

CAPSTONE ACADEMY CHARTER SCHOOL

Financial Report
with
Supplemental Information

JUNE 30, 2023

CAPSTONE ACADEMY CHARTER SCHOOL

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Wilkerson & Associate P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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LARRY WILKERSON, C.P.A.
THOMAS E. WILKERSON, C.P.A.

Independent Auditor's Report

To Management
and the Board of Directors of
Capstone Academy Charter School

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining information of Capstone Academy Charter School (the 'Academy'), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Capstone Academy Charter School as of June 30, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Academy, and meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Academy's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we

- exercise professional judgement and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal controls relevant to the audit 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 internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Academy's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2023, on our consideration of Capstone Academy Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Capstone Academy Charter School's internal control over financial reporting and compliance.

Wilkinson & Associates PC

Dearborn, Michigan
October 10, 2023

Wilkerson & Associate P.C.

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LARRY WILKERSON, C.P.A.
THOMAS E. WILKERSON, C.P.A.

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

To Management
and the Board of Directors of
Capstone Academy Charter School

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 financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Capstone Academy Charter School, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Capstone Academy Charter School's basic financial statements, and have issued our report thereon dated October 10, 2023.

Internal Control Over Financial Reporting

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

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

To the Board of Directors
Capstone Academy Charter School

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 Capstone Academy Charter School'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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Wilkerson & Associate PC

Dearborn, Michigan
October 10, 2023

MANAGEMENT DISCUSSION AND ANALYSIS

**MANAGEMENT DISCUSSION & ANALYSIS
CAPSTONE ACADEMY CHARTER SCHOOL
YEAR-ENDED JUNE 30, 2023**

This section of Capstone Academy's (the "Academy") annual financial report presents discussion and analysis of the Academy's financial performance during the year ending June 30, 2023. It should be read in conjunction with the Academy's financial statements, which immediately follow this section, as well as the notes to the financial statements.

Financial Highlights

- At year ended June 30, 2023, the district reported a total fund balance of \$2,233,532, which constituted an increase in its governmental fund from the previous year of \$402,153.
- The total fund balance represents 61% of all revenues earned and the ratio of fund balance to state aid revenue for the year ending June 30, 2023 was 77%, far exceeding the financial distress threshold of 5% set by the state of Michigan as an early warning indicator.
- Fund balance as a percent of the prior year's expenditures of \$3,405,102 was 66%, also far exceeding the targeted threshold of no less than 15%.
- At June 30, 2023, the Academy had short- and long-term debt in the form of lease obligations of \$46,037 and \$106,696 respectively, totaling \$152,732.
- For the fourth year in a row, the Academy did not require a State Aid Note (SAN) cash flow loan to bridge the gap between July 1 and October 31 of the fiscal year.
- At June 30, 2023, total capital assets, net accumulated depreciation and related debt, was \$64,731.

This financial report is only one measure of the Academy's viability. Our goal is to provide services to students, not to generate profits as commercial entities do. Consideration should also be given to other non-financial factors, including those listed below.

The Academy:

- Operated year-round serving two separate residential youth agencies: one operated by the local county and the other operated by a private agency.
- Provided highly individualized instruction to each student, even during the on-going pandemic, along with an emergency management plan at the county location (ordered by the state of Michigan), which required teaching and learning through a blend of modalities.
- Continued to collaborate with other social service agencies and governmental entities around the unique needs and challenging circumstances specific to our special population of students.

**MANAGEMENT DISCUSSION & ANALYSIS
CAPSTONE ACADEMY CHARTER SCHOOL
YEAR-ENDED JUNE 30, 2023**

Academy Wide Financial Statements

The Academy-wide financial statements provide information about the activities of the Academy as a whole, presenting both an aggregate view of the Academy's finances and a long-term view of those finances. Academy-wide statements are presented on a full accrual basis, which is the primary accounting method used in private industry.

The statement of net position includes all of the Academy's assets and liabilities. The statement of activities reports all of the Academy's current year's revenues and expenses by type of activity. The two district-wide statements report the Academy's net position and how it has changed. Net position, the difference between the Academy's assets and liabilities, are one way to measure the Academy's financial health or position.

- Over time, increases and decreases in the Academy's net position can be an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy you need to consider additional non-financial factors.

Capstone Academy as a Whole

As discussed above, the statement of net position provides information about the Academy as a whole. Table 1 provides a summary of the Academy's net position as of June 30, 2023. The Academy's net position increased over the previous year by approximately \$384,115, primarily due to the receipt of prior year state-adjusted funds designated for strict discipline academies. It ended the year with a total net position of \$2,298,263.

Table 1 - Summary of Capstone Academy - Net Position

	<u>2023</u>	<u>2022</u>
Current Assets	\$ 2,490,367	\$ 2,092,477
Capital Assets (net of accumulated depreciation)	217,463	291,268
Total Assets	2,707,830	2,383,745
Current Liabilities	256,835	261,096
Non-current liabilities	152,732	208,501
Total Liabilities	409,567	469,597
Net Position:		
Nonspendable	8,679	6,464
Invested in capital assets, net of related debt	64,731	82,767
Unrestricted	2,224,853	1,824,917
Total Net Position	\$ 2,298,263	\$ 1,914,148

**MANAGEMENT DISCUSSION & ANALYSIS
CAPSTONE ACADEMY CHARTER SCHOOL
YEAR-ENDED JUNE 30, 2023**

The net position of \$2,298,263 represents the cumulative operating results for the year ended June 30, 2023, inclusive of all prior years, and consisted of 1) \$64,731 related to the Academy's investment in capital assets, net of accumulated depreciation and long-term obligations, 2) \$8,679 related to prepaid expenses and designated as nonspendable, and 3) \$2,224,853 in unrestricted assets.

