

INNOCADEMY

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

YEAR ENDED JUNE 30, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Innocademy

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Innocademy, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Innocademy'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, the major fund, and the aggregate remaining fund information of Innocademy as of June 30, 2021, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2021 on our consideration of the entity'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 the entity'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 the entity's internal control over financial reporting and compliance.

Manes Costeiran PC

September 29, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Innocademy's (Academy) annual financial report presents our discussion and analysis of the Academy's financial performance during the fiscal year that ended on June 30, 2021. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

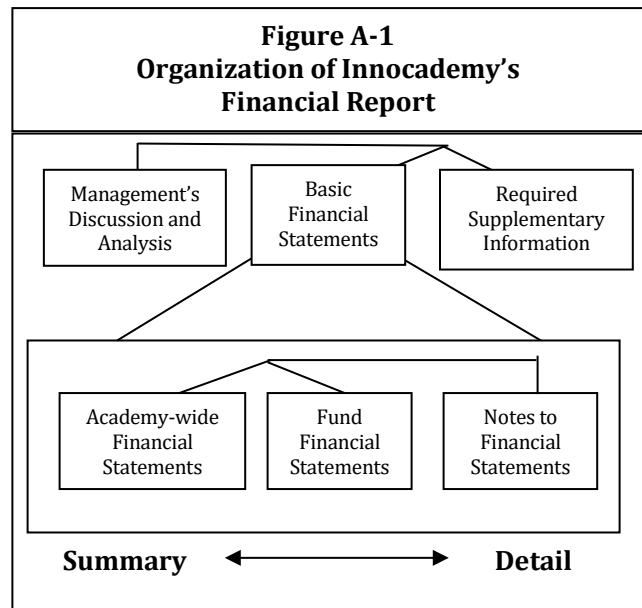
Financial Highlights

- The Academy had an increase in the fund balance in the general fund of \$158,487, compared to a budgeted increase of \$144,528. This gives the Academy a general fund balance of \$865,172.

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.



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
Scope	Entire Academy (except fiduciary funds)	All activities of the Academy that are not fiduciary
Required financial statements	* Statement of net position * Statement of activities	* Balance sheet * Statement of revenues, expenditures, and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial 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
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

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. The Academy has a general fund and a special revenue fund.

- 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 student/school activities).

All 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.

Financial Analysis of the Academy as a Whole

Net position - The Academy's combined net position of \$1,042,971 increased by \$181,329 during the year. See Figures A-3 and A-4.

The Academy's total revenue was \$3,476,789.

The total cost of instruction was \$1,907,165. Total cost of support services was \$1,316,003.

	<u>2021</u>	<u>2020</u>
Current assets	\$ 1,060,936	\$ 873,924
Capital assets	<u>154,945</u>	<u>139,655</u>
Total assets	<u>1,215,881</u>	<u>1,013,579</u>
Other liabilities	<u>172,910</u>	<u>151,937</u>
Net position		
Net investments in capital assets	154,945	139,655
Unrestricted	<u>888,026</u>	<u>721,987</u>
Total net position	<u><u>\$ 1,042,971</u></u>	<u><u>\$ 861,642</u></u>

**Figure A-4
Changes in Innocademy's Net Position**

	<u>2021</u>	<u>2020</u>
Revenues		
Program revenues		
Operating grants and contributions	\$ 599,142	\$ 364,714
General revenues		
State aid - unrestricted	2,548,395	2,555,592
Incoming transfers	296,642	197,515
Other	<u>32,610</u>	<u>60,039</u>
Total general revenues	<u>2,877,647</u>	<u>2,813,146</u>
Total revenues	<u>3,476,789</u>	<u>3,177,860</u>
Expenses		
Instruction	1,907,165	1,883,754
Support services	1,316,003	1,172,324
Student/school activities	19,686	32,245
Unallocated depreciation	<u>52,606</u>	<u>47,728</u>
Total expenses	<u>3,295,460</u>	<u>3,136,051</u>
Change in net position	<u>\$ 181,329</u>	<u>\$ 41,809</u>

Financial Analysis of the Academy's Funds

The Academy's fund balance in the general fund increased by \$158,487 to \$865,172.

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 revenue and expenditures which reflected anticipated changes in both state aid and compensation for staff.

The Academy's final budget for the general fund anticipated revenues would exceed expenditures by \$144,528. The actual results for the year showed revenues exceed expenditures by \$158,487.

Actual revenues were \$389 less than budgeted.

Actual expenditures were \$14,348 less than budgeted, primarily due to basic programs and instructional staff being under budget.

Capital Asset and Debt Administration

Capital Assets

By the end of the year ended June 30, 2021, the Academy had invested \$154,945 in capital assets net of accumulated depreciation as summarized in Figure A-5. This amount represents an increase of \$15,290 from the beginning of the year. Total depreciation expense for the year was \$52,606. More detailed information about capital assets can be found in Note 4 to the financial statements.

