
Dr. Joseph F. Pollack Academic Center of
Excellence

Financial Report
with Supplemental Information
June 30, 2018

Independent Auditor's Report	1-2
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	3-4
Management's Discussion and Analysis	5-9
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 the Balance Sheet to the Statement of Net Position	13
Statement of Revenue, Expenditures, and Changes in Fund Balances	14
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities	15
Fiduciary Funds - Statement of Fiduciary Assets and Liabilities	16
Notes to Financial Statements	17-24
Required Supplemental Information	25
Budgetary Comparison Schedule - General Fund	26
Other Supplemental Information	27
Schedule of Bonded Indebtedness	28

Independent Auditor's Report

To the Board of Directors
Dr. Joseph F. Pollack Academic Center of Excellence

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major funds of Dr. Joseph F. Pollack Academic Center of Excellence (the "Academy") as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise Dr. Joseph F. Pollack Academic Center of Excellence'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 and the major funds of Dr. Joseph F. Pollack Academic Center of Excellence as of June 30, 2018 and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Dr. Joseph F. Pollack Academic Center of Excellence

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the major fund budgetary comparison schedules 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, which 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 supplemental 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Dr. Joseph F. Pollack Academic Center of Excellence's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2018 on our consideration of Dr. Joseph F. Pollack Academic Center of Excellence's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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 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 Dr. Joseph F. Pollack Academic Center of Excellence's internal control over financial reporting and compliance.



September 28, 2018

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To Management and the Board of Directors
Dr. Joseph F. Pollack Academic Center of Excellence

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 Dr. Joseph F. Pollack Academic Center of Excellence (the "Academy"), which comprise the basic financial statements of the governmental activities and the major funds of the Academy as of and for the year ended June 30, 2018 and the related notes to the Academy's basic financial statements, and have issued our report thereon dated September 28, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 Academy's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

To Management and the Board of Directors
Dr. Joseph F. Pollack Academic Center of Excellence

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.

Plante & Moran, PLLC

September 28, 2018

This section of Dr. Joseph F. Pollack Academic Center of Excellence's (the "Academy") annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2018. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those financial statements. These statements are organized so the reader can understand Dr. Joseph F. Pollack Academic Center of Excellence 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 Debt Service Fund. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the Academy acts solely as an agent for the benefit of students and parents. This report is composed of the following elements:

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

Basic Financial Statements

Academy-wide Financial Statements

Fund Financial Statements

Notes to Financial Statements

Required Supplemental Information

Budgetary Information for General Fund

Other Supplemental Information

Reporting the Academy as a Whole - Academy-wide Financial Statements

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets, deferred outflows of resources, and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Academy's net position - the difference between assets plus deferred outflows of resources and liabilities as reported in the statement of net position - as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net position - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenue and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the Academy.

The statement of net position and the statement of activities report the governmental activities for the Academy, which encompass all of the Academy's services, including instruction, support services, community services, athletics, and interest. Unrestricted state aid (foundation allowance revenue) and state and federal grants finance most of these activities.

Dr. Joseph F. Pollack Academic Center of Excellence

Management's Discussion and Analysis (Continued)

Reporting the Academy's Most Significant Funds - Fund Financial Statements

The Academy's fund financial statements provide detailed information about the most significant funds - not the Academy as a whole. Some funds are required to be established by state law and by bond covenants. However, the Academy establishes other funds to help it control and manage money for particular purposes (the Debt Service Fund is an example).

Governmental Funds

Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Academy and the services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in a reconciliation.

The Academy as Trustee - Reporting the Academy's Fiduciary Responsibilities

The Academy is the trustee, or fiduciary, for its student activity funds. All of the Academy's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. We exclude these activities from the Academy's other financial statements because the Academy cannot use these assets to finance its operations. The Academy is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The Academy as a Whole

Recall that the statement of net position provides the perspective of the Academy as a whole. The following table provides a summary of the Academy's net position as of June 30, 2018 and 2017:

	Governmental Activities	
	2018	2017
	(in thousands)	
Assets		
Current and other assets	\$ 2,843.4	\$ 2,686.9
Capital assets	6,175.4	6,417.4
Total assets	9,018.8	9,104.3
Deferred Outflows of Resources	64.5	67.4
Liabilities		
Current liabilities	645.8	656.5
Noncurrent liabilities	7,666.6	7,804.3
Total liabilities	8,312.4	8,460.8
Net Position		
Net investment in capital assets	(1,419.0)	(1,290.2)
Restricted	54.4	51.9
Unrestricted	2,135.5	1,949.2
Total net position	\$ 770.9	\$ 710.9