Table 2 reports a summary of the Academy's statement of activities. For the year ended June 30, 2023 the Academy earned \$711,139 in additional operating grants to add to its general revenues of \$2,973,970. After all expenses were paid, including depreciation and amortization, the Academy ended the year with an increase in net position of \$384,115.

Table 2 - Summary of the Statement of Activities

	<u>2023</u>	<u>2022</u>
Revenues		
Program Revenues		
Operating Grants & Contributions	\$ 711,139	\$ 962,395
General Revenues		
State Aid (formula grants)	2,913,042	1,335,236
Other Revenue (local)	60,928	25,857
Total Revenue	<u>3,685,109</u>	<u>2,323,488</u>
Expenses		
Instruction	1,328,948	10,777,024
Support Services	1,868,699	1,550,859
Community Services	16,053	14,344
Depreciation	87,294	110,180
Total Expenses	<u>3,300,994</u>	<u>2,048,430</u>
Change in Net Position	<u>\$ 384,115</u>	<u>\$ 856,571</u>

Fund Financial Statements

The fund financial statements provide more detailed information about the Academy's funds, focusing on its most significant or "major" funds, not the Academy as a whole. It provides information as to the amount of financial resources that can be spent in the near future to finance programs. It also provides information about the Academy's most significant fund – the general fund (the principal operating fund) – as well as the food service fund.

**MANAGEMENT DISCUSSION & ANALYSIS
CAPSTONE ACADEMY CHARTER SCHOOL
YEAR-ENDED JUNE 30, 2023**

Fund financial statements are presented on a modified accrual basis. Only those assets that are measurable and currently available are reported. Liabilities are recognized to the extent that they can be paid using current financial resources. Revenue earned but not collected within sixty (60) days is considered unavailable or deferred. For the year ending June 30, 2023, the Academy had no unavailable or deferred revenue to report.

Capital Assets

Table 3 summarizes the Academy's capital assets through year ended June 30, 2023, which includes all prior operational years. The Academy had \$217,463 invested in capital assets, net of \$275,370 in accumulated depreciation. Further details regarding the Academy's capital assets, including purchased and leased assets, can be found in Notes 4 and 5 to the financial statements.

Table 3 – Capital Assets

	Total Assets	Accumulated Depreciation	Net Book Value June 30, 2023	Net Book Value June 30, 2022
Furniture & Equipment	\$ 6,199	\$ 4,859	\$ 1,340	\$ 2,116
Computer Equipment	266,024	193,298	72,726	101,633
Buildings	220,610	77,213	143,397	187,519
	<u>\$ 492,833</u>	<u>\$ 275,370</u>	<u>\$ 217,463</u>	<u>\$ 291,268</u>

Debt

At June 30, 2023, the Academy had short-term debt relating to its computer lease obligations of \$5,566 and \$40,071 pertaining to its facility lease. Under GASB 87, fully implemented as of the year ended June 30, 2022, long-term debt at year ended June 30, 2023 was estimated to be \$106,906 relative to the Academy maintaining a renewable facility leasing contract. Further details pertaining to the Academy's calculated debt under GASB 87 rules can be found in the notes to the financial statements.

General Fund Budget Highlights

State law requires that school districts periodically amend their budgets to ensure that expenditures do not exceed appropriations. During the year, the Academy revised its budget in response to and in anticipation of changing operating conditions. The Academy amended its budget three times, all of which were approved by the Academy's Board of Directors. Schedules showing the Academy's original budget, final budget and actual results for the general fund and the food service fund are provided in the required supplemental information section of the financial statements.

**MANAGEMENT DISCUSSION & ANALYSIS
CAPSTONE ACADEMY CHARTER SCHOOL
YEAR-ENDED JUNE 30, 2023**

Economic Factors Affecting Next Year's Budgets

The Academy's management team and the Capstone Academy Board consider many factors in the budget planning process. One of the most important factors is student enrollment. Roughly 79% of the Academy's revenue to its general fund for fiscal year 2023 (\$2,905,192) was derived from the state of Michigan's student enrollment-based funding formula.

The foundation allowance was \$9,150 per pupil for the 2022-2023 school fiscal year. In the event the foundation allowance is ever increased or decreased in future years, and after considering management's recommendations, the Board adopts and then amends its operating budget accordingly.

Another factor affecting the Academy's budget is the amount of federal funds awarded from year to year. These amounts can fluctuate both up and down based on variables outside of the Academy's control. Because of potential fluctuations, management takes a conservative approach when planning and budgeting for supplemental services funded by federal sources, making certain it can first provide all legally required educational services that fall to a state's obligation. For the year ended June 30, 2023, federal revenue of \$ 711,139.34 for the year ended June 30, 2023 accounted for 19% of all revenue.

Finally, many factors related to the Covid-19 pandemic continue to remain unknown and unpredictable. These include potential new and/or additional mandates and regulations related to health and safety, which may affect both student enrollment and attendance, as well as staff attendance and willingness to provide in-person teaching, along with potential emergency orders that could affect all citizens. Future federal funding to offset extra costs associated with Covid-related impacts on states are also likely to have an effect on future economic resources within the state of Michigan, thereby leading to direct and indirect impacts on the Academy as well.

