



Great Lakes Cyber Academy
Audited Financial Statements

June 30, 2018

Prepared by Taylor & Morgan, P.C.

Great Lakes Cyber Academy
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INDEPENDENT AUDITORS' REPORT

October 30, 2018

Board of Directors
Great Lakes Cyber 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 the Great Lakes Cyber Academy as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the 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.

Auditors' 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. 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 the Great Lakes Cyber Academy as of June 30, 2018 and the respective changes in financial position, 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 budgetary comparison information on pages 3-5 and 19 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

The introductory section titled management's discussion and analysis has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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 the Great Lakes Cyber Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Great Lakes Cyber Academy's internal control over financial reporting and compliance.

Sincerely,

Taylor & Morgan, P.C.

Taylor & Morgan, P.C.
Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS
(MD & A)

GREAT LAKES CYBER ACADEMY MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Great Lakes Cyber Academy's (the Academy) annual financial report presents our discussion and analysis of the 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

- Government-wide revenues were at \$8,493,436 while expenditures were \$8,156,117.
- At June 30, 2018, the Academy's assets exceeded its liabilities by \$480,990.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of a series of financial statements that show information for the Academy as a whole, its funds, and its fiduciary responsibilities. The Statement of Net Position and the Statement of Activities provides information about the activities of the Academy as a whole and presents a longer-term view of the Academy's finances. Our fund financial statements are included later in the financial report. For our governmental activities, these statements tell how we financed our services in the short-term as well as what remains for future spending. Fund statements also may give you some insights into the Academy's overall financial health. Fund financial statements also report operations in more detail than the government-wide financial statements by providing information about the most significant fund, the general fund.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are reported in compliance with GASB 34. These statements present information on the Academy's finances in a manner similar to private sector businesses. One of the most important questions asked about the Academy is, "Is the Academy as a whole better off or worse off financially as a result of the year's activities?" The Statement of Net Position and Statement of Activities report information on the Academy as a whole and its activities in a way that helps answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position shows assets and liabilities, with the difference between the two reported as net position. All capital assets and long-term liabilities and general government functions, are shown in the Statement of Net Position.

The Statement of Activities shows revenues, expenses, and the change in net assets for the Academy as a whole. Revenues and expenses attributable to specific functions are segregated from general revenues, to display the extent to which general revenues support each function.

FUND FINANCIAL STATEMENTS

Governmental funds account for the same functions as are reported as governmental activities in the government-wide financial statements. The governmental fund reporting focuses on how money flows in and out of funds and the balances left at year end that are available for spending. They are reported using the accounting method called “modified accrual” accounting, which measures cash and all other financial assets that can be readily converted to cash. This information is essential for preparation of and compliance with annual budgets. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliations following the government statements. The notes to the financial statements provide additional information that is essential to a complete understanding of the data provided in the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Total assets, liabilities and net position for the year ended June 30, 2018 were as follows:

	2018	2017
Assets		
Current and Other Assets	\$ 4,080,159	\$ 3,459,803
Capital Assets, net	57,349	129,723
Total Assets	4,137,508	3,589,526
Liabilities		
Current Liabilities	3,656,518	3,445,855
Net Position		
Investment in Fixed Assets	57,349	129,723
Unrestricted	423,641	13,948
Total Net Position	\$ 480,990	\$ 143,671

The Academy’s revenues and expenses were as follows:

	2018	2017
Revenues		
Operating Grants and Contributions - Instruction	\$ 687,311	\$ 619,522
Operating Grants and Contributions - Support	3,847	9,576
State School Aid - Unrestricted	7,737,666	6,633,126
Miscellaneous	64,612	85,639
Total Revenue	8,493,436	7,347,863
Expenditures		
Instructional	5,535,093	4,587,778
Support Services	2,621,024	2,804,418
Total Expenditures	8,156,117	7,392,196
Change in Fund Balance	337,319	(44,333)
Beginning Fund Balance	143,671	188,004
Ending Fund Balance	\$ 480,990	\$ 143,671

ANALYSIS OF OVERALL FINANCIAL POSITION

During the year ended June 30, 2018, the Academy's government-wide revenues of \$8,493,436 exceeded its expenditures of \$8,156,117 by \$337,319, ending the year with a net position of \$480,990. Per pupil funding and student enrollment are the primary factors in determining the revenue and expenses for the Academy. The student count for the years ended June 30, 2018 and 2017 were 1,022 and 894, respectively.