The Academy's capital assets are as follows:

	2021		2020	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Furniture and equipment	\$ 210,900	\$ 150,917	\$ 59,983	\$ 54,207
Leasehold improvements	124,420	29,458	94,962	85,448
Total	<u>\$ 335,320</u>	<u>\$ 180,375</u>	<u>\$ 154,945</u>	<u>\$ 139,655</u>

Long-term Debt

The Academy has no long-term debt at June 30, 2021.

Factors Bearing on the Academy's Future

At the time these financial statements were prepared and audited, the Academy was aware of existing circumstances that could significantly affect its financial health in the future.

- The Academy has adopted a general fund budget for 2021/2022 that anticipates revenue equal expenditures.
- The Academy received an ESSER II allocation of \$184,394, and an ESSER III allocation of \$411,877. The projected use of funds are to address learning loss, make sure the school can routinely operate in a clean & safe environment, and overcome the impacts of the COVID-19 Pandemic.

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 8485 Homestead, Zeeland, Michigan 49464.

BASIC FINANCIAL STATEMENTS

**INNOCADEMY
STATEMENT OF NET POSITION
JUNE 30, 2021**

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 479,545
Accounts receivable	6,776
Intergovernmental receivable	574,615
Capital assets, net of accumulated depreciation	154,945
TOTAL ASSETS	1,215,881
LIABILITIES	
Accounts payable	67,191
Note payable	57,607
Unearned revenue	48,112
TOTAL LIABILITIES	172,910
NET POSITION	
Net investment in capital assets	154,945
Unrestricted	888,026
TOTAL NET POSITION	\$ 1,042,971

See notes to financial statements.

**INNOCADEMY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021**

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental activities				
Instruction	\$ 1,907,165	\$ -	\$ 465,125	\$ (1,442,040)
Support services	1,316,003	-	106,779	(1,209,224)
Student/school activities	19,686	-	27,238	7,552
Depreciation (unallocated)	52,606	-	-	(52,606)
Total governmental activities	<u>\$ 3,295,460</u>	<u>\$ -</u>	<u>\$ 599,142</u>	<u>(2,696,318)</u>
General revenues				
State sources - unrestricted				2,548,395
Incoming transfer from Ottawa Area ISD				296,642
Other				<u>32,610</u>
Total general revenues				<u>2,877,647</u>
CHANGE IN NET POSITION				181,329
Net position, beginning of year				<u>861,642</u>
Net position, end of year				<u>\$ 1,042,971</u>

See notes to financial statements.

**INNOCADEMY
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2021**

	General Fund	Non-major (Special Revenue) Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 456,691	\$ 22,854	\$ 479,545
Accounts receivable	6,776	-	6,776
Intergovernmental receivables	574,615	-	574,615
TOTAL ASSETS	\$ 1,038,082	\$ 22,854	\$ 1,060,936
LIABILITIES			
Accounts payable	\$ 67,191	\$ -	\$ 67,191
Note payable	57,607	-	57,607
Unearned revenue	48,112	-	48,112
TOTAL LIABILITIES	172,910	-	172,910
FUND BALANCES			
Committed for student/school activities	-	22,854	22,854
Unassigned	865,172	-	865,172
TOTAL FUND BALANCES	865,172	22,854	888,026
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,038,082	\$ 22,854	\$ 1,060,936
Total governmental fund balances			\$ 888,026
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		\$ 335,320	
Accumulated depreciation is		(180,375)	
			154,945
Net position of governmental activities			\$ 1,042,971

See notes to financial statements.

INNOCADEMY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2021

	General Fund	Non-major (Special Revenue) Fund	Total Governmental Funds
REVENUES			
Local revenue	\$ 32,610	\$ -	\$ 32,610
State sources	2,786,358	-	2,786,358
Federal sources	333,941	-	333,941
Student/school activities	-	27,238	27,238
Incoming transfers	296,642	-	296,642
	<u>3,449,551</u>	<u>27,238</u>	<u>3,476,789</u>
TOTAL REVENUES			
EXPENDITURES			
Current			
Instruction			
Basic programs	1,681,318	-	1,681,318
Added needs	281,243	-	281,243
	<u>1,962,561</u>	<u>-</u>	<u>1,962,561</u>
Total instruction			
	<u>1,962,561</u>	<u>-</u>	<u>1,962,561</u>
Support services			
Pupil	181,845	-	181,845
Instructional staff	274,145	-	274,145
General administration	198,809	-	198,809
School administration	10,271	-	10,271
Business services	33,324	-	33,324
Operation and maintenance	550,919	-	550,919
Pupil transportation	15,549	-	15,549
Central support services	63,641	-	63,641
	<u>1,328,503</u>	<u>-</u>	<u>1,328,503</u>
Total support services			
	<u>1,328,503</u>	<u>-</u>	<u>1,328,503</u>
Student/school activities	-	19,686	19,686
	<u>-</u>	<u>19,686</u>	<u>19,686</u>
TOTAL EXPENDITURES			
	<u>3,291,064</u>	<u>19,686</u>	<u>3,310,750</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES			
	<u>158,487</u>	<u>7,552</u>	<u>166,039</u>
FUND BALANCES			
Beginning of year	706,685	15,302	721,987
	<u>706,685</u>	<u>15,302</u>	<u>721,987</u>
End of year	\$ 865,172	\$ 22,854	\$ 888,026
	<u>\$ 865,172</u>	<u>\$ 22,854</u>	<u>\$ 888,026</u>