Contacting the Academy's Management Team

This financial report is designed to provide our stakeholders and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives from all sources, and most importantly, from public sources. If you have questions about this report or need additional information, please contact the Academy's management team from edtec central, LLC, by contacting its Center of Support (COS) office:

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BASIC FINANCIAL STATEMENTS

CAPSTONE ACADEMY CHARTER SCHOOL
STATEMENT OF NET POSITION
JUNE 30, 2023

	Governmental Activities
Assets	
Cash and cash equivalents	926,850
Investments	500,247
Prepaid expenditures	8,679
Accounts receivable	6,266
Other receivables	
Local	2,087
State	394,795
Federal	651,443
Capital assets, net of accumulated depreciation	217,463
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Total assets	2,707,830
Liabilities	
Accounts payable	11,679
Accrued expenditures	79,689
Management company payable	154,393
Accrued authorizer fees	11,074
Long-term Liabilities	
Due within one year	46,037
Due in more than one year	106,696
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Total liabilities	409,567
Net Position	
Nonspendable	8,679
Invested in capital assets, net of related debt	64,731
Unrestricted	2,224,853
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Total net position	2,298,263
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See accompanying notes to the financial statements.

**CAPSTONE ACADEMY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2023**

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position
Governmental Activities				
Instruction	\$ 1,328,948	\$ -	\$ 711,139	\$ (617,809)
Supporting services				
Pupil support services	104,860	-	-	(104,860)
Instructional support services	281,650	-	-	(281,650)
General administration services	473,705	-	-	(473,705)
School administration services	207,333	-	-	(207,333)
Business services	346,850	-	-	(346,850)
Operations and maintenance	100,827	-	-	(100,827)
Pupil transportation services	804	-	-	(804)
Central support services	352,670	-	-	(352,670)
Food services	-	-	-	-
Community services	16,053	-	-	(16,053)
Depreciation / Amortization	87,294	-	-	(87,294)
Total governmental activities	<u>\$ 3,300,994</u>	<u>\$ -</u>	<u>\$ 711,139</u>	<u>\$ (2,589,855)</u>
General revenues				
State aid - formula grants				2,913,042
Other - Local sources				<u>60,928</u>
Total general revenues				<u>2,973,970</u>
Change in Net Position				384,115
Net Position - July 1, 2022				<u>1,914,148</u>
Net Position - June 30, 2023				<u><u>2,298,263</u></u>

See accompanying notes to the financial statements.

**CAPSTONE ACADEMY CHARTER SCHOOL
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2023**

	ASSETS		
	General Fund	Food Services Fund	Total Governmental Funds
Cash and cash equivalents	\$ 1,418,501	\$ 8,596	\$ 1,427,097
Receivables:			
Accounts receivable	6,266	-	6,266
Due from other governmental units	1,048,326	-	1,048,326
Prepaid expenditures	8,679	-	8,679
Total assets	<u>\$ 2,481,772</u>	<u>\$ 8,596</u>	<u>\$ 2,490,367</u>

LIABILITIES AND FUND BALANCES

Liabilities			
Accounts payable	\$ 11,679	\$ -	\$ 11,679
Accrued expenditures	79,689	-	79,689
Accrued management fees	154,393	-	154,393
Accrued authorizer fees	11,074	-	11,074
Total liabilities	<u>\$ 256,835</u>	<u>\$ -</u>	<u>\$ 256,835</u>
Fund Balances			
Non-spendable fund balance:			
Prepaid expenses	\$ 8,679	\$ -	\$ 8,679
Unassigned fund balance:	2,216,257	8,596	2,224,853
Total fund balances	<u>2,224,937</u>	<u>8,596</u>	<u>2,233,532</u>
Total liabilities and fund balances	<u><u>\$ 2,481,772</u></u>	<u><u>\$ 8,596</u></u>	<u><u>\$ 2,490,367</u></u>

See accompanying notes to the financial statements.

**CAPSTONE ACADEMY CHARTER SCHOOL
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
TO THE STATEMENT OF NET POSITION
JUNE 30, 2023**

Total Fund Balances - Governmental Funds	\$ 2,233,532
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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, therefore, not reported as assets in governmental funds

	340,100		
Cost of capital assets			
Accumulated depreciation	(275,370)		64,731
Total Net Position - Governmental Activities			2,298,263

See accompanying notes to the financial statements.

**CAPSTONE ACADEMY CHARTER SCHOOL
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2023**

	General Fund	Food Services Fund	Total Governmental Funds
Revenues			
Local sources	\$ 60,928	\$ -	\$ 60,928
State sources	2,905,193	7,850	2,913,042
Federal sources	711,139	-	711,139
Total revenues	3,677,260	7,850	3,685,109
Expenditures			
Current			
Instructional services	1,357,734	-	1,357,734
Supporting services:			
Pupil support services	104,860	-	104,860
Instructional support services	281,650	-	281,650
General administration services	473,705	-	473,705
School administration services	207,333	-	207,333
Business services	346,850	-	346,850
Operation and maintenance services	141,298	-	141,298
Pupil transportation services	804	-	804
Central services	352,670	-	352,670
Food services	-	-	-
Community services	16,053	-	16,053
Total expenditures	3,282,957	-	3,282,957
Excess (Deficiency) of Revenues Over Expenditures	394,303	7,850	402,153
Other Financing Sources (Uses)			
Operating transfers - in	-	-	-
Operating transfers - out	-	-	-
Total other financing sources (uses)	-	-	-
Net Change in Fund Balances	394,303	7,850	402,153
Fund Balances - July 1, 2022	1,830,634	746	1,831,380
Fund Balances - June 30, 2023	\$ 2,224,937	\$ 8,596	\$ 2,233,532

See accompanying notes to the financial statements.