FUND FINANCIAL STATEMENTS

Governmental funds account for the same functions as are reported as governmental activities in the government-wide financial statements. Governmental fund reporting focuses on how money flows in and out of funds and the balances left at year end that are available for spending. They are reported using the accounting method called "modified accrual" accounting, which measures cash and all other financial assets that can be readily converted to cash. This information is essential for preparation of and compliance with annual budgets. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliations following the government statements. The notes to the financial statements provide additional information that is essential to a complete understanding of the data provided in the financial statements.

BUDGET VARIATIONS

The budgeted revenue exceeded actual revenue by \$325,828, and actual expenses were less than the budgeted amounts by \$132,652. This resulted in budgeted fund balance exceeding actual fund balance amounts by \$193,176. Please refer to the notes to the basic financial statements for further information.

CAPITAL ASSETS

The Academy had \$57,349 and \$129,723 in capital assets, net of depreciation, at June 30, 2018 and 2017, respectively. Please refer to the notes to the basic financial statements for further information.

REQUESTS FOR INFORMATION

Our financial report is designed to provide our parents, teachers, students, investors and creditors with an overview of the Academy's finances. If you have any questions about this report or need any clarification of information please contact the Great Lakes Cyber Academy offices, located at:

Great Lakes Cyber Academy
2140 University Park Drive #270
Okemos, MI 48864

BASIC FINANCIAL STATEMENTS

GREAT LAKES CYBER ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2018

		Governmental Activities
Assets		
	Cash and Cash Equivalents	\$ 2,164,928
	Due from Other Governmental Units	1,911,288
	Prepaid Expenses	3,943
	Capital Assets Net of Depreciation	57,349
	Total Assets	4,137,508
 Liabilities		
	Accounts Payable	2,957,100
	Accrued Expenses	331,416
	Unavailable Revenues	296,341
	Advances from Grantors	71,661
	Total Liabilities	3,656,518
 Net Position		
	Investment in Capital Assets	57,349
	Unrestricted	423,641
	Total Net Position	\$ 480,990

See accompanying notes to basic financial statements

GREAT LAKES CYBER ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions		Net (Expense) Revenue and Changes in Net Position
Functions/Programs					
Governmental Activities					
Instruction	\$ 5,535,093	\$ -	\$ 687,311		\$ (4,847,782)
Support Services	2,621,024	-	3,847		(2,617,177)
Total Governmental Activities	\$ 8,156,117	\$ -	\$ 691,158		(7,464,959)
General Purpose Revenues					
State School Aid - Unrestricted					7,737,666
Miscellaneous					64,612
Total General Revenue					7,802,278
Change in Net Position					337,319
Net Position - July 1					143,671
Net Position - June 30					\$ 480,990

See accompanying notes to basic financial statements

GREAT LAKES CYBER ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

		<u>General Fund</u>
Assets		
Cash and Cash Equivalents	\$	2,164,928
Due from Other Governmental Units		1,911,288
Prepaid Expenses		<u>3,943</u>
Total Assets	\$	<u><u>4,080,159</u></u>
Liabilities and Fund Balance		
Current Liabilities		
Accounts Payable	\$	2,957,100
Accrued Expenses		331,416
Unavailable Revenues		296,341
Advances from Grantors		<u>71,661</u>
Total Current Liabilities		3,656,518
Fund Balance		
Non-spendable		3,943
Unassigned		<u>419,698</u>
Total Fund Balance		<u>423,641</u>
Total Liabilities and Fund Balance	\$	<u><u>4,080,159</u></u>

See accompanying notes to basic financial statements

GREAT LAKES CYBER ACADEMY
 RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
 TO NET POSITION OF GOVERNMENTAL ACTIVITIES
 JUNE 30, 2018

Total Governmental Fund Balances	\$	423,641
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.</p>		
Cost of Capital Assets	\$ 323,031	
Accumulated Depreciation	<u>(265,682)</u>	57,349
Total Net Position - Governmental Activities	\$	<u><u>480,990</u></u>