Dr. Joseph F. Pollack Academic Center of Excellence

Management's Discussion and Analysis (Continued)

The above analysis focuses on net position. The change in net position of the Academy's governmental activities is discussed below. The Academy's net position was \$770,896 at June 30, 2018. Net investment in capital assets totaling \$(1,419,032) compares the original cost, less depreciation of the Academy's capital assets, to long-term debt used to finance the acquisition of those assets. The debt will be repaid from General Fund revenue and Debt Service Fund cash as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Academy's ability to use that net position for day-to-day operations. The remaining amount of net position \$2,135,563 was unrestricted.

The \$2,135,563 in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The unrestricted net position balance enables the Academy to meet working capital and cash flow requirements, as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the Academy as a whole are reported in the condensed statement of activities below, which shows the changes in net position for the years ended June 30, 2018 and 2017:

	Governmental Activities	
	2018	2017
	(in thousands)	
Revenue		
Program revenue - Operating grants	\$ 1,348.8	\$ 1,134.7
General revenue:		
State aid not restricted to specific purposes	6,265.7	6,235.3
Other	11.5	13.7
Total revenue	7,626.0	7,383.7
Expenses		
Instruction	3,754.2	3,675.9
Support services	2,809.8	2,679.8
Athletics	31.5	27.3
Community services	57.8	57.3
Debt service	626.0	634.8
Depreciation expense (unallocated)	286.7	285.2
Total expenses	7,566.0	7,360.3
Change in Net Position	60.0	23.4
Net Position - Beginning of year	710.9	687.5
Net Position - End of year	\$ 770.9	\$ 710.9

As reported in the statement of activities, the cost of all of our governmental activities this year was \$7,565,941. Certain activities were partially funded by other governments and organizations that subsidized certain programs with grants and contributions (\$1,348,810). We paid for the remaining "public benefit" portion of our governmental activities with \$6,265,738 in state foundation allowance and with our other revenue (i.e., interest and general entitlements).

The Academy experienced an increase in net position of \$60,011. The increase in net position is due to the Academy's ability to manage support service costs.

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

Dr. Joseph F. Pollack Academic Center of Excellence

Management's Discussion and Analysis (Continued)

The Academy's Funds

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

As the Academy completed this year, the governmental funds reported a combined fund balance of \$2,349,971, which is an increase of \$164,842 from last year.

In the General Fund, our principal operating fund, the change is mainly due to a continued reduction in human resource service costs and fees.

General Fund Budgetary Highlights

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted in June 2018. 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.

There were no significant revisions made to the 2017-2018 General Fund original budget.

There were no significant variances between the final budget and actual amounts.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2018, the Academy had \$6,175,412 invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents a net decrease (including additions, disposals, and depreciation) of approximately \$242,000, or 3.8 percent, from last year.

	<u>2018</u>	<u>2017</u>
Land	\$ 326,600	\$ 326,600
Buildings and improvements	5,494,455	5,681,984
Furniture and equipment	119,423	139,516
Land improvements	234,934	269,250
	<u>6,175,412</u>	<u>6,417,350</u>
Total capital assets - Net of accumulated depreciation	<u>\$ 6,175,412</u>	<u>\$ 6,417,350</u>

This year's additions included furniture, equipment, and building improvements. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the Academy had \$7,645,000 in bonds outstanding versus \$7,775,000 in the previous year - a change of 1.7 percent. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Dr. Joseph F. Pollack Academic Center of Excellence

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

Our board and administration consider many factors when setting the Academy's 2018-2019 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 2018-2019 budget was adopted in June 2018 based on an estimate of students who will enroll in September 2018. Approximately 82.0 percent of total General Fund revenue is from the foundation allowance. Under state law, the Academy cannot access additional property tax revenue for general operations. 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 2018 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2018/2019 budget. Once the final student count and related per-pupil funding are validated, state law requires the academy to amend the budget if actual Academy resources are not sufficient to fund original appropriations.

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 revenue to fund its appropriation to the Academy. The State periodically holds a revenue-estimating conference to estimate revenue. Based on the results of the most recent conference, it is uncertain whether the state funds are sufficient to fund the appropriation.

