

FLAT RIVER ACADEMY
REPORT ON FINANCIAL STATEMENTS
(with required supplementary
and additional supplementary information)
YEAR ENDED JUNE 30, 2018

CONTENTS

	<u>Page</u>
Independent auditor's report	4 - 6
Management's Discussion and Analysis	7 - 12
Basic financial statements	13
Government-wide financial statements	
Statement of net position.....	14
Statement of activities.....	15
Fund financial statements	
Balance sheet - governmental funds	16 - 17
Statement of revenues, expenditures and changes in fund balances - governmental funds.....	18 - 19
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities.....	20
Fiduciary fund	
Statement of fiduciary assets and liabilities	21
Notes to financial statements.....	22 - 35
Required supplementary information	36
Budgetary comparison schedule - general fund.....	37 - 38

CONTENTS

	<u>Page</u>
Additional supplementary information	39
Nonmajor governmental fund types	
Combining balance sheet	40
Combining statement of revenues, expenditures and changes in fund balances	41
Independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	42 - 43

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Flat River Academy

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Flat River Academy, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Flat River Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Flat River Academy as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Flat River Academy basic financial statements. The supplementary 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 additional supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The additional supplementary 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 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 additional supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2018 on our consideration of Flat River Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Flat River Academy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Flat River Academy's internal control over financial reporting and compliance.

Maney Costeiran PC

October 30, 2018

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Flat River Academy’s (Academy) annual financial report presents our discussion and analysis of the public school Academy’s financial performance during the fiscal year that ended on June 30, 2018. Please read it in conjunction with the Academy’s financial statements, which immediately follow this section.

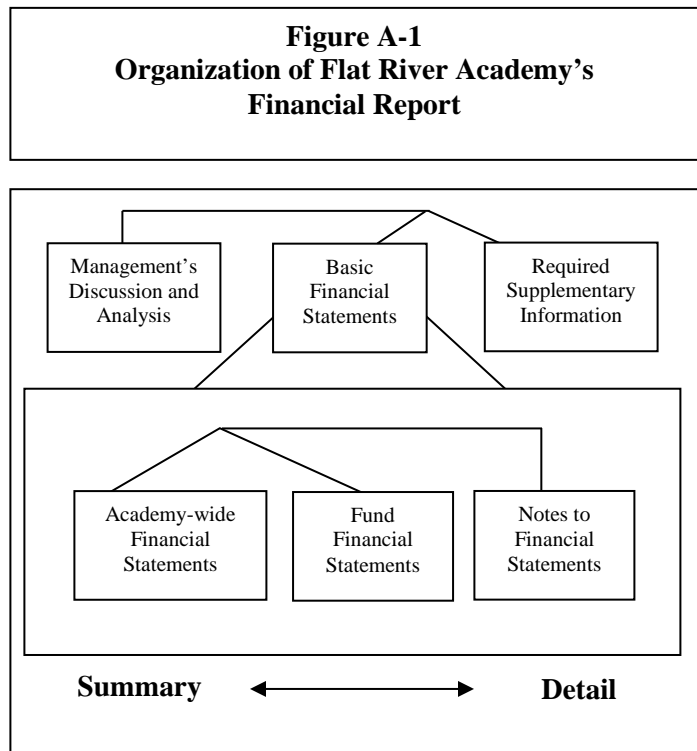
Financial highlights

- The Academy had a decrease in the fund balance in the general fund of \$61,180 compared to a budgeted decrease of \$83,130. This gives the Academy a fund balance in the general fund of \$34,868.
- The Academy had an increase in the fund balance in the debt service fund of \$129,715. This gives the Academy a debt service fund balance of \$874,558.
- The Academy did not retire any long term debt during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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



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

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

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

	Academy-wide statements	Governmental funds	Fiduciary funds
Scope	Entire Academy (except fiduciary funds)	All activities of the Academy that are not fiduciary	Instances in which the Academy administers resources on behalf of someone else, such as student activities monies
Required financial statements	* Statement of net position * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	Statement of fiduciary assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, the Academy’s funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Academy-wide statements

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

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

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

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

Fund financial statements

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

- Some funds are required by state law and by debt agreements.
- The Academy establishes other funds to control and manage money for particular purposes (like repaying its long-term debt).