See accompanying notes to basic financial statements

GREAT LAKES CYBER ACADEMY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	General Fund
Revenues	
Other Local Sources	\$ 10,466
State Sources	8,245,091
Federal Sources	183,732
Incoming Transfers and Other Transactions	54,147
Total Revenues	8,493,436
Expenditures	
Instruction	
Basic Programs	4,629,568
Added Needs	905,525
Total Instruction	5,535,093
Support Services	
Instructional Staff	244,798
General Administration	342,993
School Administration	1,157,662
Business Services	510,387
Operation and Maintenance	104,422
Central Services	188,388
Total Support Services	2,548,650
Total Expenditures	8,083,743
Excess/(Deficiency of Revenues over/(under) Expenditures	409,693
Fund Balance - July 1	13,948
Fund Balance - June 30	\$ 423,641

See accompanying notes to basic financial statements

GREAT LAKES CYBER ACADEMY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Total Net Change in Fund Balances - Governmental Funds \$ 409,693

Amounts reported for governmental activities in the Statement
of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement
of Activities, the cost of those assets is allocated over their estimated useful lives
as depreciation expense. This is the amount by which capital outlay exceed depreciation
in the current period

Capitalized Assets	\$ 1,375	
Depreciation Expense	<u>(73,749)</u>	(72,374)

Change in Net Position of Governmental Activities \$ 337,319

See accompanying notes to basic financial statements

NOTES TO FINANCIAL STATEMENTS

GREAT LAKES CYBER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

Great Lakes Cyber Academy was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, and began operation in July 2013.

In March 2013, the Academy entered into a contract with Central Michigan University's Board of Trustees to charter a public school academy. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State constitution. The University's Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays Central Michigan University's Board of Trustees three percent of state aid as administrative fees. Total administrative fees paid for the year ended June 30, 2018 were approximately \$236,566.

In April 2013, the Academy entered into an agreement with Connection's Education ("Connections"). Under the terms of this agreement, Connections provides a variety of services including management, curriculum, educational programs and teacher training. The Academy is obligated to pay Connections varying amounts based upon the services provided according to the contract. The fee schedule is mutually agreed upon annually and each payment to Connections is approved by the board at a regularly scheduled open meeting. Payments to Connections include a mixture of fixed amounts based upon the number of students or teachers as well as reimbursements for actual costs paid on behalf of the school.

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The Academy receives funding from local, state, and federal government sources and must comply with the accompanying requirements of these funding source entities. However, the Academy is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Trustees has decision-making authority, the authority to determine its budget, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters.

Basic Financial Statements – Government-wide Statements

The Academy's basic financial statements include both government-wide (reporting the Academy as a whole) and fund financial statements (reporting the Academy's major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Position, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net position is reported in three parts: invested in capital assets net of related debt; restricted net position; and unrestricted net position. The Academy first utilizes restricted resources to finance qualifying activities.

GREAT LAKES CYBER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1 - Summary of Significant Accounting Policies (continued)

Basic Financial Statements – Government-wide Statements (continued)

The government-wide Statement of Activities reports both the gross and net cost of each of the Academy's functions. General government revenues (certain intergovernmental revenues, fines, permits and charges, etc.) also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (state and federal sources, interest income, etc.).

The Academy does not allocate indirect costs. Inter-fund transactions have been eliminated in the government-wide financial statements.

Basic Financial Statements - Fund Financial Statements

The accounts of the Academy are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report; into one generic fund type in one broad fund category as follows:

Governmental Funds

Governmental funds are those funds through which most academy functions typically are financed. The acquisition, use, and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund - 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.

Basis of Accounting/Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

GREAT LAKES CYBER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1 - Summary of Significant Accounting Policies (continued)

Modified Accrual (continued)

Those revenues susceptible to accrual are state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

Cash and Investments – Cash and cash equivalents include amounts in demand deposits, sweep accounts, and certificate of deposits with original maturities less than 180 days. The Academy reports its investments in accordance with Governmental Accounting Standards Board (GASB) *Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and *No. 40, Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair values when quoted market prices are not available. The 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. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

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 (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), or National Credit Union Administration (NCUA), respectively; and in commercial paper rated at the time of purchase within the three highest classifications established by no 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. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, mutual funds composed of investments outlined above, and investment pools, as authorized by the surplus funds investment pool act, Act. No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by an academy.