**CAPSTONE ACADEMY CHARTER SCHOOL
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2023**

Total Net Change in Fund Balances - Governmental Funds	\$ 402,153
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Amounts reported for governmental activities in the statement of activities are different because: -

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period:

Depreciation expense	(87,294)	
Capitalized outlay expense (site improvements, equipment and furniture expenditures)	<u>69,257</u>	<u>(18,037)</u>
Change in Net Position of Governmental Activities		<u><u>384,115</u></u>

See accompanying notes to the financial statements.

CAPSTONE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Capstone Academy Charter School (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 Academy's significant accounting policies.

A. Reporting Entity

The Academy is part of the Michigan Public School System under Act No. 362 of the Public Acts of 1993 and is subject to the leadership and general supervision of the State Board of Education. The Detroit Public Schools Community District (DPSCD) is the authorizing body of the Academy. The contract with DPSCD expires June 30, 2025. The Academy's school board is approved by the authorizing body and is authorized to manage the property and affairs of the Academy. The Academy does not include any other component unit within its financial statements as defined in Governmental Accounting Standards Board (GASB) Statement Nos. 14 and 39.

The contract with DPSCD requires the Academy to act exclusively as a governmental agency and to not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the state constitution. DPSCD 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 DPSCD three percent of the state school aid payments received by the Academy as administrative fees for its oversight duties. The total administrative fees for the year ended June 30, 2023 to DPSCD approximated \$83,161.

The accompanying financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included by the reporting entity. These criteria include significant operational and financial relationships that determine which of the governmental organizations are a part of the Academy's reporting entity and which organizations are legally separate component units of the Academy. Based on application of these criteria, the entity does not contain additional component units.

CAPSTONE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

B. District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government. Substantially all inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and 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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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 for meeting the operational and capital requirements of a particular function.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-Wide Statements

The district-wide financial statements are reported using an 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.

CAPSTONE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

District-Wide Statements (continued)

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

Fund-Based Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if collected within sixty (60) days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as required under accrual accounting. However, debt service expenditures 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 in the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law.

CAPSTONE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Fund-Based Statements (continued)

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

The Academy reports the following major governmental funds:

General Fund (Fund 11)

The general fund is used to record the general operations of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Food Service Fund (Fund 25)

The food service fund is use to record activites related to providing breakfast, lunch and snacks to students. For the fiscal year ended June 30, 2023, total funds in the amount of \$7,850 were received from the state of Michigan for prior year adjustments related to the food service program that was operated by the agency in which a portion of the Academy's student population resided. The food service program was discontinued on July 8, 2022, when the agency ceased operations.

No formal budget was adopted for this fund since the program had ceased operations near the end of the previous year. The fund remained open to record any prior year transactions or adjustments. At year ended June 30, 2023, the food service fund had a fund balance of \$8,596.

CAPSTONE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

D. Assets, Liabilities, Net Position and Fund Balance

Deposits, Cash Equivalents, and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of twelve months or less when acquired. At year ended June 30, 2023, the Academy's cash on hand approximated \$1,427,097.

The Academy is authorized by Michigan Compiled Laws, Section 139.91 to invest surplus monies in federally insured United States banks, credit unions, and savings and loan associations that have offices in Michigan. The Academy is also authorized to invest in bonds and notes, certain commercial paper, U.S. Government repurchase agreements, bankers' acceptances and mutual funds and investment pools that are composed of authorized investment vehicles.

For the year ended June 30, 2023, the Academy had invested \$500,247 in a money market savings account at its main bank.

Capital Assets

Capital assets, which include equipment and furniture, whether purchased or leased, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years.

However, the Academy also has elected to record technology equipment, even if less than \$5,000 but having an estimated useful life of 3 or more years, as capital assets depreciated over time. Assets are recorded at historical cost, or estimated historical cost, if purchased, constructed or leased.

Donated capital assets are recorded as the 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.

CAPSTONE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

D. Assets, Liabilities, Net Position and Fund Balance (continued)

Leases

Lessee: The Academy is a lessee for a noncancelable lease of equipment and a lease for use of facility space for its community-based site. The Academy recognizes an intangible right-to-use capital lease asset in the government-wide financial statements.

At the commencement of a lease, the Academy initially measures the lease liability as the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. Lease assets are initially measured as the total amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized and depreciated on a straight-line basis over its useful life, or for the term of the lease, whichever is less.

Key estimates and judgements related to leases include how the Academy determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Academy uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Academy generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancelable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the Academy is reasonably certain to exercise.

The Academy monitors changes in circumstances that would require a remeasurement of its leases and will remeasure a lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

CAPSTONE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

D. Assets, Liabilities, Net Position and Fund Balance (continued)

Leases (continued)

Lessor: The Academy is not a lessor of any capital assets to other entities.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term obligations on the statement of net position. Further details regarding capital assets and capital leases are provided in Notes 4 and Note 5, respectively, later in this report.

MPSERS Liability

The Academy contracted with edtec central, LLC (the “Management Company”) to provide all staffing personnel during the year under audit. Consequently, all staffing costs are treated as purchased services in these financial statements. Additionally, the Academy has no obligation to fund the Michigan Public School Employees Retirement System for the year ended June 30, 2023.

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

For the year ending June 30, 2023, the Academy had no reported deferred or unavailable revenue.

Long-Term Debt

In the government-wide financial statements, long-term debt and other long-term obligations such as capital leases, are reported as liabilities in the statement of net position. Long-term debt was \$106,696. Long- and short-term obligations for the year ended June 30, 2023 are further detailed below.

