

**Dr. Joseph F. Pollack Academic
Center of Excellence**

**Financial Report
with Supplemental Information
June 30, 2017**

Dr. Joseph F. Pollack Academic Center of Excellence

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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, 2017 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, respective financial position of the governmental activities and the major funds of Dr. Joseph F. Pollack Academic Center of Excellence as of June 30, 2017 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.

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, 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, 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 opinions 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 purposes of additional analysis and is not a required part of the basic financial statements.

The other supplemental information, as identified in the table of contents, 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, as identified in the table of contents, is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2017 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.

Plante & Moran, PLLC

September 29, 2017

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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic 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, 2017 and the related notes to the Academy's basic financial statements and have issued our report thereon dated September 29, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Dr. Joseph F. Pollack Academic Center of Excellence'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 entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Dr. Joseph F. Pollack Academic Center of Excellence'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 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 29, 2017

Dr. Joseph F. Pollack Academic Center of Excellence

Management's Discussion and Analysis

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, 2017. 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 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.

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

Basic Financial Statements

Academy-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(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 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.

Dr. Joseph F. Pollack Academic Center of Excellence

Management's Discussion and Analysis (Continued)

These two statements report the Academy's net position - the difference between assets 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 difference between revenue and expenses is the Academy's operating results. However, the Academy's goal is to provide services to its 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 school, 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, and community service. Unrestricted state aid (foundation allowance revenue) and state and federal grants finance most of these activities.

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. However, the Academy establishes many other funds to help it control and manage money for particular purposes (the Debt Service Fund is an example). The governmental funds of the Academy use the following accounting approach:

Governmental Funds - All of the Academy's services are reported in 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 you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. We describe the relationship (or 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.

Dr. Joseph F. Pollack Academic Center of Excellence

Management's Discussion and Analysis (Continued)

The Academy as a Whole

Recall that the statement of net position provides the perspective of the Academy as a whole. Table I provides a summary of the Academy's net position as of June 30, 2017 and 2016.

Table I	Governmental Activities	
	June 30	
	2017	2016
Assets		
Current and other assets	\$ 2,754,393	\$ 2,714,666
Capital assets	<u>6,417,350</u>	<u>6,614,673</u>
Total assets	9,171,743	9,329,339
Liabilities		
Current liabilities	815,858	866,888
Long-term liabilities	<u>7,645,000</u>	<u>7,775,000</u>
Total liabilities	<u>8,460,858</u>	<u>8,641,888</u>
Net Position		
Net investment in capital assets	(1,290,242)	(1,209,965)
Restricted for debt service	51,870	49,381
Unrestricted	<u>1,949,257</u>	<u>1,848,035</u>
Total net position	<u>\$ 710,885</u>	<u>\$ 687,451</u>

The above analysis focuses on the net position (see Table I). The change in net position (see Table 2) of the Academy's governmental activities is discussed below. The Academy's net position was \$710,885 at June 30, 2017. Net investment in capital assets (\$1,290,242) 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 of \$51,870 is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Academy's ability to use its net position for day-to-day operations. The remaining amount of net position of \$1,949,257 was unrestricted.

The \$1,949,257 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.

Dr. Joseph F. Pollack Academic Center of Excellence

Management's Discussion and Analysis (Continued)

The results of this year's operations for the Academy as a whole are reported in the statement of activities (Table 2), which shows the changes in net position for fiscal years 2017 and 2016.

Table 2

	Governmental Activities	
	Year Ended June 30	
	2017	2016
Revenue		
Program revenue:		
Charges for services	\$ -	\$ 350
Operating grants	1,134,728	1,260,388
General revenue:		
State foundation allowance	6,235,332	6,247,157
Other	13,605	54,344
Total revenue	<u>7,383,665</u>	<u>7,562,239</u>
Functions/Program Expenses		
Instruction	3,672,313	3,680,144
Support services	2,682,687	2,683,836
Athletics	27,254	24,275
Community services	58,035	59,774
Interest on long-term debt	634,781	643,279
Depreciation (unallocated)	285,161	265,924
Total functions/program expenses	<u>7,360,231</u>	<u>7,357,232</u>
Increase in Net Position	<u>\$ 23,434</u>	<u>\$ 205,007</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$7,360,231. Certain activities were partially funded by other governments and organizations that subsidized certain programs with grants totaling \$1,134,728. We paid for the remaining "public benefit" portion of our governmental activities with \$6,235,332 in state foundation allowance and with our other revenue, i.e., interest and general entitlements.