Inventories - Items purchased for future use are recorded as inventory and charged to expenditure accounts when requisitioned for use. Inventory amounts were not material at June 30, 2018.

Capital Assets - The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The Academy's policy is to capitalize assets with a cost that equals or exceeds \$5,000.

Depreciation on all assets is computed on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	20 – 50 years
Buses and other vehicles	5 – 10 years
Furniture and equipment	3 – 20 years

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Economic Dependency – The Academy receives approximately 97% of its operating revenue from the State of Michigan.

GREAT LAKES CYBER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 2 - Budget and Budgetary Accounting

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General, Special Revenue, and Debt Retirement Funds and an informational study of Capital Project Funds of academies prior to the expenditure of monies in a fiscal year.

The Board of Education adopts appropriations utilizing the modified accrual basis of accounting for all governmental funds. The appropriation level adopted by the Board is the level of control authorized by the Act. The Act requires expenditures to be budgeted on a functional basis. An Academy is not considered to be in violation of the Act if reasonable procedures are in use by the Academy to detect violations.

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

1. The Academy's CEO submits to the Board of Trustees a proposed budget by July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. The CEO is authorized to transfer budgeted amounts between functions within any fund with the approval of the Board of Trustees; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Trustees.
3. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting principles.
4. Budgeted amounts are as originally adopted, or as amended by the Board of Trustees throughout the year. Individual amendments were not material in relation to the original appropriations, which were amended.
5. Appropriations lapse at year-end and, therefore, cancel all encumbrances. These appropriations are reestablished at the beginning of the following year.

A schedule comparing actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Trustees) for the General Fund is presented as required supplementary information.

Budgetary information

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. In the body of the financial statements, the Academy's actual and budgeted expenditures for the period have been shown as adopted by function on a modified accrual basis.

GREAT LAKES CYBER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 2 - Budget and Budgetary Accounting (continued)

Excess of expenditures over appropriations in budgeted funds

During the year, the Academy incurred expenditures in the General Fund which were in excess of the amounts appropriated, as follows:

Budget Item	Budget	Actual	Variance
Basic Programs	\$ 2,359,380	\$ 4,629,568	(2,270,188)
Added Needs	\$ 155,000	\$ 905,525	\$ (750,525)
Instructional Staff	\$ 171,304	\$ 244,798	\$ (73,494)
General Administration	\$ 284,576	\$ 342,993	\$ (58,417)
School Administration	\$ 971,557	\$ 1,157,662	\$ (186,105)
Operations and Maintenance	\$ 96,224	\$ 104,422	\$ (8,198)
Central Services	\$ 4,000	\$ 188,388	\$ (184,388)

Note 3 - Cash and Investments

Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Academy's policy provides that to the extent practicable, investments are matched with anticipated cash flows. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities and are invested primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools.

Concentration of Credit Risk

This is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer. Cumulatively, portfolios of the Academy may not be invested in any given financial institution in excess of 5% of such institution's total assets. Additionally, no more than 5% of the total Academy portfolio may be placed with any single financial institution with the exception of repurchase agreements. U.S. government securities and 2a7-like investment pools are excluded from these restrictions.

Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits this exposure by mandating that the Academy's investments in commercial paper and corporate bonds be limited to those with a prime rating or better issued by nationally recognized statistical rating organizations (NRSROs).

Custodial Credit Risk for Deposits

This is the risk that in the event of a bank failure, the Academy's deposits may not be returned or the Academy will not be able to recover collateral securities, if any, in the possession of an outside party. At June 30, 2018, the Academy had \$1,914,928 of deposit balances uninsured and uncollateralized.

GREAT LAKES CYBER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 3 - Cash and Investments (continued)

Custodial Credit Risk for Investments

This is the risk that in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. This risk is minimized by the Academy through limiting investments to those of a prime or better rating and pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors.

Foreign Currency Risk

This is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Academy is not authorized to invest in investments that would be subject to this type of risk.

