directly related to increased enrollment.
- Actual revenues were less than the final budgeted revenues by \$70,807 due to a decrease in state aid due to COVID-19.
- Actual expenditures exceeded final budgeted expenditures by \$81,993 due to certain bills coming in after year end at a higher amount than anticipated.

BAY CITY ACADEMY
Management's Discussion & Analysis
For the Year Ended June 30, 2020

Capital Assets

At June 30, 2020, the Academy had \$105,756 invested in five school buses.

	Governmental Activities	
	2020	2019
Buses	\$ 211,819	\$ 191,819
Less accumulated depreciation	106,063	81,043
Net capital assets	\$ 105,756	\$ 110,776

The Academy purchased a school bus during the fiscal year ended June 30, 2020.

Factors Expected to have an Effect on Future Operations

Our elected Board and Administration consider many factors when setting the Academy's 2021 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The 2021 fiscal year budget was adopted in June 2020, based on an estimate of students that will be enrolled in September 2020. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2020-2021 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2021 fiscal year budget. Once the final student count and related per pupil funding is validated, state law requires the Academy to amend the budget if actual district resources are not sufficient to fund original appropriations.

The Academy has expanded its bus routes at the Bay City campus and is now offering dual enrollment with Delta College. This allows students to attend and obtain college credits. The Academy will continue to grow and service the needs of the students.

Since the Academy's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates funds are sufficient to fund the appropriation until 2020-2021.

Requests for Information

This financial report is designed to provide a general overview of the Academy's finances for all those with an interest in the Academy. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Office of the Superintendent
 Bay City Academy
 301 N. Farragut St.
 Bay City, MI 48708

BAY CITY ACADEMY
Statement of Net Position
June 30, 2020

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and investments	\$ 451,846
Accounts receivable	2,728
Due from other governmental units	609,439
Security deposit	9,000
Prepaid expenses	66,049
Capital assets less accumulated depreciation \$106,063	<u>105,756</u>
Total assets	<u>1,244,818</u>
 <u>Liabilities</u>	
Accounts payable	35,392
Notes payable	1,538,383
Accrued payroll	185,290
Unearned revenue	<u>30,131</u>
Total liabilities	<u>1,789,196</u>
 <u>Net Position</u>	
Net investment in capital assets	105,756
Restricted for food service	133,098
Unrestricted	<u>(783,232)</u>
Total net position	<u>\$ (544,378)</u>

See accompanying notes to financial statements.

BAY CITY ACADEMY
Statement of Activities
For the Year Ended June 30, 2020

	Program Revenues			Governmental Activities
Expenses	Charges for Services	Operating Grants/ Contributions	Net (Expense) Revenue and Changes in Net Position	
<u>Functions/Programs</u>				
Primary government -				
Governmental activities:				
Instruction	\$ 1,765,108	\$ 0	\$ 506,029	\$ (1,259,079)
Support services	1,574,700	0	37,434	(1,537,266)
Food service	204,015	22	275,239	71,246
Student/school activities	45,682	0	45,274	(408)
Interest	2,779	0	0	(2,779)
Depreciation (Unallocated)	25,020	0	0	(25,020)
	<u>\$ 3,617,304</u>	<u>\$ 22</u>	<u>\$ 863,976</u>	<u>(2,753,306)</u>
Total governmental activities				
General revenues:				
State aid				3,024,541
Interest and investment earnings				5
Other				6,390
				<u>3,030,936</u>
Total general revenues				
Change in net position				277,630
Net position - beginning of year, restated				(822,008)
Net position - end of year				<u>\$ (544,378)</u>

See accompanying notes to financial statements.