The Academy has the following two kinds of funds:

- **Governmental funds** - Most of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.
- **Fiduciary funds** - The Academy is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds. The Academy is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the Academy-wide financial statements because the Academy cannot use these assets to finance its operations.

Financial analysis of the Academy as a whole

Net position - the Academy's combined net position of (\$1,298,673) decreased by \$181,894 during the year. See Figures A-3 and A-4. The total revenues decreased by 7.82% to \$1,210,156. A decrease in blended student enrollment from 155 to 120 caused a decrease in state revenue sources. At risk revenues increased. State aid foundation allowance included in revenue from state sources accounts for 77% of the Academy's revenue. The total cost of instruction decreased by 11.4% to \$487,684 primarily due to decreases in student enrollment. Total support service remained fairly consistent and decreased by only 3.4% to \$558,983.

**Figure A-3
Flat River Academy's Net Position**

	2018	2017
Current and other assets	\$ 1,112,424	\$ 1,044,683
Capital assets	1,764,349	1,793,813
Total assets	<u>2,876,773</u>	<u>2,838,496</u>
Other liabilities	198,863	199,692
Long-term liabilities	3,976,583	3,755,583
Total liabilities	<u>4,175,446</u>	<u>3,955,275</u>
Net position:		
Net investment in capital assets	(1,635,651)	(1,606,187)
Restricted for debt service	330,868	431,241
Restricted for capital projects	4,135	4,100
Unrestricted	1,975	54,067
Total net position	<u>\$ (1,298,673)</u>	<u>\$ (1,116,779)</u>

**Figure A-4
Changes in Flat River Academy's Net Position**

	2018	2017
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 264,579	\$ 145,360
Charges for services	-	3,406
General revenues:		
State sources - unrestricted	928,272	1,155,218
Other local sources	17,305	8,778
Total general revenues	<u>945,577</u>	<u>1,163,996</u>
Total revenues	<u>1,210,156</u>	<u>1,312,762</u>
Expenses:		
Instruction	487,684	550,446
Support services	558,983	578,819
Food service	61,834	41,220
Interest on long-term debt	221,000	223,031
Unallocated depreciation	62,549	74,875
Total expenses	<u>1,392,050</u>	<u>1,468,391</u>
Extraordinary item - loss on termination of land contract payable	-	421,360
Change in net position	<u>\$ (181,894)</u>	<u>\$ (576,989)</u>

Financial analysis of the Academy’s funds

The Academy’s general fund balance decreased by \$61,180 to \$34,868. There were no principal and interest payments on long-term debt. Transfers to the debt service and food service funds totaling \$169,454 were made from the general fund.

The fund balance in the debt service fund increased \$129,715. This is primarily from deferring scheduled principal and interest payments.

General fund budgetary highlights

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

While the Academy’s final budget for the general fund anticipated expenditures and other financing uses would exceed revenues and other financing sources by \$83,130, the actual results for the year showed expenditures and other financing uses over revenues and other financing sources of \$61,180.

Actual revenues were \$2,656 lower than budgeted, primarily related to decreased state aid due to a reduction of students. The actual expenditures were \$21,399 under budget primarily related to lower than anticipated transportation and operation and maintenance expenditures.

Capital asset and debt administration

Capital assets

As of the year ended June 30, 2018, the Academy had invested \$1,764,349 in capital assets net of accumulated depreciation as summarized in Figure A-5. This amount represents a net decrease of \$29,464 from the beginning of the year. Total depreciation expense for the year was \$62,549. More detailed information about capital assets can be found in Note 3 to the financial statements.

The Academy’s capital assets are as follows:

Figure A-5				
Flat River Academy's Capital Assets				
	2018			2017
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 320,000	\$ -	\$ 320,000	\$ 320,000
Building and improvements	2,039,006	738,950	1,300,056	1,342,296
Land improvements	87,000	51,330	35,670	39,150
Furniture and fixtures	310,429	211,019	99,410	86,823
Office equipment	101,812	92,599	9,213	5,544
Total	\$ 2,858,247	\$ 1,093,898	\$ 1,764,349	\$ 1,793,813

Long-term debt

The Academy made no principal or interest payments on long-term debt during the year. The Academy was able to defer an additional payment of approximately \$710,000 of principal and interest on its certificates of participation during 2018. The total amount deferred is \$710,000 of principal and interest at June 30, 2018. Note 4 contains additional details related to the forbearance agreement.