The Academy experienced an increase in net position of \$23,434. The increase in net position is due to the Academy's ability to manage central service costs.

As discussed above, the net cost shows the financial burden that was placed on the Academy by each of these functions. Since unrestricted state aid constitutes the vast majority of the Academy'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 the State 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 \$2,185,129, which is an increase of \$130,825 from last year. The primary reason for the increase in the General Fund was a continued reduction in human resource service costs and fees. The General Fund balance is available to fund costs related to allowable school operating purposes.

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 actually adopted in June 2017. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

There were significant revisions made to the 2016-2017 General Fund original budget. The net increase in budgeted revenue in the amount of \$68,758 is the result of an increase in federally funded personnel costs. The net increase in budgeted expenditures in the amount of \$67,358 resulted from the following increases: \$37,538 in facility improvements; \$22,653 in central support services; and \$19,909 in administrative support services. This increase was somewhat offset by decreases of \$17,116 in personnel costs. The change in revenue and expenditure was spread over three budget amendments during the year which began with an estimated \$0 net change in fund balance and ended with an estimated \$1,400 increase in fund balance.

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

Dr. Joseph F. Pollack Academic Center of Excellence

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2017, the Academy had \$6,417,350 invested in a broad range of capital assets, including land, land improvements, buildings and additions, and equipment and furniture. This amount represents a net decrease (including additions, disposals, and depreciation) of \$197,323, or 3.0 percent, from last year.

	Governmental Activities	
	Year Ended June 30	
	2017	2016
Land	\$ 326,600	\$ 326,600
Land improvements	269,250	291,713
Buildings and additions	5,681,984	5,820,864
Equipment and furniture	139,516	175,496
Net capital assets	<u>\$ 6,417,350</u>	<u>\$ 6,614,673</u>

This year's additions of \$87,838 included additions to land and building improvements and equipment and furniture.

We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of June 30, 2017 and 2016, the Academy had \$7,804,289 and \$7,895,000, respectively, of outstanding long-term debt. Long-term debt consists of limited obligation revenue bonds for the purchase of land, buildings, and related renovations and compensated absences.

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 considered many factors when setting the Academy's 2018 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 blended count for the 2018 fiscal year is 10 percent and 90 percent of the February 2017 and October 2017 student counts, respectively. The 2018 budget was adopted in June 2017, based on an estimate of students who will be enrolled in October 2017. Approximately 85 percent of total General Fund revenue is from the foundation allowance (state revenue). 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 2017/2018 school year, we anticipate that the fall student count will be 850. 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 academies. The State periodically holds a revenue-estimating conference to estimate revenue. If a future revenue-estimating conference determines funds are not sufficient to fund the appropriation, the legislature must revise the appropriation, which may include a proration of state aid to all school districts and academies.

Dr. Joseph F. Pollack Academic Center of Excellence

Statement of Net Position June 30, 2017

	<u>Governmental Activities</u>
Assets	
Cash (Note 3)	\$ 1,016,544
Receivables (Note 4)	1,403,079
Prepaid costs	60,779
Prepaid other asset (Note 7)	67,408
Restricted assets (Note 3)	206,583
Capital assets - Net (Note 6)	<u>6,417,350</u>
Total assets	9,171,743
Liabilities	
Accounts payable	85,141
Accrued payroll-related liabilities	381,689
Accrued interest and other current liabilities	189,739
Long-term liabilities:	
Due within one year (Note 7)	159,289
Due in more than one year (Note 7)	<u>7,645,000</u>
Total liabilities	<u>8,460,858</u>
Net Position	
Net investment in capital assets	(1,290,242)
Restricted	51,870
Unrestricted	<u>1,949,257</u>
Total net position	<u><u>\$ 710,885</u></u>

Dr. Joseph F. Pollack Academic Center of Excellence

Statement of Activities Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenue		Governmental
		Charges for Services	Operating Grants and Contributions	Activities
				Net (Expense) Revenue and Changes in Net Position
Primary government - Governmental activities:				
Instruction	\$ 3,672,313	\$ -	\$ 948,107	\$ (2,724,206)
Support services	2,682,687	-	186,621	(2,496,066)
Athletics	27,254	-	-	(27,254)
Community services	58,035	-	-	(58,035)
Interest	634,781	-	-	(634,781)
Depreciation expense (unallocated)	285,161	-	-	(285,161)
Total primary government	<u>\$ 7,360,231</u>	<u>\$ -</u>	<u>\$ 1,134,728</u>	(6,225,503)
General revenue:				
State aid not restricted to specific purposes				6,235,332
Other				13,605
Total general revenue				<u>6,248,937</u>
Change in Net Position				23,434
Net Position - Beginning of year				<u>687,451</u>
Net Position - End of year				<u>\$ 710,885</u>