BAY CITY ACADEMY
Governmental Funds
Balance Sheet
June 30, 2020

	General	Food Services	Other Nonmajor Governmental Fund	Total
<u>Assets</u>				
Cash and investments	\$ 360,438	\$ 61,092	\$ 30,316	\$ 451,846
Receivables - net:				
Accounts receivable	2,608	0	120	2,728
Due from other funds	2,410	72,549	0	74,959
Due from other governmental units	608,986	453	0	609,439
Security deposit	9,000	0	0	9,000
Prepaid expenditures	66,049	0	0	66,049
Total assets	<u>\$ 1,049,491</u>	<u>\$ 134,094</u>	<u>\$ 30,436</u>	<u>\$ 1,214,021</u>
<u>Liabilities and Fund Balance</u>				
<u>Liabilities</u>				
Accounts payable	\$ 34,396	\$ 996	\$ 0	\$ 35,392
Due to other funds	72,549	0	2,410	74,959
Notes payable	1,538,383	0	0	1,538,383
Accrued payroll and other liabilities	185,290	0	0	185,290
Unearned revenue	30,131	0	0	30,131
Total liabilities	<u>1,860,749</u>	<u>996</u>	<u>2,410</u>	<u>1,864,155</u>
<u>Fund Balance</u>				
Nonspendable - prepaid	66,049	0	0	66,049
Nonspendable - security deposit	9,000	0	0	9,000
Restricted for food service	0	133,098	0	133,098
Committed for student/school activities	0	0	28,026	28,026
Unassigned	(886,307)	0	0	(886,307)
Total fund balance	<u>(811,258)</u>	<u>133,098</u>	<u>28,026</u>	<u>(650,134)</u>
Total liabilities and fund balance	<u>\$ 1,049,491</u>	<u>\$ 134,094</u>	<u>\$ 30,436</u>	<u>\$ 1,214,021</u>

See accompanying notes to financial statements.

BAY CITY ACADEMY
Reconciliation of Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2020

Total fund balance - governmental funds	\$ (650,134)
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	
Cost of the capital assets	211,819
Accumulated depreciation	<u>(106,063)</u>
Total net position - governmental activities	<u>\$ (544,378)</u>

See accompanying notes to financial statements.

BAY CITY ACADEMY
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2020

	General	Food Services	Other Nonmajor Governmental Fund	Total
<u>Revenues</u>				
Local sources	\$ 43,829	\$ 22	\$ 45,274	\$ 89,125
State sources	3,349,534	5,380	0	3,354,914
Federal sources	199,842	269,859	0	469,701
Total revenues	<u>3,593,205</u>	<u>275,261</u>	<u>45,274</u>	<u>3,913,740</u>
<u>Expenditures</u>				
Current:				
Instruction	1,765,108	0	0	1,765,108
Support services	1,594,700	0	0	1,594,700
Food services	0	204,015	0	204,015
Student/school activities	0	0	45,682	45,682
Principal on long term debt	54,468	0	0	54,468
Interest	3,437	0	0	3,437
Total expenditures	<u>3,417,713</u>	<u>204,015</u>	<u>45,682</u>	<u>3,667,410</u>
Net change in fund balance	175,492	71,246	(408)	246,330
Fund balance - beginning of year, restated	<u>(986,750)</u>	<u>61,852</u>	<u>28,434</u>	<u>(896,464)</u>
Fund balance - end of year	<u>\$ (811,258)</u>	<u>\$ 133,098</u>	<u>\$ 28,026</u>	<u>\$ (650,134)</u>

See accompanying notes to financial statements.

BAY CITY 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, 2020

Net change in fund balance - total governmental funds	\$ 246,330
<p>Amounts reported for governmental activities in the statements of activities are different because:</p> <p style="padding-left: 20px;">Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation</p>	
Depreciation expense	(25,020)
Capital outlay	20,000
Unavailable revenue from other governmental units at June 30, 2019 and collected after September 1, 2019	(18,806)
<p>Long-term liabilities are not due and payable in the current period and are not reported in the funds:</p> <p style="padding-left: 20px;">Principal payments</p>	
	54,468
Accrued interest are reported as a reduction in expenditures on the Statement of Activities	658
Change in net position of governmental activities	\$ 277,630

See accompanying notes to financial statements.

BAY CITY ACADEMY
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Bay City Academy (Academy) conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy:

Reporting Entity

The Academy is governed by an appointed Board of Directors and is authorized by Lake Superior State University. 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 financial relationships that determine which of the governmental organizations are a part of the Academy's reporting entity, and which organizations are legally separate component units of the Academy. The Academy has no component units.

Academy-wide and Fund Financial Statements

The Academy-wide financial statements (i.e., the statement of net position and the statement of activities) report information on activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes; (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items are not properly included among program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

BAY CITY ACADEMY
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Academy-wide 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.

As a general rule, the effect of interfund activity has been eliminated from the Academy-wide financial statements.