See notes to financial statements.

INNOCADEMY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021

Net change in fund balances total governmental funds \$ 166,039

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

Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Capital outlay	67,896
Depreciation expense	(52,606)
	115,290
Change in net position of governmental activities	\$ 181,329

INNOCADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 activities of the Academy. *Governmental activities* normally are supported by intergovernmental revenues.

Reporting Entity

Innocademy (the “Academy”) is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Lake Superior State University is the authorizing governing body for the Academy and has contracted with the Academy to charter the public school through June 2022. The Academy’s Board of Directors is approved by the authorizing body and is authorized to manage the Academy and the property and affairs of the Academy. The Academy receives funding from local, state, and federal government 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 accounting principles generally accepted in the United States of America. The Academy’s reporting entity does not contain any component units.

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 (if any) has been eliminated from the government-wide financial statements.

Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the Academy’s funds. Separate statements for each category 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.

The Academy reports the following *Major Governmental Fund*:

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

Other Nonmajor 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 student/school activities in the special revenue fund.

INNOCADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation - Fund Financial Statements (continued)

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 as gross amounts as transfers in/out. While reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

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, compensated absences are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in the governmental fund.

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 amount is 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 school academies based on information supplied by the Academy.

**INNOCADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting (continued)

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.

Budgetary Information

Budgetary Basis of Accounting

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

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods or services (i.e., purchase orders, contracts, and commitments). The Academy does not utilize encumbrance accounting.

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

- a. The ESP 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.
- b. Prior to July 1, the budget is legally adopted by Board of Directors 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.
- c. 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.
- d. The budget was amended during the year with supplemental appropriations, the last one approved prior to year end June 30, 2021. The Academy does not consider these amendments to be significant.

**INNOCADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Cash and Cash Equivalents

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

Prepays

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.

Capital Assets

Capital assets, which include furniture and equipment, 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 an estimated useful life in excess of two years. 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. The capital assets of the Academy are depreciated using the straight-line method over the following estimated useful lives:

<u>Capital Asset Classes</u>	<u>Lives</u>
Furniture and equipment	3 - 15
Leasehold improvements	5 - 30

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 then. 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.

**INNOCADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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.

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.

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. The Board of Directors has by resolution authorized the school director and finance support to assign fund balance. 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.

INNOCADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues and Expenditures/Expenses

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.

NOTE 2 - CASH DEPOSITS - CREDIT RISK

Cash is held in the name of the Academy. These deposits are subject to custodial credit risk. This is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy minimizes custodial credit risk on deposits by assessing the credit worthiness of the individual institutions in which it deposits funds. The amount of deposits with each institution is assessed to determine the level of risk it may pose to the Academy in relation to deposits in excess of insured amounts. As of June 30, 2021, the bank balance of the Academy's cash equivalents was \$497,249, of which, \$250,000 is covered by federal depository insurance.

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES

Receivables at June 30, 2021 consist of the following:

State aid	\$ 497,705
Federal	47,295
Other	<u>29,615</u>
	<u><u>\$ 574,615</u></u>

Intergovernmental receivables include amounts due from state and local sources for various projects and programs.

No allowance for doubtful accounts is considered necessary.

**INNOCADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - CAPITAL ASSETS

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

	Balance <u>July 1, 2020</u>	Additions	Deletions	Balance <u>June 30, 2021</u>
Governmental activities				
Furniture and equipment	\$ 160,740	\$ 50,160	\$ -	\$ 210,900
Leasehold improvements	106,684	17,736	-	124,420
	<u>267,424</u>	<u>67,896</u>	<u>-</u>	<u>335,320</u>
Accumulated depreciation				
Furniture and equipment	106,533	44,384	-	150,917
Leasehold improvements	21,236	8,222	-	29,458
	<u>127,769</u>	<u>52,606</u>	<u>-</u>	<u>180,375</u>
Net governmental capital assets	<u>\$ 139,655</u>	<u>\$ 15,290</u>	<u>\$ -</u>	<u>\$ 154,945</u>

Depreciation for the fiscal year ended June 30, 2021 amounted to \$52,606. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 5 - NOTE PAYABLE - STATE AID ANTICIPATION NOTE

At June 30, 2021, the Academy had a note payable outstanding totaling \$57,607. The State Aid anticipation note has an interest rate of 3.45% and matures on August 20, 2021. Proceeds of the state aid anticipation note were used to fund school operations. This note is secured by future state school aid payments.

