

UNIVERSAL ACADEMY

**Financial Report
with Supplemental Information
and Single Audit Report
June 30, 2019**

UNIVERSAL ACADEMY

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Independent Auditor's Report

To the Board of Directors of
Universal Academy

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining information of Universal Academy, as of and for the year ended June 30, 2019, 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.

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

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

To the Board of Directors
Universal Academy

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 Universal Academy as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles 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 the budgetary comparison information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Government Auditing Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Universal Academy's basic financial statements. The nonmajor funds combining statement of revenues, expenditures, and changes in fund balances – special revenue funds is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The nonmajor funds combining statement of revenues, expenditures, and changes in fund balances, statement of revenue and expenditures – budget and actual are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the nonmajor funds combining statement of revenues, expenditures, and changes in fund balances, statement of revenue and expenditures – budget and actual are fairly stated in all material respects in relation to the basic financial statements as a whole.

To the Board of Directors
Universal Academy

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2019, on our consideration of Universal Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Universal Academy's internal control over financial reporting and compliance.

Wilkinson & Associate PC

September 24, 2019

Universal Academy

**4833 Ogden
Detroit, Michigan, 48210**

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2019

This section of Universal Academy's (the Academy) annual financial report presents discussion and analysis of the Universal Academy's financial performance during the year ended June 30, 2019. It should be read in conjunction with the Academy's financial statements, which immediately follow this section.

The Academy is required to implement the provisions of Governmental Accounting Standards Board Statement No. 34 (GASB No. 34) in its financial statement presentation. This accounting standard requires the reporting of two types of financial statements: - Government-Wide Financial Statements and Fund Financial Statements.

The financial report is only one measure of an Academy's viability. An Academy's goal is to provide educational services to the students, not to generate profits as commercial entities do. Consideration should also be given to other non-financial factors, such as the quality of the education provided and safety of the schools in the assessment of the overall health of a school's district.

Government-Wide Financial Statements

The Government-Wide Financial Statements provide information about the activities of the Academy as a whole, presenting both an aggregate view of the Academy's finances and a long-term view of those finances government-wide statements are presented on a full accrual basis, which is the primary accounting method, used in private industry. The Statement of Net Position reports all the Academy's assets regardless if they are available for current use or legally restricted, and all of its liabilities, both short-term and long-term. The Statement of Activities reports all of the Academy's revenues and expenses by type of activity.

Fund Financial Statements

The Academy segregates resources and activities in separate funds (or entities); each used for a specific purpose to facilitate accountability for those resources. The fund financial statements provide a detailed short-term view of the operations of a School District's various fiscal components, not a long-term view of the School District as a whole. It provides information as to the amount of financial resources that can be spent in the near future to finance programs. It also provides information about the School District's most

significant fund - the General Fund (the Academy's principal operating fund) and its non-major funds, which are grouped together and presented as Other Governmental Funds. The Academy's non-major fund is the Food Services fund. Fund financial statements are presented on a modified accrual basis. Only those assets that are measurable and currently available are reported. Liabilities are recognized to the extent that they can be paid using current financial resources.

The School District as a Whole

As discussed above, the Statement of Net Position provides information of the Academy as a whole. Table 1 provides a summary of Universal Academy's net position as of June 30, 2019.

Table 1-Summary of Universal Academy's Net Position

	<u>Governmental Activities</u>	
	<u>2019</u>	<u>2018</u>
<u>Assets</u>		
Current and Other Assets	\$ 5,201,770	\$ 4,634,567
Capital Assets - Net of Accumulated Depreciation	<u>7,752,209</u>	<u>8,255,022</u>
Total Assets	\$ <u>12,953,979</u>	\$ <u>12,889,589</u>
<u>Liabilities</u>		
Current Liabilities	\$ 1,058,808	\$ 867,285
Long-Term Liabilities	<u>10,833,130</u>	<u>11,028,329</u>
Total Liabilities	<u>11,891,938</u>	<u>11,895,614</u>
<u>Net Position</u>		
Invested in Capital Assets	(3,080,921)	(2,773,307)
Restricted	1,694,954	1,549,686
Unrestricted	<u>2,448,008</u>	<u>2,217,596</u>
Total Net Position	\$ <u>1,062,041</u>	\$ <u>993,975</u>

Net position at year-end was \$1,062,041. The Academy's net investments in capital assets were (\$3,080,921). The \$2,448,008 in unrestricted net position represents the cumulative operating results for the year ended June 30, 2019 and all prior years.