Factors bearing on the Academy's future

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

- The Academy has adopted a budget for the 2018/2019 fiscal year showing revenues exceeding expenditures by \$3,205.
- The Academy has received the REAP federal grant for the 2018-2019 year.
- The Academy is working with the debtholders to extend the forbearance agreement to June 1, 2019.

Contacting the Academy's financial management

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy at 9481 Jordan Road, Greenville, Michigan, 48838, phone (616) 754-9360.

BASIC FINANCIAL STATEMENTS

**FLAT RIVER ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2018**

	<u>Governmental activities</u>
ASSETS:	
Cash and cash equivalents	\$ 57,060
Intergovernmental receivable	268,407
Prepays	2,800
Restricted cash:	
Debt service	780,022
Capital projects	4,135
Capital assets not being depreciated	320,000
Capital assets, net of accumulated depreciation	<u>1,444,349</u>
TOTAL ASSETS	<u>2,876,773</u>
LIABILITIES:	
Accounts payable	48,351
Accrued oversight fees	4,934
Due to agency fund	6,554
Accrued salaries and related items	65,736
Unearned revenues	73,288
Noncurrent liabilities:	
Due in more than one year:	
Certificates of participation	3,400,000
Accrued interest	<u>576,583</u>
TOTAL LIABILITIES	<u>4,175,446</u>
NET POSITION:	
Net investment in capital assets	(1,635,651)
Restricted for debt service	330,868
Restricted for capital projects	4,135
Unrestricted	<u>1,975</u>
TOTAL NET POSITION	<u><u>\$ (1,298,673)</u></u>

**FLAT RIVER ACADEMY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program revenues</u>		<u>Governmental activities</u>
		<u>Charges for services</u>	<u>Operating grants</u>	<u>Net (expense) revenue and changes in net position</u>
Governmental activities:				
Instruction	\$ 487,684	\$ -	\$ 170,370	\$ (317,314)
Support services	558,983	-	40,173	(518,810)
Food service	61,834	-	54,036	(7,798)
Interest and fees on long-term debt	221,000	-	-	(221,000)
Unallocated depreciation	62,549	-	-	(62,549)
Total governmental activities	<u>\$ 1,392,050</u>	<u>\$ -</u>	<u>\$ 264,579</u>	<u>(1,127,471)</u>
General revenues:				
State sources - unrestricted				928,272
Local sources				11,061
Investment earnings				6,244
Total general revenues				<u>945,577</u>
CHANGE IN NET POSITION				(181,894)
NET POSITION, beginning of year				<u>(1,116,779)</u>
NET POSITION, end of year				<u>\$ (1,298,673)</u>

**FLAT RIVER ACADEMY
BALANCE SHEET
JUNE 30, 2018**

ASSETS	General fund	Debt service fund	Total nonmajor funds	Total governmental funds
ASSETS:				
Cash and cash equivalents	\$ 57,060	\$ -	\$ -	\$ 57,060
Receivables:				
Intergovernmental receivable	268,407	-	-	268,407
Due from other funds	-	94,536	-	94,536
Prepays	2,800	-	-	2,800
Restricted cash	-	780,022	4,135	784,157
TOTAL ASSETS	\$ 328,267	\$ 874,558	\$ 4,135	\$ 1,206,960
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 48,351	\$ -	\$ -	\$ 48,351
Due to agency fund	6,554	-	-	6,554
Accrued oversight fees	4,934	-	-	4,934
Accrued salaries and related items	65,736	-	-	65,736
Unearned revenues	73,288	-	-	73,288
Due to other funds	94,536	-	-	94,536
TOTAL LIABILITIES	293,399	-	-	293,399

See notes to financial statements.