CAPSTONE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

D. Assets, Liabilities, Net Position and Fund Balance (continued)

Long-Term and Short-Term Debt (continued)

The Academy implemented GASB 87 in fiscal year 2022 and restated its leases for a facility and for a variety of technology equipment consisting mostly of computers and laptops. As it relates to computer equipment, past lease payments and total lease obligations were used to estimate implied interest rates and future payments through end-of-lease buyouts. The facility lease was based on both past payments and future estimated payments remaining on a 5-year term and if renewed, will be restated accordingly.

Lease Obligation Information	Interest Rate (Implied)	Maturity Date	Other
Building Lease	7%	10/31/2026	Right-to-use lease for operations.
Computer Lease 1	32%	11/6/2024	Right-to-use lease for tech equipment
Computer Lease 2	36%	9/20/2024	Right-to-use lease for tech equipment
Computer Lease 3	21%	10/18/2024	Right-to-use lease for tech equipment

Lease Activity	Retirements				
	Balance July 1, 2022*	Additions	and Payments	Balance June 30, 2023	Due Within One Year
BLDG Lease	187,637	\$ -	40,471	\$ 147,166	40,471
CMP Lease 1	6,248	-	4,582	1,667	1,667
CMP Lease 2	7,090	-	5,199	1,891	1,891
CMP Lease 3	7,526	-	5,518	2,008	2,008
	<u>\$ 208,501</u>	<u>\$ -</u>	<u>\$ 55,769</u>	<u>\$ 152,732</u>	<u>\$ 46,037</u>

Fund Balance / Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriations or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. In the fund financial statements, governmental funds report fund balance in the categories defined below.

CAPSTONE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

D. Assets, Liabilities, Net Position and Fund Balance (continued)

Fund Balance / Equity (continued)

Non-spendable – amounts that are not available in a spendable form.

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed – amounts that have been formally set aside by the Board of Education for specific purposes. A fund balance commitment may be established, modified, or rescinded by a resolution of the Board of Education.

Assigned – amounts intended to be used for specific purposes, as determined by the Board of Education. The Board of Education has granted the management company the authority to assign funds. Residual amounts in the governmental funds other than the general fund are automatically assigned by their nature.

Unassigned – all other resources: the remaining fund balances after non-spendable, restrictions, commitments and assignments are recorded.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Academy's policy is to consider restricted funds spent first. When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the Academy's policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, and (3) unassigned. At year ended June 30, 2023, the Academy reported \$8,679 as non-spendable funds and \$ 2,224,853 as unassigned funds, with a total fund balance of \$ 2,233,532.

Comparative Data

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

District-wide financial statements (statement of net position and statement of activities), prepared using full accrual accounting for all of the Academy's activities, have been provided.

CAPSTONE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

D. Assets, Liabilities, Net Position and Fund Balance (continued)

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Budgetary Control

The Academy is legally subject to the budgetary control requirements of the State of Michigan P.A. 621 of 1978 (the Uniform Budgetary Act) and fully complied with Act's requirements summarized below:

1. Budgets must be adopted for the general fund and then any other special funds.
2. The budgets must be balanced.
3. The budgets must be amended when necessary.
4. Public hearings must be held before budget adoptions.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures must be authorized by a budget before being incurred.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budget Summary

The Academy formally adopted a general fund budget by revenue major class and expenditure major function for the fiscal year ended June 30, 2023. Expenditures at this level in excess of amounts budgeted are a violation of Michigan law. Unexpended appropriations lapse at year end and encumbrances are not included as expenditures. At July 1, 2023, in its general fund, the Academy had a beginning fund balance of \$1,830,634. At year ended June 30, 2023, the Academy had recorded \$3,677,260 in revenues, \$3,282,987 in expenditures, and an ending fund balance of \$2,224,937. Additional budget details can be found in the supplemental sections of this report.

CAPSTONE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY
(continued)

Budget Summary (continued)

No encumbrances or debt were outstanding in the general fund at June 30, 2023. During the year, the budget was amended three times in a legally permissible manner, including at the end of the fiscal year. There were no variances in violation of Michigan's Uniform Budgeting and Accounting Act.

The combined statement of revenues, expenditures and changes in fund balances – all fund types – is presented in conformity with generally accepted accounting principles (GAAP). The combined statement of revenues, expenditures and changes in fund balances – budget vs. actual – is presented on the same basis of accounting used in preparing the adopted budget.

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. The Academy has designated one bank for the deposit of its funds, and has not adopted any other formal investment policy.

As of June 30, 2023, the Academy's deposits and investments were reported in the basic financial statements as cash and cash equivalents of \$1,427,097. The deposits of the Academy were reflected in the accounts of the financial institution as \$1,437,213.70. The difference between these amounts is due to checks in transit not yet cleared through the bank. Further, during the prior fiscal year ended June 30, 2022, the Board opened an interest-bearing, money market savings account at its main bank. Of the total cash and equivalents reflected above, \$500,246.78 is attributed to the Academy's investment money market account for the year ended June 30, 2023.

CAPSTONE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

The Academy's cash and investments are 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 evaluates its depositories and only those with an acceptable risk level are used for its deposits. The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. At year ended June 30, 2023, the Academy's deposits were FDIC insured up to \$250,000 leaving approximately \$1,187,213 uninsured.