The Academy's total net position increased by \$68,066 during the fiscal year ended June 30, 2019 (please refer to Table 2 below). The cost to operate the Academy's programs was \$7,638,328. Partially funding these programs were charges for services and grant

revenues totaling \$1,208,134. The remaining cost of the Academy was funded by general revenues, primarily State Aid totaling \$6,449,600 and miscellaneous revenues \$48,660.

Table 2 – Summary of the Statement of Activities

	Governmental Activities	
	<u>2019</u>	<u>2018</u>
<u>Revenues</u>		
Program Revenues		
Charges for Services	\$ 12,983	\$ 9,581
Federal Grants	1,195,151	949,786
General Revenues		
State Aid- All Sources	6,449,600	6,072,151
Other Revenue	<u>48,660</u>	<u>42,222</u>
Total Revenues	\$ <u>7,706,394</u>	\$ <u>7,073,740</u>
<u>Function/Program Expenses</u>		
Instruction and Instructional Staff Services	\$ 3,533,610	\$ 3,238,500
Support Services	314,420	283,397
General, Executive and School Administration	1,106,963	1,017,945
Food Services	381,466	372,513
Business Support Services	29,824	39,171
Operations, Maintenance & Other	<u>2,272,045</u>	<u>2,214,299</u>
Total Expenses	<u>7,638,328</u>	<u>7,165,825</u>
Increase (Decrease) in Net Position	<u>\$ 68,066</u>	<u>\$ (92,085)</u>

State of Michigan Aid, Unrestricted

The State of Michigan unrestricted aid, is determined by the following variables:

- Per student, foundation allowance: annually, the State of Michigan sets the per student foundation allowance. The Academy's foundation allowance was \$7,871 per student for the 2018 - 2019 school year.
- Student Enrollment: The Academy's student enrollment for the fall count of 2018-2019 was 727 students. To calculate total state aid to be provided by the foundation allowance, a blend of 90% of current year fall count and 10 % of the previous year winter count is multiplied by the Academy's foundation allowance.

Capital Assets

At June 30, 2019 Universal Academy had an investment in capital assets, net of accumulated depreciation of \$7,752,209 (please refer to Table 3 below). This includes the building, building improvements, computer equipment, furniture and other equipment.

Capital assets purchased or acquired are capitalized at cost. The Academy's capitalization policy is individual amounts exceeding \$1,000.

The Academy added approximately \$157,851 of capital assets during the year. This consists primarily of computers and equipment. More detailed information of fixed assets is included in the footnotes.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives of the assets. Total depreciation expense for the year was \$660,665.

Table 3 – Capital Assets

<u>Description</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Building	\$ 9,880,722	\$ 9,880,722
Leasehold Improvement	31,561	31,561
Machinery and Equipment	1,633,549	1,475,698
Other Equipment	54,975	54,975
Vehicles	<u>20,050</u>	<u>20,050</u>
Total Capital Assets	\$ 11,620,858	\$ 11,463,006
Less Accumulated Depreciation	<u>(3,868,649)</u>	<u>(3,207,984)</u>
Net Capital Assets	<u>\$ 7,752,209</u>	<u>\$ 8,255,022</u>

The School District's Funds

As mentioned above, the Academy uses funds to segregate and account for resources and activities that are used for specific purposes. At June 30, 2019 the Academy's governmental funds had a combined balance of \$4,133,886 an increase of \$400,117 from June 30, 2018. The contributions of each individual fund are:

General Fund:

The ending balance of the General Fund, the principal operating fund of the Academy, increased by \$354,176 at June 30, 2019 to \$3,919,662 from \$3,565,486 at June 30, 2018.

The increase is primarily attributable to a reduction in expenses for the year. The fund balance of the General Fund is available to fund costs related to school operations.