	General fund	Debt service fund	Total nonmajor funds	Total governmental funds
FUND BALANCES:				
Nonspendable:				
Prepays	\$ 2,800	\$ -	\$ -	\$ 2,800
Restricted:				
Debt service	32,893	874,558	-	907,451
Capital projects	-	-	4,135	4,135
Unassigned	(825)	-	-	(825)
TOTAL FUND BALANCES	<u>34,868</u>	<u>874,558</u>	<u>4,135</u>	<u>913,561</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 328,267</u>	<u>\$ 874,558</u>	<u>\$ 4,135</u>	<u>\$ 1,206,960</u>
Total governmental fund balance				\$ 913,561
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:				
The cost of the capital assets is			\$ 2,858,247	
Accumulated depreciation is			<u>(1,093,898)</u>	
				1,764,349
Long-term liabilities are not due and payable in the current period and are not reported in the funds:				
Certificates of participation				(3,400,000)
Accrued interest is not included as a liability in government funds, it is recorded when paid				<u>(576,583)</u>
Net position of governmental activities				<u>\$ (1,298,673)</u>

See notes to financial statements.

FLAT RIVER ACADEMY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	General fund	Debt service fund	Total nonmajor funds	Total governmental funds
REVENUES:				
Local sources:				
Other	\$ 11,061	\$ 6,209	\$ 35	\$ 17,305
State sources	1,023,910	-	2,080	1,025,990
Federal sources	114,905	-	51,956	166,861
Total revenues	<u>1,149,876</u>	<u>6,209</u>	<u>54,071</u>	<u>1,210,156</u>
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	327,071	-	-	327,071
Added needs	166,893	-	-	166,893
Total instruction	<u>493,964</u>	<u>-</u>	<u>-</u>	<u>493,964</u>
Support services:				
Pupil	41,249	-	-	41,249
Instructional staff	21,032	-	-	21,032
General administration	111,462	-	-	111,462
School administration	120,798	-	-	120,798
Business	578	38,150	-	38,728
Operation and maintenance	160,837	-	-	160,837
Transportation	84,430	-	-	84,430
Central	7,252	-	-	7,252
Total support services	<u>547,638</u>	<u>38,150</u>	<u>-</u>	<u>585,788</u>

See notes to financial statements.

	General fund	Debt service fund	Total nonmajor funds	Total governmental funds
EXPENDITURES (Concluded):				
Current (Concluded):				
Food service	\$ -	\$ -	\$ 61,834	\$ 61,834
Total expenditures	<u>1,041,602</u>	<u>38,150</u>	<u>61,834</u>	<u>1,141,586</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>108,274</u>	<u>(31,941)</u>	<u>(7,763)</u>	<u>68,570</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	161,656	7,798	169,454
Transfers out	<u>(169,454)</u>	<u>-</u>	<u>-</u>	<u>(169,454)</u>
Total other financing sources (uses)	<u>(169,454)</u>	<u>161,656</u>	<u>7,798</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(61,180)	129,715	35	68,570
FUND BALANCES:				
Beginning of year	96,048	744,843	4,100	844,991
End of year	<u>\$ 34,868</u>	<u>\$ 874,558</u>	<u>\$ 4,135</u>	<u>\$ 913,561</u>

See notes to financial statements.

**FLAT RIVER ACADEMY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

Net change in fund balances total governmental funds	\$ 68,570
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p style="padding-left: 20px;">Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation:</p>	
Depreciation expense	(62,549)
Capital outlay	33,085
<p>Accrued interest on certificates of participation is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:</p>	
Accrued interest payable, beginning of the year	355,583
Accrued interest payable, end of the year	<u>(576,583)</u>
Change in net position of governmental activities	<u><u>\$(181,894)</u></u>

**FLAT RIVER ACADEMY
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
JUNE 30, 2018**

	<u>Agency fund</u>
ASSETS	
Due from general fund	<u>\$ 6,554</u>
LIABILITIES	
Due to parent groups	<u>\$ 6,554</u>

**FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Academy. All fiduciary activities are reported only in the fund financial statements. *Governmental activities* normally are supported by intergovernmental revenues.