Dr. Joseph F. Pollack Academic Center of Excellence

Governmental Funds Balance Sheet June 30, 2017

	General Fund	Debt Service Fund	Total Governmental Funds
Assets			
Cash (Note 3)	\$ 1,016,544	\$ -	\$ 1,016,544
Receivables (Note 4)	1,403,079	-	1,403,079
Prepaid costs	60,779	-	60,779
Restricted assets (Note 3)	-	206,583	206,583
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 2,480,402</u>	<u>\$ 206,583</u>	<u>\$ 2,686,985</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 74,758	\$ -	\$ 74,758
Accrued payroll-related liabilities	381,689	-	381,689
Other current liabilities	35,026	-	35,026
Due to other funds (Note 5)	10,383	-	10,383
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	501,856	-	501,856
Fund Balances			
Nonspendable - Prepaid costs	60,779	-	60,779
Restricted - Debt service	-	206,583	206,583
Unassigned	1,917,767	-	1,917,767
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	1,978,546	206,583	2,185,129
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 2,480,402</u>	<u>\$ 206,583</u>	<u>\$ 2,686,985</u>

Dr. Joseph F. Pollack Academic Center of Excellence

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position June 30, 2017

Fund Balance Reported in Governmental Funds \$ 2,185,129

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	\$ 8,793,744	
Accumulated depreciation	<u>(2,376,394)</u>	6,417,350

Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:

Bonds payable	(7,775,000)	
Compensated absences	<u>(29,289)</u>	(7,804,289)

Accrued interest payable is not included as a liability in governmental funds (154,713)

Prepaid asset - Bond issuance discounts reported in governmental activities are not financial resources and are not reported in the governmental funds

67,408

Net Position of Governmental Activities **\$ 710,885**

Dr. Joseph F. Pollack Academic Center of Excellence

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2017

	General Fund	Debt Service Fund	Total Governmental Funds
Revenue			
Local sources	\$ 43,050	\$ 264	\$ 43,314
State sources	6,787,121	-	6,787,121
Federal sources	526,092	-	526,092
Interdistrict sources	27,138	-	27,138
Total revenue	7,383,401	264	7,383,665
Expenditures			
Current:			
Instruction	3,657,592	-	3,657,592
Support services	2,629,426	-	2,629,426
Athletics	27,254	-	27,254
Community services	57,318	-	57,318
Debt service:			
Principal (Note 7)	-	120,000	120,000
Interest (Note 7)	-	634,002	634,002
Capital outlay	127,248	-	127,248
Total expenditures	6,498,838	754,002	7,252,840
Excess of Revenue Over (Under) Expenditures	884,563	(753,738)	130,825
Other Financing Sources (Uses)			
Transfers in (Note 5)	-	754,052	754,052
Transfers out (Note 5)	(754,052)	-	(754,052)
Total other financing (uses) sources	(754,052)	754,052	-
Net Change in Fund Balances	130,511	314	130,825
Fund Balances - Beginning of year	1,848,035	206,269	2,054,304
Fund Balances - End of year	\$ 1,978,546	\$ 206,583	\$ 2,185,129

Dr. Joseph F. Pollack Academic Center of Excellence

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2017

Net Change in Fund Balances - Total Governmental Funds	\$ 130,825
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:	
Depreciation expense	\$ (285,161)
Capitalized capital outlay	<u>87,838</u>
	(197,323)
Underwriter's discount reported as expenditure in the funds as incurred and amortized in the statement of activities	(2,954)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	120,000
Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	2,175
Compensated absences are recorded when earned in the statement of activities. In the current year, more was earned than was paid out	<u>(29,289)</u>
Change in Net Position of Governmental Activities	<u>\$ 23,434</u>

Dr. Joseph F. Pollack Academic Center of Excellence

Fiduciary Fund Statement of Fiduciary Assets and Liabilities June 30, 2017

	<u>Agency Funds</u>
Assets - Due from other funds (Note 5)	<u>\$ 10,383</u>
Liabilities - Due to student groups	<u>\$ 10,383</u>

Dr. Joseph F. Pollack Academic Center of Excellence

Notes to Financial Statements June 30, 2017

Note I - Nature of Business and Significant Accounting Policies

The accounting policies of Dr. Joseph F. Pollack Academic Center of Excellence (the "Academy") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy:

Reporting Entity

The Academy was formed as a charter school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy provides education for students grades K through 8.

