

MULTICULTURAL ACADEMY

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

YEAR ENDED JUNE 30, 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Multicultural Academy

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Multicultural Academy, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Multicultural 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 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, the major fund, and the aggregate remaining fund information of Multicultural Academy as of June 30, 2020, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2020 on our consideration of Multicultural 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 Multicultural 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 Multicultural Academy's internal control over financial reporting and compliance.

Maney Costerian PC

October 26, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Multicultural Academy's (Academy) annual financial report presents our discussion and analysis of the public school Academy's financial performance during the fiscal year that ended on June 30, 2020. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

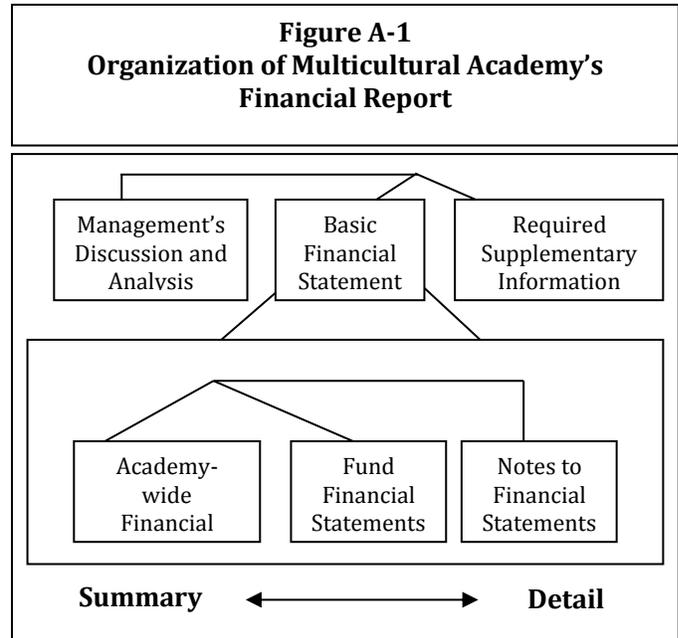
Financial Highlights

- The Academy had an increase in the fund balance in the general fund of \$124,372 compared to a budgeted increase of \$13,432. This gives the Academy a fund balance in the general fund of \$129,860.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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



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

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

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

	Academy-wide Statements	Governmental Funds
Scope	Entire Academy (except fiduciary funds)	All activities of the Academy that are not fiduciary
Required financial	* Statement of net position * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable

Academy-wide Statements

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the Academy’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

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

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

Fund Financial Statements

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

- Some funds are required by state law and by debt agreements.
- The Academy establishes other funds to show that it is properly using certain revenues (like food services).

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

Financial Analysis of the Academy as a Whole

Net position - the Academy's combined net position of \$425,178 increased by \$143,929 during the year. See Figures A-3 and A-4.

The total revenues decreased approximately 14.19% to \$1,785,915. This is mainly due to a decrease in per pupil foundation allowance and a decrease in enrollment for the year ended June 30, 2020. State aid foundation allowance included in revenue from state sources accounts for 67.85% of the Academy's revenue.

The total cost of instruction decreased approximately 24.38% to \$586,686. Total support service decreased by approximately 24.11% to \$860,698. Both decreases are due to a decrease in student enrollment.

The decrease in revenues and expenditures was primarily caused by the mandated school building closure in Match and reduced State funding received in August for the 19/20 school year due to the COVID Pandemic.

Academy Governmental Activities

Figure A-3		
Multicultural Academy Net Position		
	2020	2019
Current and other assets	\$ 607,335	\$ 591,567
Capital assets	263,619	292,359
Total assets	<u>870,954</u>	<u>883,926</u>
Other liabilities	445,665	527,566
Long-term liabilities	-	75,000
Total liabilities	<u>445,665</u>	<u>602,566</u>
Net position		
Net investment in capital assets	263,619	292,359
Restricted for special revenue (food service)	31,810	46,130
Unrestricted	<u>129,860</u>	<u>(57,129)</u>
Total net position	<u>\$ 425,289</u>	<u>\$ 281,360</u>