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

Fund-based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The Academy reports the following major 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.

Food Services Fund - The food service fund is used to record the Academy's breakfast and lunch activity.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

BAY CITY ACADEMY
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and is recorded as prepaid items in both academy-wide and fund financial statements.

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

Vehicles are depreciated using the straight-line method over the following useful lives:

Buses	8 years
-------	---------

Long-term Obligations - In the Academy-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Fund Equity - The fund balance classifications are reported on the extent to which a government is bound to observe constraints imposed on the use of the resources in governmental funds. The fund balances are classified as nonspendable, restricted, committed, assigned and unassigned.

Nonspendable fund balance represents amounts that are not in a spendable form. The Academy's nonspendable fund balance represents prepaid expenditures. In the fund financial statements, governmental funds report restrictions on fund balances for amounts that are legally restricted by outside parties for a specific purpose. Committed fund balance represents funds formally set aside by the Academy for a particular purpose. The use of committed funds would be approved by the Board of Directors through the budget process or official Board action.

Assigned fund balance would represent tentative management plans that are subject to change which at the present time the Academy does not have any assigned fund balance. The Academy's intent would be to spend uncommitted/unassigned funds prior to the use of committed funds. When both restricted and unrestricted resources are available for use, it is the Academy's policy to use restricted resources first, then unrestricted resources as they are needed.

BAY CITY ACADEMY
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows and 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 that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Academy has no items that qualify under this category.

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 has no items that qualify under this category.

Use of Estimates - The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

State Aid - For the fiscal year ended June 30, 2020, the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2020, the foundation allowance was based on the average pupil membership counts taken in February and October of 2019.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through payments from October 2019 - August 2020. The local revenue is recognized as outlined in Note 1. Amounts receivable from the State of Michigan at June 30, 2020 relating to state aid is \$552,130.

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

BAY CITY ACADEMY
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Events Occurring After Reporting Date - Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying Independent Auditor's Report, which is the date the financial statements were available to be issued.

NOTE 2 - BUDGETS

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of school districts and public school academies prior to the expenditure of monies in a fiscal year.

Bay City Academy follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Academy's Superintendent submits to the Board of Directors a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board of Directors throughout the year. Budgets are adopted to the functional level.
4. Appropriations lapse at year-end and therefore cancels all encumbrances. These appropriations are re-established at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Directors) for the General Fund and Food Services Fund is presented as Required Supplemental Information.

Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the General Fund and Food Services Fund are noted in the required supplementary information section.

NOTE 3 - CASH AND INVESTMENTS

At year-end, the Academy's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Primary Government</u>
Cash and cash equivalents	<u>\$ 451,846</u>

BAY CITY ACADEMY
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

As of June 30, 2020 the Academy had deposits and investments subject to the following risk:

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, 2020, \$398,965 of the Academy's bank balance of \$651,163 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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.

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. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure by credit quality.

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

Fair value measurement. The Academy 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:

BAY CITY ACADEMY
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

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 Academy's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

The Academy does not have any investments subject to the fair value hierarchy.

The asset or liability's fair value measurement level within 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 cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the financial statements, based upon criteria disclosed in Note 1.

NOTE 4 - CAPITAL ASSETS

A summary of changes in governmental capital assets follows:

	Balance June 30, 2019	Additions	Disposals and Adjustments	Balance June 30, 2020
Capital assets being depreciated:				
Buses	\$ 191,819	\$ 20,000	\$ 0	\$ 211,819
Accumulated depreciation:				
Buses	81,043	25,020	0	106,063
Net capital assets being depreciated	<u>110,776</u>	<u>(5,020)</u>	<u>0</u>	<u>105,756</u>
Net capital assets	<u>\$ 110,776</u>	<u>\$ (5,020)</u>	<u>\$ 0</u>	<u>\$ 105,756</u>

Depreciation expense for fiscal year ended June 30, 2020 was \$25,020. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

BAY CITY ACADEMY
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A summary of inter-fund transfers made during the year ended June 30, 2020 is as follows:

		Payables		
		General	Student/ school activities	Total
Receivables	General	\$ 0	\$ 2,410	\$ 2,410
	Food Service	72,549	0	72,549
		\$ 72,549	\$ 2,410	\$ 74,959

These interfund receivable and payable 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 system, and (3) payments between funds are made.