Dr. Joseph F. Pollack Academic Center of Excellence

Statement of Net Position

June 30, 2018

	<u>Governmental Activities</u>
Assets	
Cash (Note 4)	\$ 1,193,940
Receivables	1,395,271
Prepaid costs	47,461
Restricted assets (Note 2)	206,721
Capital assets - Net (Note 6)	<u>6,175,412</u>
Total assets	9,018,805
Deferred Outflows of Resources - Deferred charges on bond refunding (Note 7)	64,454
Liabilities	
Accounts payable	73,427
Accrued liabilities and other:	
Accrued payroll-related liabilities	385,803
Accrued interest payable	152,356
Other current liabilities	34,192
Long-term liabilities:	
Due within one year (Note 7)	150,808
Due in more than one year (Note 7)	<u>7,515,777</u>
Total liabilities	<u>8,312,363</u>
Net Position	
Net investment in capital assets	(1,419,032)
Restricted - Debt service	54,365
Unrestricted	<u>2,135,563</u>
Total net position	<u><u>\$ 770,896</u></u>

Dr. Joseph F. Pollack Academic Center of Excellence

Statement of Activities

Year Ended June 30, 2018

Functions/Programs	Program Revenue		Governmental	
	Expenses	Charges for Services	Operating Grants and Contributions	
			Net (Expense) Revenue and Changes in Net Position	
Primary government - Governmental activities:				
Instruction	\$ 3,754,208	\$ -	\$ 1,114,918	\$ (2,639,290)
Support services	2,809,773	-	233,892	(2,575,881)
Athletics	31,481	-	-	(31,481)
Community services	57,757	-	-	(57,757)
Interest	625,970	-	-	(625,970)
Depreciation expense (unallocated) (Note 6)	286,752	-	-	(286,752)
Total primary government	\$ 7,565,941	\$ -	\$ 1,348,810	(6,217,131)
General revenue:				
State aid not restricted to specific purposes				6,265,738
Other				11,404
Total general revenue				<u>6,277,142</u>
Change in Net Position				60,011
Net Position - Beginning of year				<u>710,885</u>
Net Position - End of year				<u>\$ 770,896</u>

Dr. Joseph F. Pollack Academic Center of Excellence

**Governmental Funds
Balance Sheet**

June 30, 2018

	General Fund	Debt Service Fund	Total Governmental Funds
Assets			
Cash (Note 4)	\$ 1,193,940	\$ -	\$ 1,193,940
Receivables - Due from other governments	1,395,271	-	1,395,271
Prepaid costs	47,461	-	47,461
Restricted assets (Note 2)	-	206,721	206,721
	<u>2,636,672</u>	<u>206,721</u>	<u>2,843,393</u>
Total assets	\$ 2,636,672	\$ 206,721	\$ 2,843,393
Liabilities			
Accounts payable	\$ 68,757	\$ -	\$ 68,757
Due to other funds (Note 5)	4,670	-	4,670
Accrued liabilities and other:			
Accrued payroll-related liabilities	385,803	-	385,803
Other current liabilities	34,192	-	34,192
	<u>493,422</u>	<u>-</u>	<u>493,422</u>
Total liabilities	493,422	-	493,422
Fund Balances			
Nonspendable - Prepaid costs	47,461	-	47,461
Restricted - Debt service	-	206,721	206,721
Unassigned	2,095,789	-	2,095,789
	<u>2,143,250</u>	<u>206,721</u>	<u>2,349,971</u>
Total fund balances	2,143,250	206,721	2,349,971
Total liabilities and fund balances	\$ 2,636,672	\$ 206,721	\$ 2,843,393

Dr. Joseph F. Pollack Academic Center of Excellence

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Position

June 30, 2018

Fund Balances Reported in Governmental Funds	\$ 2,349,971
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 capital assets	8,838,558
Accumulated depreciation	<u>(2,663,146)</u>
Net capital assets used in governmental activities	6,175,412
Deferred outflows related to bond refundings are not reported in the funds	64,454
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds	(7,658,898)
Accrued interest is not due and payable in the current period and is not reported in the funds	(152,356)
Some employee fringe benefits, such as employee compensated absences, are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	<u>(7,687)</u>
Net Position of Governmental Activities	<u><u>\$ 770,896</u></u>