Figure A-4		
Changes in Multicultural Academy's Net Position		
	2020	2019
Revenues		
Program revenues		
Operating grants	<u>\$ 524,958</u>	<u>\$ 638,270</u>
General revenues		
State sources - unrestricted	1,211,713	1,379,610
Other local sources	4,549	6,871
ISD sources	<u>44,695</u>	<u>56,388</u>
Total general revenues	<u>1,260,957</u>	<u>1,442,869</u>
Total revenues	<u>1,785,915</u>	<u>2,081,139</u>
Expenses		
Instruction	586,686	775,851
Support services	860,698	1,095,230
Community services	1,622	2,678
Food service	146,840	97,805
Unallocated depreciation	<u>46,140</u>	<u>44,689</u>
Total expenses	<u>1,641,986</u>	<u>2,016,253</u>
Change in net position	<u>\$ 143,929</u>	<u>\$ 64,886</u>

Financial Analysis of the Academy's Funds

The Academy's general fund balance increased by \$124,372 to \$129,860. Instruction expenses decreased by \$189,165 and support service expenses decreased by \$216,031.

General Fund Budgetary Highlights

Over the course of the year, the Academy revised the general fund annual operating budget when necessary. Changes were made in both the revenue and expenditure which reflected anticipated increases in state aid and actual salary figures for staff.

While the Academy's final budget for the general fund anticipated revenues and other financing sources would exceed expenditures and other financing uses by \$13,432, the actual results for the year showed revenues over expenditures by \$124,372. Actual revenues and other financing sources were \$6,255 more than budgeted.

The actual total expenditures and financing uses were \$104,695 under budget. The primary cause of the variance was due to the Academy experiencing less than expected instructional and support expenditures.

Capital Asset and Debt Administration

Capital Assets

As of the year ended June 30, 2020, the Academy had invested \$263,619 in capital assets net of accumulated depreciation as summarized in Figure A-5. This amount represents a net decrease of \$28,740 from the beginning of the year. Total depreciation expense for the year was \$46,140. More detailed information about capital assets can be found in Note 3 to the financial statements.

The Academy's capital assets are as follows:

	2020		2019	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Technology	\$ 155,382	\$ 155,382	\$ -	\$ -
Buses and other vehicles	17,400	1,450	15,950	-
Furniture and fixtures	167,690	167,690	-	-
Leasehold improvements	474,181	226,512	247,669	292,359
Total	<u>\$ 814,653</u>	<u>\$ 551,034</u>	<u>\$ 263,619</u>	<u>\$ 292,359</u>

Debt Administration

The Academy paid back \$75,000 of long term debt to the management company. See Note 6 for more information.

Factors Bearing on the Academy's Future

At the time these financial statements were prepared and audited, the Academy was not aware of existing circumstances that could significantly affect its financial health in the future.

- The Academy adopted a general fund budget for 2020/2021 in which revenues exceed expenditures by \$29,642. Adjustments to the original budget will be made based on actual enrollment during the 2020/2021 school year.
- In September of 2020, the Academy borrowed \$400,000 under a state aid anticipation note at 3.45% to be repaid in full by August of 2020.

Contacting the Academy's Financial Management

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact Terry Farha at Universal Management Company, 5550 Platt Road, Ann Arbor, Michigan, 48108.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 51,344
Receivables	
Intergovernmental receivable	286,317
Prepays and deposits	269,674
Capital assets, net of accumulated depreciation	263,619
TOTAL ASSETS	870,954
LIABILITIES	
Accounts payable	239,861
Accrued oversight	7,099
Accrued salaries and related items	81,113
State aid anticipation notes payable	67,454
Unearned revenue	50,138
TOTAL LIABILITIES	445,665
NET POSITION	
Net investment in capital assets	263,619
Restricted for special revenue (food service)	31,810
Unrestricted	129,860
TOTAL NET POSITION	\$ 425,289

See notes to financial statements.