There were no interfund transfers in the current year.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2020 consist of state aid and grants.

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

State aid and grants	\$ 552,130
Federal Grants	57,309
	\$ 609,439

NOTE 7 - UNEARNED REVENUE

Governmental funds report unearned revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also reflect unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, grant and categorical aid payments received prior to meeting all eligibility requirements amounted to \$30,131.

BAY CITY ACADEMY
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 8 - SHORT-TERM DEBT ACTIVITY

The Academy issues state aid anticipation notes in advance of State of Michigan state aid payments, depositing the proceeds in its General Fund. These notes are necessary because the Academy's cash flow obligation to operating expenses precede the collection of state aid.

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
Wildfire Credit Union, due in March 2015; interest payable at 3.00%. Extended through August 2020.	\$ 484,869	\$ 0	\$ 55,724	\$ 429,145
First National Bank of Michigan due August 2020; interest payable at 3.00%.	<u>1,252,855</u>	<u>0</u>	<u>143,617</u>	<u>1,109,238</u>
	<u>\$ 1,737,724</u>	<u>\$ 0</u>	<u>\$ 199,341</u>	<u>\$ 1,538,383</u>

The Academy has successfully renegotiated the terms of their short-term debt with Wildfire Credit Union and First National Bank of Michigan. The loans will mature in August 2021.

NOTE 9 - LONG-TERM OBLIGATIONS

The following is a summary of governmental long-term obligations for the Academy for the year ended June 30, 2020:

	<u>Balance July 1, 2019</u>	<u>Additions</u>	<u>Retirements and Payments</u>	<u>Balance June 30, 2020</u>	<u>Amount Due Within One Year</u>
Notes from direct borrowings and direct placements	<u>\$ 54,468</u>	<u>\$ 0</u>	<u>\$ 54,468</u>	<u>\$ 0</u>	<u>\$ 0</u>

Long-term obligations at June 30, 2020 is comprised of the following issue:

Notes from direct borrowings and direct placements:

The Academy entered into a lease agreement for two Blue bird buses in the amount of \$161,534. Final payment was made August 2019.

\$ 0

BAY CITY ACADEMY
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 10 - RISK MANAGEMENT

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

NOTE 11 - RETIREMENT PLAN

All leased employees of the Academy are eligible to participate in a defined contribution retirement plan established by the management company which qualifies under the provision of Section 401(k). Eligible employees may contribute up to 15% of their salaries under the terms of this plan up to prescribed limits. The Academy's contributions to the plan through purchase services for the year ended June 30, 2020 was \$35,360.

NOTE 12 - GRANTS

The Academy receives significant financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the Academy's independent auditors and other governmental auditors. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable fund. Based on prior experience, the Academy management believes such disallowance, if any, would be immaterial.

NOTE 13 - ECONOMIC DEPENDENCY

The Academy received approximately 93% of their General Fund revenue from the Michigan Department of Education. Due to the significance of this revenue source to the Academy, the Academy is considered to be economically dependent.

NOTE 14 - LEASE

The Academy conducts a significant portion of its operations with leased facilities. The lease expense for their location in Bay City for year ended June 30, 2020 was \$108,000. Minimum future lease payments under noncancelable leases after June 30, 2020 are as follows:

2021	\$	120,000
2022		144,000
2023		144,000
Total	\$	<u>408,000</u>

Subsequent to June 30, 2020, the Academy entered into a lease agreement for their location in Mancelona for \$2,000 a month for a term of twelve months starting September 1, 2020.

BAY CITY ACADEMY
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 15 - CONTRACTUAL COMMITMENTS

The Academy has entered into an agreement with Lake Superior State University's (Lake Superior) Board of Trustees, a public academy authorizing body. Lake Superior exercises oversight functions as authorized by the college board. The amount paid to Lake Superior for oversight functions during the year ended June 30, 2020 was \$101,142.

The Academy entered into a contract with Mitten Educational Management, LLC. Mitten Educational Management LLC provides a variety of services including financial management, leased employees, education programs and consulting as well as teacher training. Management fees paid during the year ended June 30, 2020 were \$323,389

NOTE 16 - NEW ACCOUNTING STANDARDS

For the year ended June 30, 2020, the Academy implemented the following new pronouncement:

GASB Statement No. 84, *Fiduciary Activities*.

