

LIGHTHOUSE CONNECTIONS ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Prepaid Assets

Payments made to vendors for services that will benefit periods beyond June 30, 2019 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

Capital Assets and Depreciation

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions or retirements during the year. The Academy follows the policy of not capitalizing assets with a useful life of less than one year. The Academy does not possess any infrastructure assets.

All reported capital assets, with the exception of land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

| | |
|---------------------------|---------------|
| Building and improvements | 10 – 50 years |
| Furniture and equipment | 5 – 15 years |
| Computers and software | 3 – 10 years |

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the non-current portion of capital leases that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Net Position

Net position represents the difference between assets, deferred outflows, liabilities, and deferred inflows. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws of regulations of other governments.

Fund Equity

The Academy has adopted GASB 54 as part of its fiscal year reporting. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the Academy's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on those resources.

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NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

GASB 54 provides for two major types of fund balances, which are non-spendable and spendable. Non-spendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. This category typically includes prepaid items and inventories.

In addition to non-spendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- a. *Restricted fund balance* – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- b. *Committed fund balance* – amounts constrained to specific purposes by the Board; to be reported as committed, amounts cannot be used for any other purpose unless the Board takes action to remove or change the constraint.
- c. *Assigned fund balance* – amounts the Board intends to use for a specific purpose; intent can be expressed by the Board or by an official or committee to which the Board delegates the authority.
- d. *Unassigned fund balance* – amounts that are available for any purpose; these amounts are reported only in the general fund.

The Academy follows the policy that restricted, committed, or assigned amounts will be considered to have been spent when an expenditure is incurred for purposes for which both unassigned and restricted, committed, or assigned fund balances are available. There are no governmental funds with a deficit.

Estimates

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a consistent basis with accounting principles generally accepted in the United States of America and state law for the general fund. All annual appropriations lapse at fiscal year-end and encumbrances are not formally recorded.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. The Academy is required by law to adopt a general fund budget. During the year ended June 30, 2019 the budget was amended in a legally permissible manner. See page 16 of these financial statements for the budgetary comparison schedule as well as the finding 2019-001 on page 17.

LIGHTHOUSE CONNECTIONS ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 3 - DEPOSITS AND INVESTMENTS

Interest Rate Risk

In accordance with its investment policy, the Academy will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Academy's cash requirements.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2019, the Academy had no investments.

Concentration of Credit Risk

The Academy will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk - Deposits

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, 2019, \$378,340 of the Academy's cash was exposed to custodial credit risk. All cash balances were uncollateralized as of June 30, 2019.

Custodial Credit Risk - Investments

For an investment, 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.

The Academy will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Academy will do business.

Foreign Currency Risk

The Academy is not authorized to invest in investments which have this type of risk.

LIGHTHOUSE CONNECTIONS ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 3 - DEPOSITS AND INVESTMENTS – Continued

Fair Value

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Academy has the ability to access.
- b. Level 2 inputs are inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly.
- c. Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The observable inputs should be developed based on the best information available in the circumstances and may include the Academy's own data.)

The Academy does not have any investments that are subject to the fair value measurement.

NOTE 4 – DUE FROM OTHER GOVERNMENTAL UNITS

Amounts due from governmental units consist of the following:

| | |
|-----------------|--------------------------|
| State sources | \$ 539,828 |
| Federal sources | <u>103,120</u> |
| Total | <u><u>\$ 642,948</u></u> |

LIGHTHOUSE CONNECTIONS ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 5 - CAPITAL ASSETS

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

| | <u>Balance</u> <u>July 1, 2018</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance</u> <u>June 30, 2019</u> |
|--|---------------------------------------|------------------|------------------|--|
| Capital assets subject to depreciation | | | | |
| Improvements | \$ - | \$ 7,194 | \$ - | \$ 7,194 |
| Equipment | - | 5,900 | - | 5,900 |
| Subtotal | - | 13,094 | - | 13,094 |
| Accumulated depreciation | | | | |
| Improvements | - | 857 | - | 857 |
| Equipment | - | 421 | - | 421 |
| Subtotal | - | 1,278 | - | 1,278 |
| Total net capital assets | <u>\$ -</u> | <u>\$ 11,816</u> | <u>\$ -</u> | <u>\$ 11,816</u> |