Note 4 - Capital Assets

Changes in capital assets for the year ended June 30, 2018 were as follows:

	<u>06/30/17</u>	<u>Additions</u>	<u>Disposals</u>	<u>06/30/18</u>
Leasehold Improvements	\$ 18,925	\$ -	\$ -	\$ 18,925
Computer Equipment	302,731	1,375	-	304,106
Less: Accumulated Depreciation	<u>(191,933)</u>	<u>(73,749)</u>	-	<u>(265,682)</u>
Net Capital Assets	\$ <u>129,723</u>	\$ <u>(72,374)</u>	\$ -	\$ <u>57,349</u>

Depreciation expense for the year ended June 30, 2018 was \$73,749.

Note 5 - Defined Benefit Pension Plan

The Academy did not participate in the Michigan Public School Employees' Retirement System (MPSERS). Therefore, no pension plan disclosure is deemed necessary.

Note 6 - Fund Balance

Non-spendable, Restricted, Committed, Assigned and Unassigned

The Board of Trustees adopts a budget each year that includes the appropriation of fund balance. Non-spendable fund balance represents assets that are not available in spendable form and are not expected to be converted to cash. The Academy had non-spendable fund balance as of June 30, 2018 of \$3,943.

Restricted fund balances are reported separately to show legal constraints from debt covenants and legislation that limits the Academy's ability to use that fund balance for day-to-day operations. The Academy had no amounts restricted at June 30, 2018. Committed fund balance represents constrained amounts imposed by board resolution. The Academy had no amounts committed at June 30, 2018.

Assigned fund balance represents amounts intended to be used for specific purposes expressed by the Board of Trustees, Finance Committee, or the official authorized by the governing body. Residual amounts in governmental funds other than the General Fund are also assigned. The Academy had no amounts assigned at June 30, 2018.

Unassigned fund balance is reported only in the General Fund and represents the remaining fund balance after non-spendable, restrictions, and assignments have been made.

GREAT LAKES CYBER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 6 - Fund Balance (continued)

The Academy applies restricted resources first for applicable expenditures. Assigned fund equity is applied when expenditures are incurred for the assigned purpose, followed by unassigned fund equity for budgeted expenditures.

Note 7 - Contingencies and Commitments

The Academy has received federal and state grants for specific purposes. These grants are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.

Note 8 - Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions. The Academy purchases commercial insurance coverage to cover potential claims, and management believes this coverage is sufficient to protect the Academy from any significant adverse financial impact.

Note 9 – Leases

The Academy leases its facility at 2140 University Park Drive in Okemos, Michigan. The lease is in effect through June 30, 2018. Lease expense for the year ended June 30, 2018 was \$89,724. There are no future minimum payments under the lease.

On June 13, 2018, the Academy executed a lease agreement for a facility at 2875 Eyde Parkway in East Lansing, Michigan. The lease is in effect through August 31, 2023. Future minimum lease payments under this agreement are as follows:

For the year ended June 30,		
2019	\$	148,006
2020		180,568
2021		184,204
2022		187,858
2023		191,596
Thereafter		32,037
		<u>\$ 924,269</u>

Note 10 - Subsequent Events

Subsequent events have been reviewed through October 30, 2018, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

GREAT LAKES CYBER ACADEMY
 REQUIRED SUPPLEMENTAL INFORMATION
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2018

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Local Sources	\$ 12,000	\$ 34,804	\$ 10,466	\$ (24,338)
State Sources	8,642,769	8,262,605	8,245,091	(17,514)
Federal Sources	338,000	511,389	183,732	(327,657)
Incoming Transfers and Other Transactions	68,324	10,466	54,147	43,681
Total Revenues	9,061,093	8,819,264	8,493,436	(325,828)
Expenditures				
Education				
Instruction				
Basic Programs	5,295,928	2,359,380	4,629,568	(2,270,188)
Added Needs	642,103	155,000	905,525	(750,525)
Supporting Services				
Pupil Services	-	443,471	-	443,471
Instructional Staff	218,331	171,304	244,798	(73,494)
General Administration	349,173	284,576	342,993	(58,417)
School Administration	1,235,687	971,557	1,157,662	(186,105)
Business Services	509,104	3,705,883	510,387	3,195,496
Operation and Maintenance	101,100	96,224	104,422	(8,198)
Central Services	222,640	4,000	188,388	(184,388)
Other	-	25,000	-	25,000
Total Expenditures	8,574,066	8,216,395	8,083,743	132,652
Excess of Revenues Over/(Under) Expenditures and Other Financing Sources/(Uses)	487,027	602,869	409,693	(193,176)
Fund Balance - July 1	13,948	13,948	13,948	-
Fund Balance - June 30	\$ 500,975	\$ 616,817	\$ 423,641	\$ (193,176)