Summary:

Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, was issued by the GASB in January 2017 and is effective for the Academy's 2020 year end. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Academics with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

BAY CITY ACADEMY
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 16 - NEW ACCOUNTING STANDARDS (CONTINUED)

The restatement of the beginning of the year fund balances and net position follows:

	Fund balances	
	Student/school activity fund	Total governmental funds
Fund balances as of July 1, 2019, as previously stated	\$ 0	\$ (924,898)
Adoption of GASB Statement 84	28,434	28,434
Fund balance as of July 1, 2019, as restated	\$ 28,434	\$ (896,464)
	Net position	
	Governmental activities	
Net position as of July 1, 2019, as previously stated	\$ (850,442)	
Adoption of GASB Statement 84	28,434	
Net position as of July 1, 2019, as restated	\$ (822,008)	

NOTE 17 - UPCOMING ACCOUNTING PRONOUNCEMENT

Governmental Accounting Standards Board (GASB) Statement No. 87, Leases, was issued by the GASB in June 2017 and will be effective for the Academy's 2022 year end. The objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

BAY CITY ACADEMY
Notes to Financial Statements
For the Year Ended June 30, 2020

NOTE 18 - GOING CONCERN

As of June 30, 2020, the Academy's General Fund liabilities exceeded its assets by \$811,258. A plan of action was filed with the State of Michigan. The management team has eliminated several jobs and many other expenditures. The eliminated jobs are being taken over by the management company or will be distributed to other administrative employees. With regard to cutting expenditures, the management company is currently renegotiating the Academy's debt. Expenditures of the Academy are being aggressively bid out in a more formal process.

NOTE 19 - SUBSEQUENT EVENT

On March 11, 2020, the World Health Organization declared the coronavirus (COVID-19) a pandemic. As a result of the spread of COVID-19, economic uncertainties have arisen which are likely to negatively impact the Academy. While the disruption is currently expected to be temporary, there is considerable uncertainty regarding the duration. The overall financial impact of COVID-19 cannot be reasonably estimated at this time.

BAY CITY ACADEMY
 Required Supplemental Information
 Budgetary Comparison Schedule - General Fund
 For the Year Ended June 30, 2020

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Local sources	\$ 24,000	\$ 44,525	\$ 43,829	\$ (696)
State sources	3,185,530	3,436,540	3,349,534	(87,006)
Federal sources	167,000	182,947	199,842	16,895
Total revenues	<u>3,376,530</u>	<u>3,664,012</u>	<u>3,593,205</u>	<u>(70,807)</u>
<u>Expenditures</u>				
Instruction:				
Basic programs	1,219,540	1,400,201	1,445,710	(45,509)
Added needs	360,760	332,402	319,398	13,004
Support services:				
Instructional staff	235,170	169,576	205,038	(35,462)
General administrative	437,860	443,166	489,055	(45,889)
School administration	242,235	253,569	280,814	(27,245)
Business services	171,580	149,177	101,415	47,762
Operations and maintenance	344,580	339,852	370,591	(30,739)
Transportation	129,290	123,833	111,452	12,381
Support other	27,580	65,146	35,442	29,704
Parent workshops	0	893	893	0
Principal on long term debt	54,468	54,468	54,468	0
Interest	2,532	3,437	3,437	0
Total expenditures	<u>3,225,595</u>	<u>3,335,720</u>	<u>3,417,713</u>	<u>(81,993)</u>
Net change in fund balance	150,935	328,292	175,492	(152,800)
Fund balance - beginning of year	<u>(986,750)</u>	<u>(986,750)</u>	<u>(986,750)</u>	<u>0</u>
Fund balance - end of year	<u>\$ (835,815)</u>	<u>\$ (658,458)</u>	<u>\$ (811,258)</u>	<u>\$ (152,800)</u>

BAY CITY ACADEMY
Required Supplemental Information
Budgetary Comparison Schedule - Food Services Fund
For the Year Ended June 30, 2020