B. Reporting Entity

Flat River Academy (the “Academy”) is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Saginaw Valley State University is the authorizing governing body for the Academy and has contracted with the Academy to charter the public school through June 2019. Board members are approved by the authorizing governing body and have decision making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. The Academy receives funding from local, state, and federal sources and must comply with all of the requirements of these funding source entities. However, the Academy is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. In addition, the Academy’s reporting entity does not contain any component units as defined in Governmental Accounting Standards Board (GASB) Statements.

C. Basis of Presentation - Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

D. Basis of Presentation - Fund Financial Statements

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

**FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Presentation - Fund Financial Statements (Concluded)

The Academy reports the following major governmental funds:

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

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on certificates of participation.

The Academy reports the following nonmajor governmental fund:

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

The *capital projects fund* accounts for the acquisition of fixed assets or construction of major capital projects.

Fiduciary funds account for assets held by the Academy in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the Academy under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the Academy holds for others in an agency capacity (primarily student and parent activities).

During the course of operations the Academy has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

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

**FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting

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

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

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are generally collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to public school academies based on information supplied by the academies.

**FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Concluded)

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

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

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

F. Budgetary Information

Budgetary basis of accounting:

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

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

1. The Chief Administrative Officer submits to the Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Prior to July 1, the budget is legally adopted by Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.

**FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Information (Concluded)

3. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Directors.
4. The budget was amended during the year with supplemental appropriations, the last one approved prior to year-end June 30, 2018. The Academy does not consider these amendments to be significant.

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

1. Cash and cash equivalents

The Academy's cash and cash equivalents are considered to be cash on hand and demand deposit accounts.

2. Investments

Certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. Standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. District or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

3. Prepaid items

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

**FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

4. Capital assets

Capital assets, as summarized below, are reported in the government-wide financial statements. Capital assets are defined by the Academy as assets with an initial, individual cost of more than \$5,000 and a useful life in excess of one year. Group purchases are evaluated on a case by case basis. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

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

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

Capital asset classes	Lives
Buildings and improvements	20 - 50
Land improvements	25
Furniture and other equipment	3 - 20

5. Deferred outflows/inflows of resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until that time. The Academy has no items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Academy has no items that qualify for reporting in this category.

**FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

6. Net position flow assumption

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

7. Fund balance flow assumptions

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

8. Fund balance policies

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

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

**FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

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

8. Fund balance policies (Concluded)

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

H. Revenues and Expenditures/Expenses

1. Program revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment. Unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Long-term obligations

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

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

**FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - CASH DEPOSITS - CREDIT RISK

In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2018, none of the Academy's cash and cash equivalents was exposed to custodial credit risk because it was not insured by the FDIC. The Academy had money market funds of \$784,157 utilized for restricted cash deposit of which no amounts are FDIC insured. Fiduciary fund balances are not included in the above balances.

Certain money market funds are restricted under the terms of the certificates of participation debt agreements primarily for debt service, operating reserves, and capital projects and maintenance and repair of the related facilities.

NOTE 3 - CAPITAL ASSETS

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

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 320,000	\$ -	\$ -	\$ 320,000
Capital assets, being depreciated:				
Building and improvements	2,039,006	-	-	2,039,006
Land improvements	87,000	-	-	87,000
Furniture and fixtures	283,624	26,805	-	310,429
Office equipment	95,532	6,280	-	101,812
Depreciable capital assets	<u>2,505,162</u>	<u>33,085</u>	<u>-</u>	<u>2,538,247</u>
Accumulated depreciation:				
Building and improvements	696,710	42,240	-	738,950
Land improvements	47,850	3,480	-	51,330
Furniture and fixtures	196,801	14,218	-	211,019
Office equipment	89,988	2,611	-	92,599
Total accumulated depreciation	<u>1,031,349</u>	<u>62,549</u>	<u>-</u>	<u>1,093,898</u>
Net depreciable capital assets	<u>1,473,813</u>	<u>(29,464)</u>	<u>-</u>	<u>1,444,349</u>
Net governmental capital assets	<u>\$ 1,793,813</u>	<u>\$ (29,464)</u>	<u>\$ -</u>	<u>\$ 1,764,349</u>

Depreciation for the fiscal year ended June 30, 2018 amounted to \$62,549. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - LONG-TERM DEBT

The following is a summary of long-term obligation transactions of the Academy for the year ended June 30, 2018:

	<u>Certificates of participation</u>
Balance, July 1, 2017	\$ 3,400,000
Repayments	<u>-</u>
Balance, June 30, 2018	3,400,000
Due within one year	<u>-</u>
Due in more than one year	<u><u>\$ 3,400,000</u></u>

Interest expense on long-term debt (government-wide) for the year ended June 30, 2018 was approximately \$221,000.