Balance <u>July 1, 2020</u>	Additions	Payments	Balance <u>June 30, 2021</u>
<u>\$ 54,693</u>	<u>\$ 311,000</u>	<u>\$ 308,086</u>	<u>\$ 57,607</u>

NOTE 6 - LEASES

The Academy leases their building under an operating lease expiring June 30, 2022. Minimum rental commitments for all non-cancelable operating leases are as follows:

Year Ending <u>June 30</u>	
2022	<u>\$ 320,000</u>

INNOCADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LEASES (continued)

The Academy leases two copiers under an operating lease expiring December 31, 2022. Minimum rental commitments for all non-cancelable operating are as follows:

Year Ending June 30	
2022	\$ <u>2,372</u>

NOTE 7 - OVERSIGHT FEES

The Academy pays an administrative oversight fee of 3% of its state school aid to Lake Superior State University. These oversight responsibilities include the approval of Innocademy's operating plan, monitoring compliance with provisions of the charter contract and the selection of members for the Board of Directors. During the year ended June 30, 2021, the Academy incurred expense of \$80,595 for oversight fees.

NOTE 8 - PURCHASED SERVICES

The Academy leases all employee services from Innovative Education Services, Inc. Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of Innovative Education Services, Inc. There was \$22,894 owed to Innovative Education Services, Inc. at June 30, 2021.

NOTE 9 - RISK MANAGEMENT

The Academy is exposed to various risks 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 10 - CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustments by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds.

NOTE 11 - UPCOMING ACCOUNTING PRONOUNCEMENTS

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 2022 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.

INNOCADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 11 - UPCOMING ACCOUNTING PRONOUNCEMENTS (continued)

In May 2020, the GASB issued Statement No. 96, *Subscription-based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The Academy is currently evaluating the impact this standard will have on the financial statements when adopted during the 2022-2023 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

**INNOCADEMY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2021**

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Local sources	\$ 48,760	\$ 21,631	\$ 32,610	\$ 10,979
State sources	2,796,084	2,796,833	2,786,358	(10,475)
Federal sources	150,996	334,492	333,941	(551)
Incoming transfers	244,406	296,984	296,642	(342)
TOTAL REVENUES	3,240,246	3,449,940	3,449,551	(389)
EXPENDITURES				
Instruction				
Basic programs	1,816,004	1,690,568	1,681,318	9,250
Added needs	290,074	278,772	281,243	(2,471)
Total instruction	2,106,078	1,969,340	1,962,561	6,779
Support services				
Pupil	122,117	182,245	181,845	400
Instructional staff	249,202	279,965	274,145	5,820
General administration	193,097	199,081	198,809	272
School administration	13,500	10,347	10,271	76
Business services	38,466	33,332	33,324	8
Operation and maintenance	573,396	551,436	550,919	517
Pupil transportation	15,178	15,556	15,549	7
Central support services	88,344	64,110	63,641	469
Total support services	1,293,300	1,336,072	1,328,503	7,569
TOTAL EXPENDITURES	3,399,378	3,305,412	3,291,064	14,348
NET CHANGE IN FUND BALANCE	\$ (159,132)	\$ 144,528	158,487	\$ 13,959
FUND BALANCE				
Beginning of year			706,685	
End of year			\$ 865,172	

**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
Innocademy

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, the major fund and the aggregate remaining fund information of Innocademy as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Innocademy's basic financial statements and have issued our report thereon dated September 29, 2021.

Internal Control Over Financial Reporting

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

September 29, 2021

September 29, 2021

To the Board of Directors
Innocademy

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Innocademy for the year ended June 30, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

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 Innocademy are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during fiscal year 2021. 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. The most sensitive estimates affecting the financial statements were:

Management's determination of the estimated life span of the capital assets.

We evaluated the key factors and assumptions used by management to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole. In addition, certain amounts included in capital assets have been estimated based on an outside appraisal company.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. We did not identify any sensitive disclosures.

The disclosures in the financial statements 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 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.

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.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 29, 2021.

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 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.

A separate management letter was not issued.

Restriction on Use

This information is intended solely for the use of the Board of Education and management of Innocademy and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Maney Costeiran PC