Dr. Joseph F. Pollack Academic Center of Excellence

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2018

	General Fund	Debt Service Fund	Total Governmental Funds
Revenue			
Local sources	\$ 35,874	\$ 440	\$ 36,314
State sources	6,915,751	-	6,915,751
Federal sources	648,002	-	648,002
Interdistrict sources	25,885	-	25,885
Total revenue	<u>7,625,512</u>	<u>440</u>	<u>7,625,952</u>
Expenditures			
Current:			
Instruction	3,768,206	-	3,768,206
Support services	2,766,511	-	2,766,511
Athletics	31,481	-	31,481
Community services	57,546	-	57,546
Debt service:			
Principal (Note 7)	4,000	130,000	134,000
Interest	120	625,253	625,373
Capital outlay	95,891	-	95,891
Total expenditures	<u>6,723,755</u>	<u>755,253</u>	<u>7,479,008</u>
Excess of Revenue Over (Under) Expenditures	901,757	(754,813)	146,944
Other Financing Sources (Uses)			
Proceeds of capital lease available (Note 7)	17,898	-	17,898
Transfers in (Note 5)	-	754,951	754,951
Transfers out (Note 5)	(754,951)	-	(754,951)
Total other financing (uses) sources	<u>(737,053)</u>	<u>754,951</u>	<u>17,898</u>
Net Change in Fund Balances	164,704	138	164,842
Fund Balances - Beginning of year	<u>1,978,546</u>	<u>206,583</u>	<u>2,185,129</u>
Fund Balances - End of year	<u><u>\$ 2,143,250</u></u>	<u><u>\$ 206,721</u></u>	<u><u>\$ 2,349,971</u></u>

Dr. Joseph F. Pollack Academic Center of Excellence

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities

Year Ended June 30, 2018

Net Change in Fund Balance Reported in Governmental Funds	\$ 164,842
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capitalized capital outlay	44,814
Depreciation expense	<u>(286,752)</u>
Total	(241,938)
Issuing a capital lease provides current financial resources to governmental funds, but increases long-term liabilities in the statement of net position	(17,898)
Repayments of bond principal and capital lease obligations are expenditures in the governmental funds, but not in the statement of activities (where they reduces long-term debt); amortization of discounts and outflows related to bond refundings are not expenses in the governmental funds	131,046
Interest expense is recognized in the Academy-wide statements as it accrues	2,357
Some employee costs (pension, OPEB, compensated absences) do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	<u>21,602</u>
Change in Net Position of Governmental Activities	<u><u>\$ 60,011</u></u>

Dr. Joseph F. Pollack Academic Center of Excellence

Fiduciary Funds
Statement of Fiduciary Assets and Liabilities

June 30, 2018

	Student Activities Agency Fund
Assets - Due from other funds (Note 5)	<u><u>\$ 4,670</u></u>
Liabilities - Due to student groups	<u><u>\$ 4,670</u></u>

June 30, 2018

Note 1 - Nature of Business

Dr. Joseph F. Pollack Academic Center of Excellence (the "Academy") is a school district in the state of Michigan that provides educational services to students.

Note 2 - Significant Accounting Policies

Accounting and Reporting Principles

The Academy follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies used by the Academy:

Reporting Entity

The Academy was formed as a charter school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994.

On June 21, 1999, the Academy entered into a contract with Eastern Michigan University to charter a public school academy, which has been extended through June 30, 2019. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the state constitution. Management believes the charter will be renewed in the ordinary course of business.

The Eastern Michigan University board of trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Eastern Michigan University board of trustees 3 percent of state aid as administrative fees. The total administrative fees for the year ended June 30, 2018 paid to the Eastern Michigan University board of trustees were \$187,972.

Report Presentation

Governmental accounting principles require that financial reports include two different perspectives - the Academy-wide perspective and the fund-based perspective. The Academy-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 primary government. The Academy-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statements also present a schedule of reconciling these amounts to the modified accrual-based presentation found in the fund-based statements. For the most part, the effect of interfund activity has been removed from these statements. All of the Academy's government-wide activities are considered governmental activities.

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

Separate financial statements are provided for governmental funds and the fiduciary fund, even though the latter are excluded from the Academy-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Note 2 - Significant Accounting Policies (Continued)

Basis of Accounting

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the Academy has spent its resources.