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

NOTE 6 – OTHER ACCRUED EXPENSES

Other accrued expenses may be summarized as follows:

| | |
|---|------------------|
| Purchased services - payroll and benefits | \$ 69,354 |
| Oversight fee | 16,195 |
| Other | <u>12,745</u> |
| Total other accrued expenses | <u>\$ 98,294</u> |

LIGHTHOUSE CONNECTIONS ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 7 – OPERATING LEASES

Lease Information

| | <u>Maturity Date</u> | <u>Approximate Payment</u> | <u>Other</u> |
|------------|--------------------------|--------------------------------|--|
| Facilities | June, 2023 | \$7,113 monthly | Lease runs from July 1 to June 30. Rentals increase yearly per lease agreement. |
| Facilities | June, 2020 | \$100 monthly | Lease runs from July 1 to June 30. Yearly option to extend for one year through 2023 |

The approximate amount of lease obligations coming due during the next four years are as follows:

| | <u>Facilities</u> |
|------|-------------------|
| 2020 | \$ 86,556 |
| 2021 | 87,576 |
| 2022 | 89,784 |
| 2023 | 92,004 |

Total lease expense included in the statement of activities for the year ended June 30, 2019 amounted to approximately \$84,336

NOTE 8 - RETIREMENT PLAN

All employees leased by the Academy are eligible to participate in a retirement plan established by Connections, “the Employer”, which qualifies under the provisions of Section 401(k) of the Internal Revenue Code. Eligible employees may contribute up to 15% of their salary under the terms of this plan.

NOTE 9 - RISK MANAGEMENT

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker’s compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

SUPPLEMENTARY INFORMATION

LIGHTHOUSE CONNECTIONS ACADEMY

REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2019

| | Original Budget | Final Budget | Actual | Variance |
|--|----------------------------|-------------------------|------------------|-------------------|
| Revenues | | | | |
| Local sources | \$ 48,000 | \$ - | \$ - | \$ - |
| State sources | 2,435,396 | 2,777,191 | 2,940,109 | 162,918 |
| Federal sources | 131,406 | 167,791 | 37,654 | (130,137) |
| Interdistrict sources | 189,000 | - | - | - |
| Total general fund revenues | 2,803,802 | 2,944,982 | 2,977,763 | 32,781 |
| Expenditures | | | | |
| Instruction | | | | |
| Basic programs | 615,744 | 1,434,596 | 1,606,043 | 171,447 |
| Added needs | - | 203,563 | 118,239 | (85,324) |
| Support services | | | | |
| Pupil support services | 167,309 | - | - | - |
| Instructional staff support services | 65,000 | 89,854 | 82,960 | (6,894) |
| General administration | 82,342 | 104,531 | 93,868 | (10,663) |
| School administration | 370,796 | 474,669 | 442,193 | (32,476) |
| Business support services | 1,393,054 | 382,764 | 392,237 | 9,473 |
| Operations and maintenance | 84,574 | 104,136 | 85,618 | (18,518) |
| Central support services | - | 119,077 | 120,697 | 1,620 |
| Capital outlay | 15,000 | - | 13,094 | 13,094 |
| Total general fund expenditures | 2,793,819 | 2,913,190 | 2,954,949 | 41,759 |
| Excess (deficiency) of revenues over expenditures | 9,983 | 31,792 | 22,814 | (8,978) |
| Fund balance - July 1, 2018 | - | - | - | - |
| Fund balance - June 30, 2019 | <u>\$ 9,983</u> | <u>\$ 31,792</u> | <u>\$ 22,814</u> | <u>\$ (8,978)</u> |

LIGHTHOUSE CONNECTIONS ACADEMY

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2019

Reference Number

Findings

2019-001

Finding Type – Noncompliance and Significant Deficiency

Criteria – The Michigan Public School Accounting Manual, Section IV, indicates that, when used appropriately, a budget provides the school board and administration with the ability to control and evaluate the use of the Academy's funds.

Condition – Actual results of operations came in \$8,978 less than anticipated in the final budget due to revenues that were unavailable in the current fiscal year.

Cause / Effect – The budget, while amended during the year, did not accurately reflect actual final expenditures during the current fiscal year. The effect was a violation of state law.

Recommendation – The Academy should review all expenditures and ensure that they are properly budgeted for and approved before expenditures are made and that draws are made and received timely.

Auditee Response – The auditee agrees with the finding. The Academy has reviewed and revised its accounting procedures to ensure that budgets are properly and timely reviewed and amended throughout the year and draws are done timely.