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variances with Final Budget Favorable (Unfavorable)</u>
<u>Revenues</u>				
Local sources	\$ 0	\$ 20	\$ 22	\$ 2
State sources	2,400	2,500	5,380	2,880
Federal sources	163,950	297,116	269,859	(27,257)
Total revenues	<u>166,350</u>	<u>299,636</u>	<u>275,261</u>	<u>(24,375)</u>
<u>Expenditures</u>				
Food services	<u>166,350</u>	<u>193,906</u>	<u>204,015</u>	<u>(10,109)</u>
Net change in fund balance	0	105,730	71,246	(34,484)
Fund balance - beginning of year	<u>61,852</u>	<u>61,852</u>	<u>61,852</u>	<u>0</u>
Fund balance - end of year	<u>\$ 61,852</u>	<u>\$ 167,582</u>	<u>\$ 133,098</u>	<u>\$ (34,484)</u>

BAY CITY ACADEMY
Other Supplemental Information
Balance Sheet
Nonmajor Governmental Fund
June 30, 2020

		<u>Special Revenue Fund</u> <u>Student/ School Activities</u>
<u>Assets</u>		
Cash and investments	\$	30,316
Accounts receivable		<u>120</u>
Total assets		<u>\$ 30,436</u>
<u>Liabilities and Fund Balance</u>		
<u>Liabilities</u>		
Due to other funds	\$	<u>2,410</u>
<u>Fund Balance</u>		
Committed for student/school activities		<u>28,026</u>
Total liabilities and fund balance		<u>\$ 30,436</u>

BAY CITY ACADEMY
Other Supplemental Information
Statement of Revenues, Expenditures
and Changes in Fund Balance - Nonmajor Governmental Fund
For the Year Ended June 30, 2020

	<u>Special Revenue Fund</u>
	<u>Student/ School Activities</u>
<u>Revenues</u>	
Local sources	\$ 45,274
<u>Expenditures</u>	
Current:	
Student/school activities	<u>45,682</u>
Net change in fund balance	(408)
Fund balance - beginning of year, restated	<u>28,434</u>
Fund balance - end of year	<u><u>\$ 28,026</u></u>



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

October 23, 2020

Board of Directors
Bay City Academy
Bay City, Michigan

We have audited, in accordance with U.S. generally accepted auditing standards 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 Bay City Academy (Academy), as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise Bay City Academy's basic financial statements and have issued our report thereon dated October 23, 2020.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses we identified a certain deficiency in internal control that we consider to be a material weakness and a significant deficiency.

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 Academy's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness: 2020-002.



Board of Directors
Bay City Academy
October 23, 2020

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. We consider the deficiency in the accompanying schedule of findings and responses to be a significant deficiency: 2020-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bay City 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2020-003, 2020-004 and 2020-005.

Response to Findings

Bay City Academy's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Bay City Academy's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Weinlander Fitzhugh

BAY CITY ACADEMY
Schedule of Findings and Responses
For the Year Ended June 30, 2020

2020-001 (Repeat Finding 2019-001)

Criteria or Specific Requirement

The preparation of financial statements is the responsibility of the Academy management and requires internal controls over both; (1) recording, processing and summarizing financial data (i.e., maintaining internal books and records) and (2) reporting this financial data in the form of financial statements, including all related footnote disclosures (i.e., external financial reporting).

Condition

As is the case with many small schools, the Academy is relying on their independent external auditors to assist with preparation of the financial statements and related note disclosures as part of its external financial reporting process.

Cause/Effect

This condition was caused by the Academy's decision that it is more cost effective to outsource the preparation of its annual financial statements to auditors than to incur the time and expense to obtain the necessary training and expertise required by the Academy to perform this task internally. The Academy's ability to adjust its books and records and prepare financial statements is based, in part, on its reliance on its external auditors who cannot, by definition, be considered a part of the Academy's internal control.

Recommendation

We recommend the Board review this decision annually and evaluate the cost effectiveness of outsourcing the preparation process to determine if this function can be implemented internally.

Views of the Responsible Officials and Planned Corrective Action

We have determined the cost of completing GAAP basis financial statements internally outweighs the benefit to be received. Refer to our corrective action plan for additional information.

BAY CITY ACADEMY
Schedule of Findings and Responses
For the Year Ended June 30, 2020

2020-002 (Repeat Finding 2019-002 for General Fund)

Criteria or Specific Requirement

The State of Michigan requires Michigan School Districts to maintain appropriate controls over expenditures so that disbursements do not exceed budgeted amounts.