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Revenue is not recognized until it is collected, or collected soon enough after the end of the year that it is available to pay for obligations outstanding at the end of the year. For this purpose, the Academy considers amounts collected within 60 days of year end to be available for recognition. Revenue not meeting this definition is classified as a deferred inflow of resources.

Fiduciary funds use the economic resources measurement focus and the full 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.

Fund Accounting

The Academy accounts for its various activities in several different funds in order to demonstrate accountability for how it spends certain resources; separate funds allow the Academy to show the particular expenditures for which specific revenue is used. The various funds are aggregated into broad fund types:

Governmental Funds

Governmental funds include all activities that provide general governmental services that are not business-type activities. Governmental funds can include the General Fund, special revenue funds, debt service funds, capital project funds, and permanent funds. The Academy reports the following funds as "major" governmental funds:

- The General Fund is the primary operating fund because it accounts for all financial resources used to provide government services other than those specifically assigned to another fund.
- The Debt Service Fund is used to record transfers from the General Fund and interest revenue and the payments of interest, principal, and other expenditures on long-term debt.

Fiduciary Fund

Additionally, the Academy reports the following fund type:

- The Academy presently maintains the Student Activities Agency Fund to record the transactions of student groups for school and school-related purposes. The fund is segregated and held in trust for the students.

Interfund Activity

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, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Note 2 - Significant Accounting Policies (Continued)

Furthermore, 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, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

Specific Balances and Transactions

Cash

Cash includes cash on hand and demand deposits.

Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds."

The Academy considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Prepaid Cost

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

Restricted Assets

Restricted assets represent amounts over which third parties have imposed restrictions that cannot be changed by the board. The balance for the restricted asset account related to the Debt Service Fund is \$206,721 at June 30, 2018.

Capital Assets

Capital assets, which include land, buildings and additions, and furniture and equipment, are reported in the applicable governmental activities column in the Academy-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure-type assets.

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

	Depreciable Life - Years
Land improvements	20
Buildings and improvements	10 - 40
Furniture and equipment	3 - 10

Long-term Obligations

In the Academy-wide financial statements, long-term debt is reported as a liability in the statement of net position. Bond discounts are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, the face amount of the debt issued is reported as other financing uses. Discounts received on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Note 2 - Significant Accounting Policies (Continued)

Deferred Outflows 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 represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense/expenditure) until then.

Net Position

Net position of the Academy is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

Net Position Flow Assumption

The Academy will sometimes fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the Academy-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

The Academy will sometimes 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. Furthermore, 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 nonspendable fund balance component represents amounts that are not in spendable form or are legally or contractually required to be maintained intact. Restricted fund balance represents amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose. 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 passing a resolution prior to the end of the fiscal year, commit fund balance. Once passed, the limitation imposed by the resolution remains in place until a similar action is taken (the passing of another resolution) to remove or revise the limitation.

Note 2 - Significant Accounting Policies (Continued)

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes, but do not meet the criteria to be classified as committed. The Academy has, by resolution, authorized the Board of Directors to assign fund balance. 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.

Grants and Contributions

The Academy receives federal, state, and local grants. Revenue from grants and contributions is recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue.

Compensated Absences

It is the Academy's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Sick pay is accrued for the estimated amount that the Academy will pay upon employment termination; vacation pay is accrued when incurred. Both of these are reported in the Academy-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. Generally, the funds that report each employee's compensation are used to liquidate the obligations.

Upcoming Accounting Pronouncements

In January 2017, the Governmental Accounting Standards Board issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The Academy is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Academy's financial statements for the year ending June 30, 2020.

Note 3 - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund except that capital outlay expenditures are allocated among all expenditure categories. All annual appropriations lapse at fiscal year end.

The Academy formally adopted a General Fund budget by line item for the fiscal year ended June 30, 2018. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. Amendments were made during the year to refine enrollment and related spending projections.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Note 3 - Stewardship, Compliance, and Accountability (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds

The Academy did not have significant expenditure budget variances.

Note 4 - Deposits and Investments

State statutes and the Academy's investment policy authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Academy is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Academy's deposits are in accordance with statutory authority. As of June 30, 2018, the Academy does not have any investments.

The Academy has designated two banks for the deposit of its funds.