NOTE 4 - CAPITAL ASSETS

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

Governmental Activities	Balance July 1, 2022	Additions	Disposals & Adjustments	Balance June 20, 2023
Capital sssets being depreciated:				
Furniture & equipment	\$ 6,199	\$ -	\$ -	\$ 6,199
Computer equipment	185,064	13,488	-	198,552
Buildings - leased	220,610	-	-	220,610
Computer equipment - leased	67,472	-	-	67,472
Total capital assets being depreciated:	479,345	13,488	-	492,833
Accumulated depreciation:				
Furniture & equipment	4,083	777		4,860
Computer equipment	100,299	29,744	2	130,042
Buildings - leased	33,091	44,122	-	77,213
Computer equipment - leased	50,604	12,651	-	63,255
Total accumulated depreciation:	188,077	87,294	2	275,370
Net capital assets being depreciated:	479,345	13,488		492,833
Net capital assets	\$ 291,268	\$ (73,806)	\$ (2)	\$ 217,463

CAPSTONE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 4 - CAPITAL ASSETS (continued)

An immaterial adjustment was made to account for \$1.56 in uncaptured depreciation and amortization costs related to equipment in the prior year.

Depreciation: Depreciation expense was not charged to specific activities as the Academy considers its assets to impact multiple activities and allocation is not practical. Total depreciation expenses were as follows:

Governmental activities

Specific activities	\$ -
Unallocated	87,294
Total governmental activities	\$ 87,294

NOTE 5 - CAPITAL LEASES

The Academy is currently leasing numerous laptops, Chromebooks and computers and is also leasing building space for its community-based program. Lease details, including projected payment schedules through maturity are depicted in the tables below:

Riverbend Building Lease
2022-2023

	7% Implied Interest	Principal	Interest	Total	
Restated Lease at July 1, 2021	\$ 206,177	\$ 14,432	\$ 220,610		
Balance June 30, 2022*	175,368	12,269	187,637		Y1*
2022-2023 Payments	37,823	2,648	40,471		Y2
Balance at June 30, 2023	137,545	9,621	147,166		
*Adjusted principal to interest ratio and adjusted for missing payment in 2022.					
Projected Payments thru June 2027					
2023-2024 Payments	37,823	2,648	40,471		Y3
2024-2025 Payments	37,823	2,648	40,471		Y4
2025-2026 Payments	37,823	2,648	40,471		Y5
2026-2027 Payments	24,004	1,750	25,754		Y6
Total Future Payments	137,473	9,693	147,166		
Total Long-term Debt	\$ 99,650	\$ 7,046	\$ 106,696		

CAPSTONE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 5 - CAPITAL LEASES (continued)

Computer Leases
2022-2023

30% Implied average Interest	Principal	Interest	Total
Restated Lease at July 1, 2021	<u>\$ 51,901.54</u>	<u>\$ 15,570.46</u>	<u>\$ 67,472.00</u>
Total All Payments at June 30, 2022	35,852.31	10,755.69	46,608.00
2022-2023 - Payments			
CIT 1	3,524.31	1,057.29	4,581.60
CIT 2	3,998.86	1,199.66	5,198.52
CIT 3	4,244.68	1,273.40	5,518.08
Total 22-23 Payments	11,767.85	3,530.35	15,298.20
Total All Payments at June 30, 2023	<u>47,620.15</u>	<u>14,286.05</u>	<u>61,906.20</u>
2023-2024 - Future Payments	Beginning Balance		5,565.80
4.365847 CIT 1	1,282.22	384.66	1,666.88
4.365847 CIT 2	1,454.87	436.46	1,891.33
4.365847 CIT 3	1,544.30	463.29	2,007.59
Total Projected 23-24 Payments	<u>4,281.38</u>	<u>1,284.42</u>	<u>5,565.80</u>
Total Lease Paid Off by June 30, 2024	<u>\$ 51,901.54</u>	<u>\$ 15,570.46</u>	<u>\$ 67,472.00</u>

Total Lease Obligations - Short-term

Computers	5,566
Building	40,471
	<u>46,037</u>

Total Lease Obligations - Long-term

Building	106,696
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Total Lease Obligations

152,732

Lease Payment Maturity Schedule						
Lessor	2019 -2020	2020 -2021	2021 -2022**	2022 -2023	2024 -2027*	Projected Totals
Riverbend Properties - Building Lease (1)	-	-	32,972	40,471	147,166	220,610
CIT 1 - Computers #1	2,927	6,143	5,215	4,582	1,667	20,533
CIT 2 - Computers #2	5,699	6,365	6,242	5,199	1,891	25,396
CIT 3 - Computers #3	2,893	5,367	5,758	5,518	2,008	21,543
Total Payments	11,519	17,875	50,186	55,769	152,732	288,081

*Facility payments per year estimated at \$40,471 each subsequent year of the lease, subject to future lease adjustments.

CAPSTONE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 6 - OPERATING LEASES -- SPECIAL

On July 8, 2022 the Academy ended its operating lease agreement with Detroit Behavioral Institute, Inc. (DBI) as the agency ceased operations. In June 2023, the Academy renewed its annual operating lease agreement with Wayne County for use of certain spaces in its juvenile detention facilities. In consideration of one dollar (\$1) per year, Wayne County grants non-exclusive classroom use licenses to the Academy. The lease is extended annually and customarily corresponds to the length of term of the Academy's charter contract with DPSCD, which currently is through June 30, 2025.

NOTE 7 - MANAGEMENT AGREEMENT

The Academy has entered into a management agreement with edtec central, LLC (Management Company), a for-profit corporation. The Management Company is responsible for all management, operation, administration, and education at the Academy. Further, all Academy personnel are provided by the Management Company.

The total management fee expensed by the Academy for the year ended June 30, 2023 approximated \$424,922. The management agreement between the Academy and edtec central, LLC is extended annually and allows for a mutually-agreed upon reduction in the fee when the normal fee would cause the Academy undue financial hardship. No such reduction was needed for the period ended June 30, 2023.