**MULTICULTURAL ACADEMY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020**

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Position
Governmental activities				
Instruction	\$ 586,686	\$ -	\$ 332,125	\$ (254,561)
Support services	860,698	-	60,197	(800,501)
Community services	1,622	-	116	(1,506)
Food service	146,840	-	132,520	(14,320)
Unallocated depreciation	46,140	-	-	(46,140)
Total governmental activities	<u>\$ 1,641,986</u>	<u>\$ -</u>	<u>\$ 524,958</u>	<u>(1,117,028)</u>
General revenues				
State sources - unrestricted				1,211,713
Local sources				4,549
ISD special education allocation				<u>44,695</u>
Total general revenues				<u>1,260,957</u>
CHANGE IN NET POSITION				143,929
Net position, beginning of year				<u>281,360</u>
Net position, end of year				<u><u>\$ 425,289</u></u>

See notes to financial statements.

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

	General Fund	Nonmajor Governmental (Special Revenue) Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 51,344	\$ -	\$ 51,344
Receivables			
Intergovernmental	286,317	-	286,317
Due from other funds	-	31,810	31,810
Prepaid expenditures and deposits	269,674	-	269,674
TOTAL ASSETS	\$ 607,335	\$ 31,810	\$ 639,145
DEFERRED INFLOWS OF RESOURCES, LIABILITIES, AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 167,304	\$ -	\$ 167,304
Accrued oversight	7,099	-	7,099
Other accrued expenses	70,301	-	70,301
Accrued salaries and related items	81,113	-	81,113
Unearned revenue	50,138	-	50,138
State aid anticipation notes payable	67,454	-	67,454
Accrued interest	2,256	-	2,256
Due to other funds	31,810	-	31,810
TOTAL LIABILITIES	477,475	-	477,475
FUND BALANCES			
Nonspendable			
Prepaid expenditures and deposits	269,674	-	269,674
Restricted for food service	-	31,810	31,810
Unassigned	(139,814)	-	(139,814)
TOTAL FUND BALANCES	129,860	31,810	161,670
TOTAL DEFERRED INFLOWS OF RESOURCES, LIABILITIES, AND FUND BALANCES	\$ 607,335	\$ 31,810	\$ 639,145

See notes to financial statements.

**MULTICULTURAL ACADEMY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2020**

Total governmental fund balance		\$ 161,670
Capital assets used in governmental activities are not financial resources and are not reported in the funds:		
The cost of the capital assets is	\$ 814,653	
Accumulated depreciation is	<u>(551,034)</u>	<u>263,619</u>
Net position of governmental activities		<u><u>\$ 425,289</u></u>

**MULTICULTURAL ACADEMY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
JUNE 30, 2020**

	General Fund	Nonmajor Governmental (Special Revenue) Fund	Total Governmental Funds
REVENUES			
Local sources	\$ 4,549	\$ -	\$ 4,549
State sources	1,432,484	706	1,433,190
Federal sources	184,050	131,814	315,864
Incoming transfers	44,695	-	44,695
TOTAL REVENUES	1,665,778	132,520	1,798,298
EXPENDITURES			
Current			
Instruction			
Basic programs	305,110	-	305,110
Added needs	281,576	-	281,576
Total instruction	586,686	-	586,686
Support services			
Pupil	59,330	-	59,330
Instructional staff	13,561	-	13,561
General administration	189,482	-	189,482
School administration	58,951	-	58,951
Business	12,145	-	12,145
Operation and maintenance	283,311	-	283,311
Transportation	195,884	-	195,884
Central	65,434	-	65,434
Total support services	878,098	-	878,098
Food service	-	146,840	146,840
Community services	1,622	-	1,622
Debt service			
Principal retirement	75,000	-	75,000
TOTAL EXPENDITURES	1,541,406	146,840	1,688,246
NET CHANGE IN FUND BALANCES	124,372	(14,320)	110,052
FUND BALANCES			
Beginning of year	5,488	46,130	51,618
End of year	\$ 129,860	\$ 31,810	\$ 161,670

See notes to financial statements.

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

Net change in fund balances total governmental funds	\$ 110,052
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>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	(46,140)
Capital outlay	17,400
<p>Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available.</p>	
Unavailable revenues, beginning of year	(12,383)
Unavailable revenues, end of year	-
<p>Proceeds and repayments of principal on long-term debt are other financing sources and expenditures in the governmental funds, but not in the statement of activities (where they are additions and reductions of liabilities).</p>	
Principal repayment on long-term obligations	75,000
Change in net position of governmental activities	\$ 143,929

**MULTICULTURAL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Government-wide Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Academy. The Academy currently does not have fiduciary activities. Governmental activities normally are supported by intergovernmental revenues.