Other Governmental Funds:

The School District's non-major fund - Food Service Fund, is presented in this category. At June 30, 2019 the Food Service fund balance was \$214,224.

Debt

On December 1, 2013 Universal Academy has issued following “PUBLIC SCHOOL ACADEMY REVENUE BONDS” to finance the acquisition and the construction of real estate property located in the City of Detroit:

<u>PUBLIC SCHOOL ACADEMY REVENUE BONDS:</u>	<u>ORIGINAL LOAN</u>
SERIES 2013 A	\$ 9,770,000
SERIES 2013 B	185,000
SERIES 2013 - WALTON FAMILY FOUNDATION CHARTER SCHOOL FINANCING PARTNERSHIP- CSFP/OPERATING RESERVE LOAN.	233,055
	<u>645,075</u>
TOTAL LOANS	<u>\$ 10,833,130</u>

At June 30, 2019 Universal Academy’s long term debt of \$10,833,130 was comprised of \$268,535 which is the current portion and \$10,564,595 which is the non-current portion, compared to \$11,028,329 at the same time last year (please refer to Table 4).

Table 4 – Outstanding Long-Term Liabilities

Bond Debt Service as of June 30, 2019

12/1/2019	268,535	2019 - 2020	734,684	1,003,219
12/1/2020	278,535	2020 - 2021	724,854	1,003,389
12/1/2021	288,535	2021 - 2022	714,359	1,002,894
12/1/2022	303,535	2022 - 2023	703,049	1,006,584
12/1/2023	314,508	2023 - 2024	688,974	1,003,482
2024 - 2028	1,629,507	2024 - 2028	2,554,687	4,184,194
2029 - 2033	2,240,000	2029 - 2033	2,468,199	4,708,199
2034 - 2038	3,255,000	2034 - 2038	1,451,507	4,706,507
2039 - 2040	<u>2,254,975</u>	2039 - 2040	<u>816,260</u>	<u>3,071,235</u>
TOTAL	\$ 10,833,130		\$ 10,856,572	\$ 21,689,702

General Fund Budgetary Highlights

State law requires that school districts periodically amend their budgets to ensure that expenditures do not exceed appropriations. During the year, the Academy revised its budget in response to and / or in anticipation of changing operating conditions. The Academy had two budget amendments during the year that were approved by the Board of Directors of Universal Academy. The final Budget was adopted in June 2019. (A schedule showing the Academy's Original Budget, Final Budget, and Actual Results for the General Fund is provided in the Required Supplemental Information section of these Financial Statements).

The majority of the School Districts revenue is based on student enrollment. For the fiscal year 2018-2019, it received \$7,871 per pupil from the State of Michigan. The original budget, which was completed at the end of the prior fiscal year, reflected certain assumptions for enrollment, grant funding, staffing and other expenditures. The June 2019 amended (Final) budget reflected actual enrollment based on the October 2018 official pupil count and a revised estimate of federally approved grant funding. Operating expenditures based on the revised revenues estimate were updated accordingly. The actual ending fund balance met expectations.

Final Budget vs. Actual

<u>Revenues:</u>	<u>Final Budget</u>	<u>Actual</u>
2007 - 2008	\$ 4,386,014	\$ 4,417,779
2008 - 2009	4,359,145	4,678,296
2009 - 2010	5,217,734	5,166,634
2010 - 2011	4,735,249	5,004,579
2011 - 2012	5,606,117	5,027,815
2012 - 2013	5,571,000	4,824,444
2013 - 2014	5,626,981	5,572,029
2014 - 2015	6,303,363	6,216,428
2015 - 2016	6,500,321	6,337,858
2016 - 2017	6,594,733	6,557,897
2017 - 2018	6,857,961	6,630,036
2018 - 2019	7,641,522	7,303,423

<u>Expenditures:</u>		
2007 - 2008	4,356,512	3,990,705
2008 - 2009	5,356,569	4,722,532
2009 - 2010	6,200,652	4,805,760
2010 - 2011	5,940,919	4,918,789
2011 - 2012	5,324,289	4,956,210
2012 - 2013	6,509,513	5,964,025
2013 - 2014	14,483,540	10,670,128
2014 - 2015	10,933,391	10,413,266
2015 - 2016	6,362,808	5,897,917
2016 - 2017	6,725,590	6,458,441
2017 - 2018	6,930,233	6,397,485
2018 - 2019	7,539,561	6,949,247