Long-term debt currently outstanding at June 30, 2018 is as follows:

2006 Series full term certificates of participation originally due in annual principal installments of \$90,000 to \$545,000 through February 1, 2036 plus interest at 6.5%.	<u><u>\$ 3,400,000</u></u>
--	----------------------------

Total accrued interest outstanding at June 30, 2018 is as follows:

Past due accrued interest	\$ 484,500
Accrued interest on August 2018 payment	<u>92,083</u>
Total accrued interest	<u><u>\$ 576,583</u></u>

FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - LONG-TERM DEBT (Concluded)

The annual requirements to amortize the certificates of participation outstanding as of June 30, 2018, are as follows:

Year ending June 30,	Principal	Interest	Total
2019	\$ -	\$ -	\$ -
2020	425,000	199,550	624,550
2021	100,000	193,375	293,375
2022	105,000	186,875	291,875
2023	115,000	180,050	295,050
2024 - 2028	690,000	778,700	1,468,700
2029 - 2033	945,000	523,900	1,468,900
2034 - 2036	1,020,000	153,075	1,173,075
Total	<u>\$ 3,400,000</u>	<u>\$ 2,215,525</u>	<u>\$ 5,615,525</u>

The above principal maturities have been modified from the original terms of the debt agreements to disclose \$330,000 of past due principal as of June 30, 2018 as being paid in the fiscal year ended June 30, 2020. Past due interest amounts are included in accrued interest. The actual amount of future debt service payments may be modified with the debtholders after the report date. This may significantly impact the amounts to be paid in the current period and could have a significant impact on the cash flow of the Academy.

The Academy is in default of the debt agreement terms due primarily to not making all required principal and interest payment and not maintaining adequate reserve account balances. On June 1, 2018 the Academy executed a forbearance agreement ending October 31, 2018 with US Bank, the trustee for the certificates of participation. During the forbearance period, the trustee has agreed not to exercise remedies solely as the result of the defaults above, including the commencement of proceedings for the collection of the amounts due on the certificates of participation. Commencing with the month ending May 30, 2017 and continuing each month during the forbearance period ending October 31, 2018, the trustee was to transfer 20% of the total state school aid allocated to the Academy to an operating reserve account which is available to the Academy for necessary operating expenditures, subject to the prior approval of the Trustee. No principal or interest payments are required during this period.

As of the report date, the Academy continues to work with the debtholder to establish a revised forbearance agreement, which it has received in draft form, extending its terms until June 1, 2019 under substantially the same terms as the expiring agreement. The draft agreement continues to call for 20% of the state school aid allocated to the Academy to be deposited into an operating reserve account. The Academy must ratify the revised forbearance agreement by November 15, 2018. Management expects to approve the agreement within the required timeframe. The Academy has a good working relationship with the debtholder, and along with Mid-West Management Group continues to implement a turn-around plan to among other things, reestablish the pupil membership count and control expenses at levels adequate to pay all debt obligations as they come due. The debtholder has indicated a desire to continue to work with the Academy to implement the turn-around plan to achieve these results.

**FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - TRANSFERS

Transfers between the governmental funds were as follows:

Transfers out		Transfers in	
General fund	\$ 169,454	Debt service fund	\$ 161,656
		Food service fund	7,798
	\$ 169,454		\$ 169,454

Transfers were made from the general fund to the debt service fund for principal and interest payments on the certificates of participation. Transfers from the general fund to the food service fund were to cover operating costs.