Reporting Entity

Multicultural Academy (the "Academy") is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Bay Mills Community College is the authorizing governing body for the Academy and has contracted with the Academy to charter the public school academy through June 2024. Board members are approved by the authorizing governing body and have decision making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. The Academy receives funding from local, state, and federal sources and must comply with all of the requirements of these funding source entities. However, the Academy is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. In addition, the Academy's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board (GASB) Statements.

Basis of Presentation - Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds.

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

Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the Academy's funds. Separate statements for each fund category are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Academy reports the following *Major Governmental Fund*:

The *General Fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

The Academy reports the following *Nonmajor Governmental Fund*:

The *Special Revenue Fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The Academy accounts for its food service activity in a special revenue fund.

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 and advances to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

**MULTICULTURAL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation - Fund Financial Statements (continued)

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

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. 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.

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are generally 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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

State and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end).

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil 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 public school academies based on information supplied by the academies.

The state portion of the Foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The state revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as an intergovernmental receivable.

**MULTICULTURAL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting (continued)

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 governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received and accrued, which are not expended by the close of the fiscal year are recorded as unearned revenue.

All other revenue items are generally considered to be measurable and available only when cash is received by the Academy.

Budgetary Information

Budgetary Basis of Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue fund.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods or services (i.e., purchase orders, contracts, and commitments). The Academy does not utilize encumbrance accounting.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Chief Administrative Officer submits to the Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
- b. Prior to July 1, the budget is legally adopted by Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. 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 are noted in the required supplementary information section.
- c. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Directors.
- d. The budget was amended during the year with supplemental appropriations, the last one approved prior to year end June 30, 2020. The Academy does not consider these amendments to be significant.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash and Cash Equivalents

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

**MULTICULTURAL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Investments

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. Standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity.

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 not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. District or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above

Prepays

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital Assets

Capital assets, as summarized below, are reported in the government-wide financial statements. Capital assets are defined by the Academy as assets with an initial, individual cost of more than \$1,000 and a useful life in excess of one year. Group purchases are evaluated on a case by case basis. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Land and construction in progress, if any, are not depreciated. Capital assets of the Academy are depreciated using the straight line method over the following estimated useful lives:

<u>Capital Asset Classes</u>	<u>Lives</u>
Technology	3 - 5
Buses and other vehicles	5 - 10
Furniture and fixtures	7
Leasehold improvements	10 - 15

**MULTICULTURAL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net 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 for reporting in this category.

In addition to liabilities, the statement of net 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 for reporting in this category

Net Position Flow Assumption

Sometimes the Academy will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Academy's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

Fund Balance Flow Assumptions

Sometimes the Academy will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Academy's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Academy itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Academy's highest level of decision-making authority. The Board of Directors is the highest level of decision-making authority for the Academy that can, by adoption of a board action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the Board action remains in place until a similar action is taken (the adoption of another board action) to remove or revise the limitation.

**MULTICULTURAL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Fund Balance Policies (continued)

Amounts in the assigned fund balance classification are intended to be used by the Academy for specific purposes but do not meet the criteria to be classified as committed. Intent can be expressed by the Board of Directors or by an official or body to which the Board of Directors delegates authority. The Board of Directors may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Revenues and Expenditures/Expenses

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. Unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related debt. Bond issuance costs are reported as expenditures in the year in which they are incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE 2 - CASH DEPOSITS - CREDIT RISK

Cash is held in the name of the Academy. These deposits are subject to custodial credit risk. This is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy minimizes custodial credit risk on deposits by assessing the credit worthiness of the individual institutions in which it deposits funds. The amount of deposits with each institution is assessed to determine the level of risk it may pose to the Academy in relation to deposits in excess of insured amounts. As of June 30, 2020, none of the Academy's bank balance of \$50,844 was exposed to custodial credit risk because it was uninsured or uncollateralized.