Economic Factors Affecting Next Year's Budgets

Our elected officials and administration consider many factors when setting the Academy's 2020 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The membership blend for the 2018-2019 fiscal year is based on 90% of the current school year October count and 10% of the prior year February count. The 2020 budget was adopted in May 2019, based on an estimate of students that will be enrolled in September 2019. Approximately 86 percent of the total General Fund revenue is from the foundation allowance. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2019-2020 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2020 budget. Once the final student count and related per pupil funding is validated, State law requires the Academy to amend the budget if actual Academy's resources are not sufficient to fund original appropriations.

Since the Academy's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to local school districts. The State periodically holds a revenue-estimating conference to estimate revenues.

UNIVERSAL ACADEMY
STATEMENT OF NET POSITION
June 30, 2019

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 2,391,227
Cash and cash equivalents-restricted	1,480,730
Receivables	
State aid	1,151,459
Federal & state grants	149,832
Prepaid cost & other assets	28,522
Capital assets, net of accumulated depreciation	7,752,209
Total Assets	12,953,979
 Liabilities	
Accounts payable	215,374
Accrued expenditures	843,434
Long-term liabilities:	
Long-term liabilities, due within one year	268,535
Long-term liabilities, due after one year	10,564,595
Total Liabilities	11,891,938
 Net Position	
Net investment in capital assets	(3,080,921)
Restricted	1,694,954
Unrestricted	2,448,008
Total net position	\$ 1,062,041

**UNIVERSAL ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenues and Changes in Net Assets</u>
Governmental Activities				
Instruction	\$ 2,639,942	\$ -	\$ 791,941	\$ (1,848,001)
Supporting Services				
Pupil support services	314,420	-	-	(314,420)
Instructional support services	893,667	-	-	(893,667)
General administration	1,049,341	-	-	(1,049,341)
School administration	57,622	-	-	(57,622)
Business services	29,824	-	-	(29,824)
Operations and maintenance	457,648	-	-	(457,648)
Transportation	30,777	-	-	(30,777)
Central support services	167,526	-	-	(167,526)
Other support services	77,410	-	-	(77,410)
Community activities	110,751	-	-	(110,751)
Food service	381,466	12,983	403,210	34,727
Depreciation	660,665	-	-	(660,665)
Interest and fees on long-term debt	767,269	-	-	(767,269)
Total Governmental Activities	<u>\$ 7,638,328</u>	<u>\$ 12,983</u>	<u>\$ 1,195,151</u>	(6,430,194)
General Revenues				
State aid - all sources				6,449,600
Other sources				48,660
Total General Revenues				<u>6,498,260</u>
Change in Net Assets				68,066
Net Position - July 1, 2018				<u>993,975</u>
Net Position - June 30, 2019				<u>\$ 1,062,041</u>

**UNIVERSAL ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2019**

	General Fund	Non-Major Funds	Total
Assets			
Cash and cash equivalents	\$ 2,391,227	\$ -	\$ 2,391,227
Cash and cash equivalents-restricted	1,480,730	-	1,480,730
Due from other governmental units	1,280,714	20,578	1,301,292
Due from other funds	-	201,357	201,357
Prepays and other current assets	28,522	-	28,522
Total Assets	\$ 5,181,193	\$ 221,935	\$ 5,403,128
 LIABILITIES, DEFERRED INFLOW OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 215,374	\$ -	\$ 215,374
Due to other funds	201,611	-	201,611
Accrued expenses	835,469	7,711	843,180
Total Liabilities	1,252,454	7,711	1,260,165
Deferred Inflow of Resources - unavailable revenue	9,077	-	9,077
Total Liabilities and Deferred Inflow of Resources	1,261,531	7,711	1,269,242
 Fund Balances			
Non-Spendable Fund Balance:			
Prepaid cost	28,522	-	28,522
Restricted Fund Balance:			
Food service	-	214,224	214,224
Debt service	1,480,730	-	1,480,730
Assigned Fund Balance:			
Capital projects	1,000,000	-	1,000,000
Unrestricted Fund Balance:			
Unassigned fund balance	1,410,410	-	1,410,410
Total Fund Balance	3,919,662	214,224	4,133,886
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 5,181,193	\$ 221,935	\$ 5,403,128