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivable and payable balances at June 30, 2018 are as follows:

Receivable fund		Payable	
Debt service fund	\$ 94,536	General fund	\$ 94,536
	\$ 94,536		\$ 94,536

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

On April 24, 2014 the Academy executed a third amendment to its financing agreement, assignment agreement and trust agreement with U.S. Bank. Under the terms of the amended agreements the Academy was able to waive certain debt service payments from the general fund to the debt service fund. Under the terms of the Forbearance agreement executed in September 2015 (Note 4), the Academy was able to draw down \$160,000 of protective advances; \$50,000 from the Certificate Account and \$110,000 from the Certificate Reserve Account. The protective advances were used in September and October of 2015 to pay approximately \$160,000 of trustee approved operating expenditures. The balance as of June 30, 2018 is the amount the General Fund has yet to pay to the debt service fund.

**FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - OVERSIGHT FEES

The Academy pays an administrative oversight fee of 3% of its state school aid discretionary and Proposal A obligation payments to Saginaw Valley State University Board of Trustees, as set forth by contract, to reimburse the University Board for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2018, the Academy incurred expense of approximately \$27,000 for oversight fees.

NOTE 8 - MANAGEMENT AGREEMENT

The Academy had a management agreement with MJ Management Services, Inc. (MJ) for operation of the Academy from July 1, 2016 through August 31, 2016. The Academy incurred no additional management fees during the year ended June 30, 2018. Accounts payable to MJ at June 30, 2018 was approximately \$23,000.

The Academy maintains a management agreement with Midwest Schools Services, Inc. for operation of the Academy from July 31, 2017 through July 30, 2018. The terms of the agreement were extended through July 2019. Under the terms of the management agreement, Midwest's compensation for operating the Academy was 6% of state aid entitlement for the fiscal year ending June 30, 2018, plus certain other fees, as prorated for the term of service. The total management fee incurred through the year ended June 30, 2018 was approximately \$63,000.

NOTE 9 - PURCHASED SERVICES

The Academy leases all employee services from Midwest School Services, Inc. Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of Midwest School Services, Inc.

NOTE 10 - LEASES

The Academy leased two buses under non-cancelable operating leases through July 2018. The bus lease expense for the year ended June 30, 2018 was approximately \$31,000. In September 2018 the Academy executed a lease for one bus.

**FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 - LEASES (Concluded)

Future minimum lease payments are as follows:

June 30,	Total
2019	\$ 49,629
2020	17,649
2021	17,649
	\$ 84,927

NOTE 11 - RISK MANAGEMENT

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

NOTE 12 - UPCOMING ACCOUNTING PRONOUNCEMENTS

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

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017 and will be effective for the Academy's 2021 year end. The objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

REQUIRED SUPPLEMENTARY INFORMATION

**FLAT RIVER ACADEMY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2018**

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget</u>
REVENUES:				
Local	\$ 4,000	\$ 11,060	\$ 11,061	\$ 1
State sources	1,354,726	1,023,400	1,023,910	510
Federal sources	95,789	118,072	114,905	(3,167)
Total revenues	<u>1,454,515</u>	<u>1,152,532</u>	<u>1,149,876</u>	<u>(2,656)</u>
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	443,952	320,353	327,071	(6,718)
Added needs	162,359	194,147	166,893	27,254
Total instruction	<u>606,311</u>	<u>514,500</u>	<u>493,964</u>	<u>20,536</u>
Support services:				
Pupil	15,000	21,695	41,249	(19,554)
Instructional staff	9,729	26,837	21,032	5,805
General administration	136,048	112,249	111,462	787
School administration	136,696	121,727	120,798	929
Business	5,000	2,000	578	1,422
Operation and maintenance	103,943	167,818	160,837	6,981
Transportation	101,927	88,725	84,430	4,295
Central	20,500	7,450	7,252	198
Total support services	<u>528,843</u>	<u>548,501</u>	<u>547,638</u>	<u>863</u>