**MULTICULTURAL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - CAPITAL ASSETS

A summary of changes in the Academy's capital assets follows:

	Balance <u>July 1, 2019</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2020</u>
Governmental activities				
Capital assets, being depreciated				
Technology	\$ 155,382	\$ -	\$ -	\$ 155,382
Buses and other vehicles	-	17,400	-	17,400
Furniture and fixtures	167,690	-	-	167,690
Leasehold improvements	474,181	-	-	474,181
	<u>797,253</u>	<u>17,400</u>	<u>-</u>	<u>814,653</u>
Total capital assets being depreciated				
Accumulated depreciation				
Technology	155,382	-	-	155,382
Buses and other vehicles	-	1,450	-	1,450
Furniture and fixtures	167,690	-	-	167,690
Leasehold improvements	181,822	44,690	-	226,512
	<u>504,894</u>	<u>46,140</u>	<u>-</u>	<u>551,034</u>
Total accumulated depreciation				
Net governmental capital assets	<u>\$ 292,359</u>	<u>\$ (28,740)</u>	<u>\$ -</u>	<u>\$ 263,619</u>

Depreciation for the fiscal year ended June 30, 2020 amounted to \$46,140. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 4 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2020 consist of the following:

State aid	\$ 239,527
Federal and state grants	<u>46,790</u>
	<u>\$ 286,317</u>

Intergovernmental receivable include amounts due from federal, state and local sources for various projects and programs and are considered fully collectible by management. Because of the Academy's favorable collection experience on intergovernmental receivables, no allowance for doubtful accounts has been recorded.

**MULTICULTURAL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - NOTES PAYABLE - STATE AID ANTICIPATION NOTE

At June 30, 2020, the Academy has \$67,454 outstanding from its state aid anticipation note dated September 2019. The note, which has an interest rate of 3.65%, matures August 2020. The proceeds of the note were used to fund Academy operations. In the event of a default on the note, the state may impose a penalty interest rate at the state's discretion, accelerate the repayment terms. The note is secured by the full faith and credit of the Academy as well as future state school aid payments.

Balance July 1, 2019	Additions	Payments	Balance June 30, 2020
\$ 71,036	\$ 376,000	\$ 379,582	\$ 67,454

NOTE 6 - LONG-TERM OBLIGATIONS

The following is a summary of the long-term obligation transactions of the Academy for the year ended June 30, 2020.

Balance, July 1, 2019	\$ 75,000
Repayments	(75,000)
Balance, June 30, 2020	\$ -

NOTE 7 - OVERSIGHT FEES

The Academy pays an administrative oversight fee of 3% of its state school aid to the Bay Mills Community College, as set forth by contract, to reimburse the College Board for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2020, the Academy incurred expense of approximately \$42,000 for oversight fees.

NOTE 8 - MANAGEMENT AGREEMENT

The Academy has a management agreement with Universal Management Company, LLC (UMC) for operation of the Academy through June 30, 2023. Under the terms of the management agreements, total compensation paid for operation of the Academy was approximately \$154,000 to UMC for the fiscal year 2020. At June 30, 2020, approximately \$94,000 was prepaid to UMC for management fees.

NOTE 9 - PURCHASED SERVICES

The Academy leased all employee services from Universal Management Company, LLC (UMC). Salaries, retirement, social security, health insurance, and unemployment taxes were the responsibility of UMC. The Academy has a prepaid balance of \$75,000 for purchased services at June 30, 2020.

**MULTICULTURAL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 - BUILDING LEASE

The Academy leases a building with related parties (see Note 11) under a non-cancelable operating lease which expires the same date as the Academy’s charter agreement, currently, June 2024. The lease payments are to be made in monthly installments based on 18% of state aid discretionary revenue for the applicable school year, not to exceed \$342,000 per school year. The lease agreement contains a purchase option effective through June 30, 2024, which allows the Academy to purchase the leased property for the fair market value on the option date. Amounts paid by the Academy for improvements will reduce the amount of the potential purchase price if the option to purchase is exercised. The building lease expense for the year ended June 30, 2020 was \$202,919.