**UNIVERSAL ACADEMY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
TO THE STATEMENT OF NET POSITION
June 30, 2019**

Total Fund Balances - Governmental Funds \$ 4,133,886

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

Capital assets used in governmental activities are not financial resources and, therefore, not reported as assets in governmental funds

Cost of capital assets	\$ 11,620,858	
Accumulated depreciation	<u>(3,868,649)</u>	7,752,209

Grants and other receivables that are collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized in the funds. 9,077

Bonds and loans payable and bond issue discounts are not due and payable in the current period and, therefore, are not reported in the funds. (10,833,130)

Total Net Position - Governmental Activities \$ 1,062,041

UNIVERSAL ACADEMY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Local sources	\$ 48,660	\$ 12,983	\$ 61,643
State sources	6,438,386	11,214	6,449,600
Federal sources	816,377	403,210	1,219,587
Total Governmental Fund Revenues	7,303,423	427,407	7,730,830
Expenditures			
Instruction	2,639,942	-	2,639,942
Support Services:			
Pupil support services	314,420	-	314,420
Instructional staff services	893,667	-	893,667
General administration	1,049,341	-	1,049,341
School administration	57,622	-	57,622
Business support services	29,824	-	29,824
Operations & maintenance	500,448	-	500,448
Transportation	30,777	-	30,777
Central support services	282,578	-	282,578
Other support services	77,410	-	77,410
Food services	-	381,466	381,466
Community activities	110,751	-	110,751
Debt service principal, interest and fees	962,467	-	962,467
Total Governmental Fund Expenditures	\$ 6,949,247	\$ 381,466	\$ 7,330,713
Excess of Revenue (Under) Over Expenditures	354,176	45,941	400,117
Fund Balance, July 1, 2018	3,565,486	168,283	3,733,769
Fund Balance, June 30, 2019	\$ 3,919,662	\$ 214,224	\$ 4,133,886

UNIVERSAL ACADEMY
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
June 30, 2019

Total Net Change in Fund Balance - Governmental Funds \$ 400,117

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

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

Depreciation Expense	\$	(660,665)	
Capitalized capital outlay		157,852	(502,813)

Revenues are reported in the statement of activities when earned; they are not reported in the funds until collected or collectible with 60 days of year end.

Prior year deferred revenue	(33,513)
Current year deferred revenue	9,077

Repayment of bond principal is an expense in governmental funds, but not in the statement of activities (where it reduces long-term debt)

195,199

Change in Net Assets of Governmental Activities \$ 68,066

**UNIVERSAL ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Universal Academy (the “Academy”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

A. Reporting Entity

Universal 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 contract with Oakland University expired on June 30, 2015, and the contract was renewed for 5 years ending June 30, 2020. 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 Oakland University 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 Oakland University Board of Trustees 3 percent of State Aid as administrative fees. The total administrative fee paid through Universal Academy to the Oakland University Board of Trustees was approximately \$190,008.

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

UNIVERSAL ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Substantially all interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational and capital requirements of a particular function. Taxes and other items not properly included among program revenue are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, although the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**UNIVERSAL ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

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

Government-Wide Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The effect of the interfund activity has been substantially eliminated from the government-wide financial statements.

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

Fund-Based Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as required under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

UNIVERSAL ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

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

Fund-Based Statements *(continued)*

Unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

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

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

**UNIVERSAL ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

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

Fund-Based Statements *(continued)*

The Academy reports the following major governmental fund:

General Fund

The General Fund is used to record the general operation 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.

Additionally, the Academy reports the following nonmajor governmental Special Revenue Fund, the Food Services Fund. This fund is used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes in the Academy's food service program. Any deficit generated by this activity is the responsibility of the General Fund.