Total expenditures	<u>\$ 1,135,154</u>	<u>\$ 1,063,001</u>	<u>\$ 1,041,602</u>	<u>\$ 21,399</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	319,361	89,531	108,274	18,743
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>(306,597)</u>	<u>(172,661)</u>	<u>(169,454)</u>	<u>3,207</u>
Total other financing sources (uses)	<u>(306,597)</u>	<u>(172,661)</u>	<u>(169,454)</u>	<u>3,207</u>
NET CHANGE IN FUND BALANCE	<u>\$ 12,764</u>	<u>\$ (83,130)</u>	<u>(61,180)</u>	<u>\$ 21,950</u>
FUND BALANCE:				
Beginning of year			<u>96,048</u>	
End of year			<u>\$ 34,868</u>	

ADDITIONAL SUPPLEMENTARY INFORMATION

**FLAT RIVER ACADEMY
NONMAJOR GOVERNMENTAL FUND TYPES
COMBINING BALANCE SHEET
JUNE 30, 2018**

	Special revenue fund	Capital projects fund	Total nonmajor funds
ASSETS			
ASSETS:			
Restricted cash	\$ -	\$ 4,135	\$ 4,135
FUND BALANCES			
FUND BALANCES:			
Restricted:			
Capital projects	\$ -	\$ 4,135	\$ 4,135

**FLAT RIVER ACADEMY
NONMAJOR GOVERNMENTAL FUND TYPES
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2018**

	Special revenue fund	Capital projects fund	Total nonmajor funds
REVENUES:			
State sources	\$ 2,080	\$ -	\$ 2,080
Federal sources	51,956	-	51,956
Interest	-	35	35
Total revenues	<u>54,036</u>	<u>35</u>	<u>54,071</u>
EXPENDITURES:			
Salaries	13,106	-	13,106
Benefits	2,192	-	2,192
Food	46,536	-	46,536
Total expenditures	<u>61,834</u>	<u>-</u>	<u>61,834</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(7,798)</u>	<u>35</u>	<u>(7,763)</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	<u>7,798</u>	<u>-</u>	<u>7,798</u>
NET CHANGE IN FUND BALANCES	<u>-</u>	<u>35</u>	<u>35</u>
FUND BALANCES:			
Beginning of year	<u>-</u>	<u>4,100</u>	<u>4,100</u>
End of year	<u>\$ -</u>	<u>\$ 4,135</u>	<u>\$ 4,135</u>

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
Flat River Academy

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Flat River Academy as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Flat River Academy's basic financial statements and have issued our report thereon dated October 30, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Flat River Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Flat River Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of Flat River Academy's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 Flat River Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Maney Costeiran PC

October 30, 2018

October 30, 2018

To the Board of Directors
Flat River Academy

We have audited the financial statements of Flat River Academy for the year ended June 30, 2018, and have issued our report thereon dated October 30, 2018. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Flat River Academy. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of Flat River Academy's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

Significant Audit Findings

1. Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Flat River Academy are described in Note 1 to the financial statements. We noted no transactions entered into by the Academy during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

We did not identify any sensitive estimates.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

The debt related disclosures in note 4 to the financial statements assume that all unpaid debt and interest payments scheduled to be paid in the fiscal year 2019 and all unpaid amounts as of June 30, 2018, will be paid in the fiscal year 2020.

As of the report date, the debtholder has issued a seventh amendment of the master declaration of trust. This agreement essentially extends the term of the sixth amendment executed in November 2017 from October 31, 2018 to June 1, 2019. The financial statements have been prepared based on management's representation that the seventh amendment will be ratified by the Board of Directors by November 15, 2018.

The debt covenant violations giving rise to the forbearance agreements have the ability to materially impact the Academy's cash flow and ability to continue to operate in the near term. These financial statements have been prepared based on the assumption the Academy will be able to continue its operations as a charter school through October 2019. The willingness of the debtholder to not call the debt or cause other financial hardships by requiring significant principal and interest payments during this term as well as the Academy's ability to retain its charter are key factors in the above assumption.

2. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

3. *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

4. *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

5. *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 30, 2018.

6. *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Flat River Academy's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Flat River Academy's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. *Other Matters*

We applied certain limited procedures to the required supplementary information (RSI) which are required and supplement the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the other supplementary information, which accompany the financial statements but are not RSI. With respect to this other supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the other supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

A separate management letter was not issued.

This information is intended solely for the use of the Board of Directors and management of Flat River Academy and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Manes Costeiran PC