The Academy's deposits consist solely of checking and savings accounts at local banks and money market funds in accordance with the Academy's investment policy. The Academy's cash is subject to custodial credit risk, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level be used for the Academy's deposits. At year end, the Academy had \$960,612 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Academy evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances consists of amounts due to the Student Activities Agency Fund from the General Fund of \$4,670.

This balance results from the time lag from when payments between funds are made.

Interfund transfers reported in the fund financial statements are composed of transfers to the Debt Service Fund from the General Fund of \$754,951. Transfers to the Debt Service Fund provided funding for debt service.

Note 6 - Capital Assets

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

Governmental Activities

	Balance July 1, 2017	Additions	Balance June 30, 2018
Capital assets not being depreciated - Land	\$ 326,600	\$ -	\$ 326,600
Capital assets being depreciated:			
Land improvements	410,171	-	410,171
Buildings and improvements	7,002,642	7,898	7,010,540
Furniture and equipment	1,054,331	36,916	1,091,247
Subtotal	8,467,144	44,814	8,511,958
Accumulated depreciation:			
Land improvements	140,920	34,317	175,237
Buildings and improvements	1,320,659	195,426	1,516,085
Furniture and equipment	914,815	57,009	971,824
Subtotal	2,376,394	286,752	2,663,146
Net capital assets being depreciated	6,090,750	(241,938)	5,848,812
Net capital assets	<u>\$ 6,417,350</u>	<u>\$ (241,938)</u>	<u>\$ 6,175,412</u>

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

Note 7 - Long-term Debt

The Academy issued limited obligation revenue bonds to provide for the acquisition of major capital facilities. Bonds are direct obligations and pledge a portion of the state revenue of the Academy. In the Academy's 2017-2018 year, 20 percent of the monthly state aid payment is deposited directly into the Debt Service Fund to finance the debt service payments. The bonds are secured by a mortgage on the property.

Per the bond agreement, the Academy must meet the stated minimum cash-on-hand requirement and the repair and replacement requirement for all subsequent years during the bond repayment period. In the event of noncompliance, the Academy must seek out a management consultant. At June 30, 2018, the Academy has complied with all required covenants.

The current year expense for general obligation deferred charges on bond refunding is \$2,954 with a balance of \$64,454 at June 30, 2018.

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds, Series 2010	\$ 7,775,000	\$ -	\$ (130,000)	\$ 7,645,000	\$ 140,000
Capital leases	-	17,898	(4,000)	13,898	3,121
Compensated absences	29,289	-	(21,602)	7,687	7,687
Total long-term debt	<u>\$ 7,804,289</u>	<u>\$ 17,898</u>	<u>\$ (155,602)</u>	<u>\$ 7,666,585</u>	<u>\$ 150,808</u>

Note 7 - Long-term Debt (Continued)

Debt Service Requirements to Maturity

Annual debt service requirements to maturity for the above bonds are as follows:

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
2019	\$ 140,000	\$ 609,425	\$ 749,425
2020	150,000	599,275	749,275
2021	160,000	588,400	748,400
2022	175,000	575,600	750,600
2023	190,000	561,600	751,600
2024-2028	1,190,000	2,555,600	3,745,600
2029-2033	1,745,000	1,999,000	3,744,000
2034-2038	2,560,000	1,180,400	3,740,400
2039-2040	1,335,000	162,400	1,497,400
Total	<u>\$ 7,645,000</u>	<u>\$ 8,831,700</u>	<u>\$ 16,476,700</u>

Governmental Activities

Bonds consist of the following:

\$1,035,000 serial bonds due in annual installments of \$140,000 to \$150,000 through April 1, 2020; interest at 7.25 percent	\$ 290,000
\$2,335,000 serial bonds due in annual installments of \$160,000 to \$320,000 from April 1, 2021 through April 1, 2030; interest at 8.0 percent	2,335,000
\$5,020,000 serial bonds due in annual installments of \$345,000 to \$695,000 from April 1, 2031 through April 1, 2040; interest at 8.0 percent	<u>5,020,000</u>
Total bonded debt	<u>\$ 7,645,000</u>

Capital Leases

During the year, the Academy entered into a capital lease for security cameras that expires in 2022. The total original capital lease liability is \$17,898 with an interest rate of 7.19 percent and annual payments of \$4,120. The balance of the capital lease liability as of June 30, 2018 is \$13,898. Total cost basis of \$17,898 and accumulated depreciation of \$1,790 is included in capital assets at June 30, 2018.