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.

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, 2017 to the Eastern Michigan University board of trustees were \$187,060.

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

Academy-wide and Fund Financial Statements

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

Dr. Joseph F. Pollack Academic Center of Excellence

Notes to Financial Statements June 30, 2017

Note I - Nature of Business and Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (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 is excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

When an expense is incurred for purposes for which both restricted and unrestricted net position or fund balance are available, the Academy's policy is to first apply restricted resources. When an expense is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the Academy's policy to spend funds in this order: committed, assigned, and unassigned.

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

Dr. Joseph F. Pollack Academic Center of Excellence

Notes to Financial Statements June 30, 2017

Note I - Nature of Business and Significant Accounting Policies (Continued)

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

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

The Academy reports the following major governmental funds:

General 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.

Debt Service 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.

Additionally, the Academy reports the following fund type:

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

Assets, Liabilities, and Net Position or Equity

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 costs in both government-wide and fund financial statements.

Dr. Joseph F. Pollack Academic Center of Excellence

Notes to Financial Statements June 30, 2017

Note I - Nature of Business and Significant Accounting Policies (Continued)

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 \$206,583 at June 30, 2017.

Capital Assets - Capital assets, which include land, buildings and additions, and furniture and equipment, are reported in the applicable governmental column in the Academy-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$1,000 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 fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure-type assets.

Land improvements, buildings and additions, and furniture and equipment are depreciated using the straight-line method over the following useful lives:

Land improvements	20 years
Buildings and additions	10 to 40 years
Furniture and equipment	3 to 10 years

Compensated Absences - The liability for compensated absences reported in the Academy-wide statements consists of earned but unused accumulated vacation and sick leave benefits. A liability for these amounts is reported in governmental funds as it comes due for payment. The Academy has a compensated absence balance of \$29,289 in the Academy-wide statements at June 30, 2017.

Long-term Obligations - In the government-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 debt issued is reported as other financing sources. Discounts received on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Balance - Fund balance classifications comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications are comprised of the following - nonspendable, restricted, committed, assigned, and unassigned.

Dr. Joseph F. Pollack Academic Center of Excellence

Notes to Financial Statements June 30, 2017

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

In the fund financial statements, governmental funds report the following components of fund balance:

- **Nonspendable** - Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted** - Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed** - Amounts that have been formally set aside by the board of directors for use for specific purposes. Commitments are made and can be rescinded only via resolution of the board of directors.
- **Assigned** - Intent to spend resources on specific purposes expressed by the board of directors, which is authorized to make assignments
- **Unassigned** - Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

Comparative Data - Comparative data is not included in the Academy's financial statements.

Note 2 - 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, 2017. 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 academies 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.

Dr. Joseph F. Pollack Academic Center of Excellence

Notes to Financial Statements June 30, 2017

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - The Academy had no significant expenditures in excess of appropriations.

Note 3 - 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, 2017, 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 for custodial credit risk. At June 30, 2017, the Academy's deposit balance of \$1,256,345 had \$799,762 of deposits that were uninsured and collateralized. 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 4 - Receivables and Unearned/Unavailable Revenue

Governmental funds report unavailable revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the Academy has no unavailable grant revenue and no unearned revenue. Receivables as of year end for the Academy's General Fund are comprised of amounts due from other governmental units of \$1,403,079.

Dr. Joseph F. Pollack Academic Center of Excellence

Notes to Financial Statements June 30, 2017

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 \$10,383.

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

Interfund transfers reported in the fund financial statements are comprised of transfers to the Debt Service Fund from the General Fund of \$754,052. 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	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Balance June 30, 2017</u>
Capital assets not being depreciated - Land	\$ 326,600	\$ -	\$ 326,600
Capital assets being depreciated:			
Land improvements	398,221	11,950	410,171
Buildings and improvements	6,952,162	50,480	7,002,642
Furniture and equipment	<u>1,028,923</u>	<u>25,408</u>	<u>1,054,331</u>
Subtotal	8,379,306	87,838	8,467,144
Accumulated depreciation:			
Land improvements	106,508	34,412	140,920
Buildings and improvements	1,131,298	189,361	1,320,659
Furniture and equipment	<u>853,427</u>	<u>61,388</u>	<u>914,815</u>
Subtotal	<u>2,091,233</u>	<u>285,161</u>	<u>2,376,394</u>
Net capital assets being depreciated	<u>6,288,073</u>	<u>(197,323)</u>	<u>6,090,750</u>
Net capital assets	<u>\$ 6,614,673</u>	<u>\$ (197,323)</u>	<u>\$ 6,417,350</u>

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

Dr. Joseph F. Pollack Academic Center of Excellence

Notes to Financial Statements June 30, 2017

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 2016-2017 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, 2017, the Academy has complied with all required covenants.