NOTE 8 - RISK MANAGEMENT

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

NOTE 9 - PRIOR PERIOD ADJUSTMENTS

The Academy recorded \$1.56 as a prior year adjustment to depreciation costs related to computer equipment. Management considers this

CAPSTONE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 9 - PRIOR PERIOD ADJUSTMENTS (continued)

adjustment as immaterial and having no impact on the overall statement of net capital assets recorded for the Academy through the year ended June 30, 2023, including all prior operational years.

NOTE 10 - CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2023, the Academy continued its implementation the GASB Statement No. 87, *Leases*.

GASB Statement No. 87, *Leases*, was issued by GASB in June 2017. The objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provision of the contract.

GASB 87 established a single model for lease accountings based on the foundational principal that leases are financings of the right to use the underlying assets. Under this Statement, a lessee is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

NOTE 10 - UPCOMING ACCOUNTING PRONOUNCEMENTS

In May 2020, the GASB issued Statement No. 96, *Subscription-based information Technology Arrangements*. This Statement provides guidance on the accounting of financial reporting for subscription-based information technology arrangements (SBITAs) for governmental end users (governments).

CAPSTONE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 10 - UPCOMING ACCOUNTING PRONOUNCEMENTS (continued)

GASB Statement 96 1) defines an SBITA; 2) establishes that an SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; 3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of an SBITA; and 4) requires note disclosures regarding an SBITA.

To the extent relevant, the standards for the SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The Academy continues to evaluate the impact this standard may have on future financial statements.

For the year ended June 30, 2023, the Academy had no right-to-use subscription-based agreements that extended beyond the end of the fiscal year ended June 30, 2023.

NOTE 12 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 10, 2023, which is the date the financial statements were available to be issued. There are no subsequent events to report.

Events occurring after October 10, 2023 have not been evaluated to determine whether a change in the financial statements would be required.

REQUIRED SUPPLEMENTAL INFORMATION

**CAPSTONE ACADEMY CHARTER SCHOOL
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2023**

	Budgeted Amounts		Actual	Variances
	Original	Final	(GAAP Basis)	Over/(Under)
				Final
				to Actual
Revenues				
Local revenues	\$ 1,310	\$ 58,481	\$ 60,928	2,447
State program revenues	1,335,230	2,913,043	2,905,193	(7,851)
Federal program revenues	1,660,648	805,328	711,139	(94,189)
Total revenues	2,997,188	3,776,852	3,677,260	(99,592)
Expenditures				
Current				
Instructional services	2,101,701	1,560,804.00	1,357,734	(203,070)
Supporting services				
Pupil support services	241,742	121,800.00	104,860	(16,940)
Instructional staff services	298,052	331,674.00	281,650	(50,024)
General administration services	295,181	528,318.00	473,705	(54,613)
School administration services	192,938	236,155.50	207,333	(28,823)
Business services	200,489	395,902.50	346,850	(49,053)
Operations and maintenance services	91,403	169,155.00	141,298	(27,857)
Transportation services	525	966.00	804	(162)
Central services	427,520	398,538.00	352,670	(45,868)
School food services	-	1,978.04	-	(1,978)
Community services	15,771	19,183.50	16,053	(3,131)
Total expenditures	3,865,320	3,764,474.54	3,282,957	(481,518)
Excess (Deficiency) of Revenues				
Over Expenditures	(868,133)	12,378	394,303	381,926
Other Financing Sources (Uses)				
Operating transfers - in	-	-	-	-
Operating transfers - out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net Change in Fund Balance	(868,133)	12,378	394,303	381,926
Fund Balance - July 1, 2022	1,632,517	1,830,634	1,830,634	-
Fund Balance - June 30, 2023	\$ 764,384	\$1,843,011	\$2,224,937	\$ 381,926

See accompanying notes to the financial statements.

**CAPSTONE ACADEMY CHARTER SCHOOL
BUDGETARY COMPARISON SCHEDULE - FOOD SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2023**

	Budgeted Amounts		Actual	Variances
	Original	Final	(GAAP Basis)	Over/(Under) Final to Actual
Revenues				
Local revenues	\$ -	\$ -	\$ -	\$ -
State program revenues	-	-	7,850	7,850
Federal program revenues	-	-	-	-
Total revenues	-	-	7,850	7,850
Expenditures				
Current				
Supporting services				
Food services	-	-	-	-
Total expenditures	-	-	-	-
Excess (Deficiency) of Revenues				
Over Expenditures	-	-	7,850	7,850
Other Financing Sources (Uses)				
Operating transfers - in	-	-	-	-
Operating transfers - out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net Change in Fund Balance	-	-	7,850	7,850
Fund Balance - July 1, 2022	-	-	746	(746)
Fund Balance - June 30, 2023	\$ -	\$ -	\$ 8,596	\$ 7,103

See accompanying notes to the financial statements.

[INTENTIONALLY BLANK]



13330 E Jefferson Ave. Detroit, MI 48215 (313) 202-6082



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October 10, 2023

Wilkerson & Associate, P.C.
3 Parklane Blvd.
Suite 612
Dearborn, MI 48126

This representation letter is provided in connection with your audit(s) of the financial statements of CAPSTONE ACADEMY, which comprise the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information as of JUNE 30, 2023, and the respective changes in financial position, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of October 10, 2023, the following representations made to you during your audit.

Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated January 27, 2023, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government.
- 3) We acknowledge our responsibility for 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.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

- 5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- 6) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
- 7) Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements (or in the schedule of findings and questioned costs).
- 8) The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole for each opinion unit.
- 9) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- 10) Guarantees, whether written or oral, under which the CAPSTONE ACADEMY is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

- 11) We have provided you with:
 - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters [and all audit or relevant monitoring reports, if any, received from funding sources].
 - b) Additional information that you have requested from us for the purpose of the audit.
 - c) Unrestricted access to persons within the CAPSTONE ACADEMY from whom you determined it necessary to obtain audit evidence.
 - d) Minutes of the meetings of CAPSTONE ACADEMY or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 12) All material transactions have been recorded in the accounting records and are reflected in the financial statements [and the schedule of expenditures of federal awards].
- 13) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

- 14) We have no knowledge of any fraud or suspected fraud that affects the ACADEMY and involves-
- Management,
 - Employees who have significant roles in internal control, or
 - Others where the fraud could have a material effect on the financial statements.
- 15) We have no knowledge of any allegations of fraud or suspected fraud affecting the ACADEMY'S financial statements communicated by employees, former employees, regulators, or others.
- 16) We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- 17) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- 18) We have disclosed to you the identity of the ACADEMY'S related parties and all the related party relationships and transactions of which we are aware.

Government-specific

- 19) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practice.
- 20) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 21) The ACADEMY has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balance or net position.
- 22) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.
- 23) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
- 24) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

- 25) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
- 26) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- 27) The ACADEMY has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 28) The ACADEMY has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 29) The financial statements properly classify all funds and activities in accordance with GASB 34, as amended.
- 30) All funds that meet the quantitative criteria in GASB 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- 31) Components of net position (net investment in capital assets; restricted; and unrestricted) and classifications of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
- 32) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- 33) Revenues are appropriately classified in the statement of activities within program revenues, general revenues.
- 34) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 35) Deposits are properly classified as to risk and are properly disclosed.
- 36) Capital assets, are properly capitalized, reported, and, if applicable, depreciated .
- 37) We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.
- 38) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- 39) With respect to the Budgetary Comparison Schedule:

- a) We acknowledge our responsibility for presenting the schedule
- b) in accordance with accounting principles generally accepted in the United States of America, and we believe the schedule
- c) including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the budgetary comparison schedule
- d) have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

40) With respect to federal award programs (and as applicable under a single-audit threshold):

- a) We are responsible for understanding and complying with and have complied with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), including if applicable, requirements relating to preparation of the schedule of expenditures of federal awards.
- b) We acknowledge our responsibility, when applicable due to total federal expenditures meeting or exceeding \$750,000 during the ACADEMY'S fiscal year, for preparing and presenting the schedule of expenditures of federal awards (SEFA) and related notes in accordance with the requirements of the Uniform Guidance, and we believe the SEFA, if applicable, including its form and content, is fairly presented in accordance with the Uniform Guidance. The methods of measurement or presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement or presentation of the SEFA.
- c) If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issue the SEFA, if required, and the auditor's report thereon.
- d) We have identified and disclosed to you all of our government programs and related activities subject to the Uniform Guidance compliance audit, and have included in the SEFA, if applicable, expenditures made during the audit period for all awards provided by federal agencies in the form of federal awards, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
- e) We are responsible for understanding and complying with, and have complied with, the requirements of federal statutes, regulations, and the terms and conditions of federal awards related to each of our federal programs and have identified and disclosed to you the requirements of federal statutes, regulations, and the terms and conditions of federal awards that are considered to have a direct and material effect on each major program.

- f) We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing our federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended.
- g) We have made available to you all federal awards (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities.
- h) We have received no requests from a federal agency to audit one or more specific programs as a major program.
- i) We have complied with the direct and material compliance requirements (except for noncompliance disclosed to you), including when applicable, those set forth in the *OMB Compliance Supplement* relating to federal awards and have identified and disclosed to you all amounts questioned and all known noncompliance with the direct and material compliance requirements of federal awards or confirm that there were no amounts questioned and no known noncompliance with the direct and material compliance requirements of federal awards.
- j) We have disclosed any communications from federal awarding agencies and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- k) We have disclosed to you any findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
- l) Amounts claimed or used for matching, if applicable, were determined in accordance with relevant guidelines in OMB's Uniform Guidance (2 CFR part 200, subpart E) and OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, if applicable.
- m) We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- n) We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- o) We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period, if applicable.

- p) There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.
- q) No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies or material weaknesses in internal control over compliance, subsequent to the period covered by the auditor's report.
- r) Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- s) The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- t) We have charged costs to federal awards in accordance with applicable cost principles.
- u) We are responsible for and have accurately prepared the summary schedule of prior audit findings, if applicable, to include all findings required to be included by the Uniform Guidance, and we have provided you with all information on the status of the follow-up on prior audit findings, if any, by federal awarding agencies and pass-through entities, including all management decisions.
- v) When applicable, we are responsible for and have ensured the reporting package does not contain protected personally identifiable information.
- w) When applicable, we are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by the Uniform Guidance.
- x) We are responsible for taking corrective action on each audit finding, if any and as applicable, of the compliance audit including developing a corrective action plan that meets the requirements of the Uniform Guidance.

Signed:

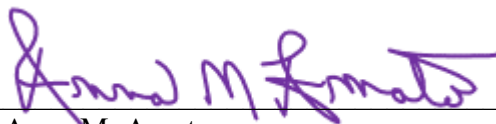


Anita Mitchell

Title:

President, Board of Directors, Capstone Academy

Signed:



Anna M. Amato

Title:

President & CEO, edtec central, (Administrative Management)