Note 8 - Employee Leasing Company

The Academy entered into an independent contractor agreement for human resource and payroll processing services with Human Resources Expert 624, Inc. (d/b/a Employees Only, Inc.) through December 31, 2019. The Academy subcontracts all employees from Employees Only, Inc. (EOI) and reimburses EOI for all payroll and benefit costs. The Academy incurred administrative fees of \$85,332 for the year ended June 30, 2018 related to this agreement.

Note 9 - 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. Employee-related claims are covered by insurance policies held by the employee leasing company. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since inception.

Required Supplemental Information

Dr. Joseph F. Pollack Academic Center of Excellence

Required Supplemental Information Budgetary Comparison Schedule - General Fund

Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	(Under) Over Final Budget
Revenue				
Local sources	\$ 38,169	\$ 35,949	\$ 35,874	\$ (75)
State sources	6,886,658	6,921,163	6,915,751	(5,412)
Federal sources	671,247	651,866	648,002	(3,864)
Interdistrict sources	26,577	25,244	25,885	641
Total revenue	7,622,651	7,634,222	7,625,512	(8,710)
Expenditures				
Current:				
Instruction:				
Basic programs	2,993,990	2,872,097	2,824,477	(47,620)
Added needs	945,756	962,629	956,925	(5,704)
Total instruction	3,939,746	3,834,726	3,781,402	(53,324)
Support services:				
Pupil	394,758	400,831	386,760	(14,071)
Instructional staff	385,402	459,724	418,545	(41,179)
General administration	250,105	237,779	236,208	(1,571)
School administration	524,271	496,960	496,491	(469)
Business	228,085	241,145	234,058	(7,087)
Operations and maintenance	571,598	587,964	576,990	(10,974)
Pupil transportation services	112,000	150,000	150,455	455
Central	343,786	342,737	349,488	6,751
Total support services	2,810,005	2,917,140	2,848,995	(68,145)
Athletics	44,096	34,980	31,481	(3,499)
Community services	73,115	79,847	57,757	(22,090)
Debt service:				
Principal	-	-	4,000	4,000
Interest	-	-	120	120
Total expenditures	6,866,962	6,866,693	6,723,755	(142,938)
Other Financing Sources (Uses)				
Proceeds of capital lease available	-	-	17,898	17,898
Transfers out	(755,689)	(755,372)	(754,951)	421
Total financing uses	(755,689)	(755,372)	(737,053)	18,319
Net Change in Fund Balance	-	12,157	164,704	152,547
Fund Balance - Beginning of year	1,978,546	1,978,546	1,978,546	-
Fund Balance - End of year	<u>\$ 1,978,546</u>	<u>\$ 1,990,703</u>	<u>\$ 2,143,250</u>	<u>\$ 152,547</u>

Other Supplemental Information

Dr. Joseph F. Pollack Academic Center of Excellence

Other Supplemental Information Schedule of Bonded Indebtedness

June 30, 2018

Year Ending June 30	2010 Term Bond Principal	2010 Term Bond Principal	2010 Term Bond Principal	Total
2019	\$ 140,000	\$ -	\$ -	\$ 140,000
2020	150,000	-	-	150,000
2021	-	160,000	-	160,000
2022	-	175,000	-	175,000
2023	-	190,000	-	190,000
2024	-	205,000	-	205,000
2025	-	220,000	-	220,000
2026	-	235,000	-	235,000
2027	-	255,000	-	255,000
2028	-	275,000	-	275,000
2029	-	300,000	-	300,000
2030	-	320,000	-	320,000
2031	-	-	345,000	345,000
2032	-	-	375,000	375,000
2033	-	-	405,000	405,000
2034	-	-	435,000	435,000
2035	-	-	470,000	470,000
2036	-	-	510,000	510,000
2037	-	-	550,000	550,000
2038	-	-	595,000	595,000
2039	-	-	640,000	640,000
2040	-	-	695,000	695,000
Total remaining payments	\$ 290,000	\$ 2,335,000	\$ 5,020,000	\$ 7,645,000
Principal payments due	April 1	April 1	April 1	
Interest payments due	April 1/Oct 1	April 1/Oct 1	April 1/Oct 1	
Interest rate	7.25%	8.0%	8.0%	
Original issue	\$ 1,035,000	\$ 2,335,000	\$ 5,020,000	\$ 8,390,000