Future minimum rental payments estimated based on current enrollment levels are as follows:

Year Ending <u>June 30</u>	
2021	\$ 223,684
2022	223,684
2023	223,684
2024	<u>223,684</u>
	<u><u>\$ 894,736</u></u>

NOTE 11 - CONCENTRATION OF EXPENDITURES - RELATED PARTY TRANSACTIONS

The Academy leases facilities and equipment as well as purchases management and food services from a group of related entities. The types of purchases and amounts for the fiscal year ended June 30, 2020 are as follows:

Entity	Transaction Type	Building	Storage	Total
Leasing transactions				
Yaser Farha for the benefit of Farha and Associates - Ann Arbor, LLC	Lease agreement	<u>\$ 202,919</u>	<u>\$ 2,631</u>	<u>\$ 205,550</u>
Other related party transactions				
Universal Management Company	Management services			\$ 124,006
Universal Management Company	Personnel costs			781,783
Universal Management Company	Expense reimbursements			71,609
Farha & Associates - Ann Arbor, LLC	Prepaid lease			76,605
Universal Management Company	Prepaid personnel costs and other			168,530
Universal Management Company	Accounts payable			20,029

NOTE 12 - INTERFUND RECEIVABLES AND PAYABLES

Inter-fund payable and receivable balances at June 30, 2020 are as follows:

Receivable Fund		Payable Fund	
Special revenue fund	\$ 31,810	General fund	\$ 31,810

**MULTICULTURAL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 12 - INTERFUND RECEIVABLES AND PAYABLES (continued)

The outstanding balances between funds result mainly from the time lag between the dates that (1) inter-fund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

NOTE 13 - RISK MANAGEMENT

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. To minimize the risk, the Academy carries commercial insurance.

NOTE 14 - CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustments by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Academy expects such amounts, if any, to be immaterial.

NOTE 15 - SUBSEQUENT EVENT

The Academy borrowed \$400,000 under a state aid anticipation note in September 2020 at 3.45% to be repaid monthly from October 2020 through August 2021.

NOTE 16 - 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.

REQUIRED SUPPLEMENTARY INFORMATION

**MULTICULTURAL ACADEMY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2020**

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Local sources	\$ 15,000	\$ 4,550	\$ 4,549	\$ (1)
State sources	1,843,881	1,402,553	1,432,484	29,931
Federal sources	150,996	208,104	184,050	(24,054)
Incoming transfers	50,288	44,316	44,695	379
TOTAL REVENUES	<u>2,060,165</u>	<u>1,659,523</u>	<u>1,665,778</u>	<u>6,255</u>
EXPENDITURES				
Current				
Instruction				
Basic programs	508,516	300,983	305,110	(4,127)
Added needs	310,859	363,066	281,576	81,490
Total instruction	<u>819,375</u>	<u>664,049</u>	<u>586,686</u>	<u>77,363</u>
Support services				
Pupil	54,774	59,820	59,330	490
Instructional staff	40,871	30,207	13,561	16,646
General administration	248,792	188,227	189,482	(1,255)
School administration	131,978	59,768	58,951	817
Business	15,808	15,553	12,145	3,408
Operation and maintenance	390,305	301,344	283,311	18,033
Transportation	187,126	182,222	195,884	(13,662)
Central	69,564	66,644	65,434	1,210
Total support services	<u>1,139,218</u>	<u>903,785</u>	<u>878,098</u>	<u>25,687</u>
Current				
Community services	3,601	1,633	1,622	11
Building improvements	176	-	-	-
Debt service				
Principal retirement	80,000	75,000	75,000	-
TOTAL EXPENDITURES	<u>2,042,370</u>	<u>1,644,467</u>	<u>1,541,406</u>	<u>103,061</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>17,795</u>	<u>15,056</u>	<u>124,372</u>	<u>109,316</u>
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	<u>(12,554)</u>	<u>(1,624)</u>	-	<u>1,624</u>
NET CHANGE IN FUND BALANCE	<u>\$ 5,241</u>	<u>\$ 13,432</u>	124,372	<u>\$ 110,940</u>
FUND BALANCE				
Beginning of year			<u>5,488</u>	
End of year			<u>\$ 129,860</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***

To the Board of Directors
Multicultural Academy

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Multicultural Academy as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Multicultural Academy's basic financial statements and have issued our report thereon dated October 26, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Maney Costeiran PC

October 26, 2020