OTHER INFORMATION

INDEPENDENT AUDITORS' 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

October 30, 2018

Board of Directors
Great Lakes Cyber Academy

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, each major fund, and the aggregate remaining fund information of the Great Lakes Cyber Academy, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Great Lakes Cyber 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 the Great Lakes Cyber Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Great Lakes Cyber Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Great Lakes Cyber Academy's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

Item 2018 – 01

Item 2018 – 02

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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Great Lakes Cyber 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*.

Great Lakes Cyber Academy's Response to Findings

Great Lakes Cyber Academy's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Great Lakes Cyber Academy's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Taylor & Morgan, P.C.

TAYLOR & MORGAN, P.C.
Certified Public Accountants

GREAT LAKES CYBER ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

Item 2018 - 01

Material Weakness -The Academy's Internal Controls over federal grant requests did not result in requests being made in a timely manner. As a result, funds were not requested or received until after the 60-day window for revenue recognition. This resulted in material audit adjustments to grant revenues and unavailable revenues.

Management Response

Federal grant requests are only permitted to be made once the academy has remitted payment for these expenses. Delays in requests for remittance occurred as a result of delays in expense payment at the time of transition of the Board of Director's Treasurer Position. Item 2018-01 has been resolved since this transition has been finalized. The new treasurer has made changes to payment processing so that timely drawdowns can be made in accordance with the 60-day window for revenue recognition. As such, the final draw down for the 2018-19 grant funding will be made no later than August 31, 2019.

Item 2018 - 02

Material Weakness - The Academy lacked sufficient controls over expenditure classification and budget preparation, review, and approval. As a result of these conditions the final budget amendment as approved by the Board was materially inaccurate and did not allow for meaningful comparison to actual results.

Management Response

During the 2017-18 school year, the academy adopted a revised contract with their ESP changing the fee schedule to reflect a per pupil charge. In accordance with the academy's revised contract and in order to address the resulting expenditure classification and budget preparation, review, and approval, the Board will adopt an allocation of their flat fee per student rate across multiple, relevant object codes to show the breakdown of this fee. Additionally, federal grant expenditures will be recognized in a more timely fashion. Lastly, the academy has adopted a revised, categorical income statement beginning with the 2018-19 school year that is reviewed monthly and will allow for better control over budget adherence.

October 30, 2018,

To the Board of Directors of Great Lakes Cyber Academy,

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pathways Academy for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated June 30, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Great Lakes Cyber 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. All significant transactions have been recognized in the financial statements in the proper period.

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.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly 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 each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is 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 we had no such disagreements arise during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

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 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.

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 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.

Other Findings and Recommendations

While performing our audit, we came across the following opportunities for Great Lakes Cyber Academy to improve its performance:

Prior Year Comments

During the course of our audit, we determined that some revenue and receivable account balances did not match their source documents. Adjusting journal entries were recommended to management, which agreed to make the adjustments. The aggregate effect of the adjustments was immaterial to the financial statements.

We recommend that the Academy closely monitor revenue recording, account code classification, and tie balances to grant documentation and payment reconciliations at year end.

Current Year Comments

During the course of our audit, we determined that some revenue and receivable account balances did not match their source documents. Adjusting journal entries were recommended to management, which agreed to make the adjustments. The aggregate effect of the adjustments were material to the financial statements.

We recommend that the Academy closely monitor revenue recording, account code classification, and tie balances to grant documentation and payment reconciliations at year end.

Other Matters

We applied certain limited procedures to the Required Supplemental Information (RSI) that supplements 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 not engaged to report on the Other Information, which accompanies the financial statements but is not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

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

Very truly yours,

Taylor & Morgan, P.C.

Taylor & Morgan, P.C.
Certified Public Accountants