Condition

The Academy incurred unfavorable variances in a number of its General Fund and Food Service Fund expenditure accounts. These variances resulted in a violation of the Uniform Accounting and Budgeting Act, Michigan Public Act of 1978 (Act).

Cause/Effect

The Academy did not appropriately monitor actual expenditures and budget amounts so that disbursements were within the approved budget.

Recommendation

We recommend the Academy should implement measures to monitor its financial activity and amend its budgets when necessary, in accordance with requirements of the Act.

Views of the Responsible Officials and Planned Corrective Action

The management team will monitor the budget and make sure that actual expenditures do not exceed the budgeted expenditures. Refer to our corrective action plan for additional information.

BAY CITY ACADEMY
Schedule of Findings and Responses
For the Year Ended June 30, 2020

2020-003 (Repeat Finding 2019-003)

Criteria or Specific Requirement

The Uniform Accounting and Budgeting Act, Michigan Public Act of 1978, does not allow a local unit of government to have a deficit fund balance.

Condition

As of June 30, 2020, the General Fund has an unassigned deficit fund balance.

Cause/Effect

Lack of adequate budgetary controls in 2015 contributed to the significant accumulated deficit at June 30, 2020. The Academy is not in compliance with the Michigan Uniform Accounting and Budgeting Act for its General Fund.

Recommendation

We recommend that management and the Board of Directors review the 2020-2021 fiscal year budget and continue to work with the State of Michigan to develop a plan to eliminate the unassigned deficit in the General Fund.

Views of the Responsible Officials and Planned Corrective Action

A plan of action filed with the State of Michigan. The management team has eliminated several jobs and many other expenses. The eliminated jobs are being taken over by the new management company or distributed to other administrative employees. With regard to cutting expenditures, the new management company has renegotiated the Academy's debt. Expenditures of the Academy are being aggressively bid out in a more formal process. Refer to our corrective action plan for additional information.

BAY CITY ACADEMY
Schedule of Findings and Responses
For the Year Ended June 30, 2020

2020-004 (Repeat Finding 2019-004)

Criteria or Specific Requirement

The Uniform Accounting and Budgeting Act, Michigan Public Act 621 of 1978, does not allow a local unit of government to adopt a budget projecting an overall deficit in its fund balance at year end.

Condition

The final approved budget adopted for the General Fund for the 2019-2020 reflected a deficit fund balance at year end.

Cause/Effect

Lack of adequate budgetary controls in 2015 contributed to the significant accumulated deficit at June 30, 2020. The Academy is not in compliance with the Michigan Uniform Accounting and Budgeting Act for its General Fund.

Recommendation

We recommend that management and the Board of Directors review the General Fund budget for 2020-2021 and modify expected revenues and expenditures to work toward a balanced budget.

Views of the Responsible Officials and Planned Corrective Action

The management team and the Board of Directors will be working to closely monitor the Academy's budget as it pertains to the actual expenditures. Refer to our corrective action plan for additional information.

BAY CITY ACADEMY
Schedule of Findings and Responses
For the Year Ended June 30, 2020

2020-005

Criteria or Specific Requirement

Federal register section 7 CFR Part 210.14b requires School Districts to limit its School Breakfast and Lunch fund net resources to an amount that does not exceed three months of average expenditures.

Condition

The Academy's net cash resources exceeded three months of average expenditures at June 30, 2020.

Cause/Effect

The Academy received more federal funding in the fiscal year from the Unanticipated School Closure Food Service Program due to COVID-19. As of June 30, 2020, the Academy's fund balance was in excess of three months expenditures by \$66,420.

Recommendation

We recommend the Academy create a spend down plan and submit the plan of action to Michigan Department of Education by February 2021. The Academy should closely monitor their spend down plan with Michigan Department of Education. The Academy should also consider their spend down plan when reviewing and amending the annual budget.

Views of the Responsible Officials and Planned Corrective Action

The management team will create a spend down strategy and formulate a plan to move forward to become in compliance. The plan will be submitted to the Michigan Department of Education timely.

BAY CITY ACADEMY
Summary Schedule of Prior Year Findings
For the Year Ended June 30, 2020

2019-001, 002, 003 and 004

Audit Finding

All audit findings listed above are repeat findings in the current year.

Corrective Action Taken

Corrective action plans were not implemented.