The current year expense for general obligation bond issue discount is \$2,954 with a balance of \$67,408 at June 30, 2017.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Compensated absences	\$ -	\$ 29,289	\$ -	\$ 29,289	\$ 29,289
General obligation bonds, Series 2010	7,895,000	-	120,000	7,775,000	130,000
Total bonds payable	\$ 7,895,000	\$ 29,289	\$ 120,000	\$ 7,804,289	\$ 159,289

Long-term debt activity can be summarized as follows:

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
2018	\$ 130,000	\$ 618,850	\$ 748,850
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
2023-2027	1,105,000	2,644,000	3,749,000
2028-2032	1,615,000	2,128,200	3,743,200
2033-2037	2,370,000	1,370,000	3,740,000
2038-2040	1,930,000	316,800	2,246,800
Total	\$ 7,775,000	\$ 9,450,550	\$ 17,225,550

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Notes to Financial Statements June 30, 2017

Note 7 - Long-term Debt (Continued)

Governmental Activities

Bonds consist of the following:

\$1,035,000 serial bonds due in annual installments of \$130,000 to \$150,000 through April 1, 2020; interest at 7.25 percent	\$ 420,000
\$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>\$ 7,775,000</u>

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, 2017. 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 approximately \$86,000 for the year ended June 30, 2017 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, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Revenue				
Local sources	\$ 7,560	\$ 39,309	\$ 43,050	\$ 3,741
State sources	6,806,550	6,780,401	6,787,121	6,720
Federal sources	588,483	670,579	526,092	(144,487)
Interdistrict sources	45,516	26,578	27,138	560
Total revenue	7,448,109	7,516,867	7,383,401	(133,466)
Expenditures - Current				
Instruction:				
Basic program	2,963,439	2,916,138	2,828,143	(87,995)
Added needs	893,075	927,926	848,251	(79,675)
Total instruction	3,856,514	3,844,064	3,676,394	(167,670)
Support services:				
Pupil	401,499	391,519	405,838	14,319
Instructional staff	349,859	355,171	311,678	(43,493)
General administration	253,169	244,804	239,484	(5,320)
School administration	502,477	522,386	490,765	(31,621)
Business	217,228	228,085	230,599	2,514
Operations and maintenance	586,656	620,655	615,089	(5,566)
Pupil transportation services	108,500	112,000	112,370	370
Central	317,576	340,229	332,049	(8,180)
Total support services	2,736,964	2,814,849	2,737,872	(76,977)
Athletics	30,800	27,300	27,254	(46)
Community services	68,141	73,564	57,318	(16,246)
Total expenditures	6,692,419	6,759,777	6,498,838	(260,939)
Other Financing Uses - Transfers out	(755,690)	(755,690)	(754,052)	1,638
Net Change in Fund Balance	-	1,400	130,511	129,111
Fund Balance - Beginning of year	1,848,035	1,848,035	1,848,035	-
Fund Balance - End of year	<u>\$ 1,848,035</u>	<u>\$ 1,849,435</u>	<u>\$ 1,978,546</u>	<u>\$ 129,111</u>

Other Supplemental Information

Dr. Joseph F. Pollack Academic Center of Excellence

Other Supplemental Information Schedule of Bonded Indebtedness Year Ended June 30, 2017

<u>June 30</u>	<u>2010 Term Bond Principal</u>	<u>2010 Term Bond Principal</u>	<u>2010 Term Bond Principal</u>	<u>Total</u>
2018	\$ 130,000	\$ -	\$ -	\$ 130,000
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
	<u>\$ 420,000</u>	<u>\$ 2,335,000</u>	<u>\$ 5,020,000</u>	<u>\$ 7,775,000</u>
Total principal				
Principal payments due	April 1	April 1	April 1	
Interest payments due	Apr 1/Oct 1	Apr 1/Oct 1	Apr 1/Oct 1	
Interest rate	7.25%	8.0%	8.0%	
Original issue	<u>\$ 1,035,000</u>	<u>\$ 2,335,000</u>	<u>\$ 5,020,000</u>	<u>\$ 8,390,000</u>