D. Assets, Liabilities, and Net Position or Equity

Deposits, Cash Equivalents and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of twelve months or less when acquired.

The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Academy evaluates each financial institution it deposits Academy funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk are used as depositories.

**UNIVERSAL ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

D. Assets, Liabilities and Net Position or Equity *(continued)*

Deposits, Cash Equivalents and Investments *(continued)*

The Academy is authorized by Michigan Compiled Laws, Section 129.91 to invest surplus monies in federally insured United States banks, credit unions, and savings and loan associations that have offices in Michigan. The Academy is also authorized to invest in bonds and notes, certain commercial paper, U.S. Government repurchase agreements, bankers' acceptances and mutual funds and investment pools that are composed of authorized investment vehicles.

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Pooled investment income from the General Fund and various Debt Service Funds is allocated to each fund based upon the balance of the principal invested.

Receivables

Receivables at June 30, 2019 consist primarily of state school aid due from the State of Michigan and the federal government. All receivables are expected to be fully collected in July and August of 2019 and are considered current for the purposes of these financial statements.

Prepaid Expenses

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 a expenditure is reported in the year in which the services are consumed.

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than

**UNIVERSAL ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

D. Assets, Liabilities and Net Position or Equity *(continued)*

Capital Assets *(continued)*

\$1,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have any infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

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

MPERS Liability

The Academy contracted with Hamadeh Educational Services, Inc. to provide all staffing personnel during the year under audit. Consequently, all staffing cost is treated as purchased services in these financial statements.

The Academy has no obligation to fund the Michigan Public School Employees Retirement System for the year ended June 30, 2019.

Deferred Revenue

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

**UNIVERSAL ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

D. Assets, Liabilities and Net Position or Equity *(continued)*

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. In the fund financial statements, governmental fund types recognize bond proceeds, premiums and discounts, as well as issuance costs, during the current period.

Fund Equity

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

- **Non-spendable-** Amounts that are not in spendable form or are legally or contractually required to be maintained intact.
- **Restricted-** Amounts that are legally restricted by outside parties, constitutional provision, or by enabling legislation for use of a specific purpose.
- **Committed-** Amounts that have been formally set aside by the Board of Directors for use and specific purposes. Commitments are made and can be rescinded only via resolution of the Board of Directors.
- **Assigned-** Intent to spend the resources on a specific purpose expressed by the Board of Directors.
- **Unassigned-** Amounts that do not fall into any of the above categories. This is the residual classification for amounts in the General Fund and represents the fund balance that has not been assigned to other funds or has not been restricted, committed or assigned for specific purposes in the General Fund.

**UNIVERSAL ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

D. Assets, Liabilities and Net Position or Equity *(continued)*

Comparative Data

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

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

Estimates

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Data

The Academy is legally subject to the budgetary control requirements of the State of Michigan P.A. 621 of 1978 (the Uniform Budgetary Act). The following is a summary of the requirements of the Act:

1. Budgets must be adopted for the General Fund, Special Revenue Funds, and Debt Service Funds by July 1.
2. The budgets must be balanced.
3. The budgets must be amended when necessary.
4. Public hearings must be held before budget adoptions.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures must be authorized by a budget before being incurred.

**UNIVERSAL ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Data *(continued)*

The Academy formally adopted General Fund, and Special Revenue Funds (Food Services) budgets by function for the fiscal year ended June 30, 2019. Expenditures at this level in excess of amounts budgeted are a violation of Michigan law. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. No encumbrances were outstanding in the General Fund and Special Revenue Funds at June 30, 2019. During the current year, the budget was amended in a legally permissible manner.

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

Excess of Expenditures Over Appropriations of Budgetary Funds

The Academy had expenditures in certain functional areas that were insignificantly in excess of amounts appropriated, as described on page 30 of these financial statements. In all cases, adequate fund balance was available to cover these expenditures.

NOTE 3 - DEPOSITS AND INVESTMENTS

State statutes and the Academy's investment policy authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan; the Academy is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Academy's deposits are in accordance with statutory authority. The Academy has designated one bank for the deposit of its funds, and has not adopted any other formal investment policy.

The Academy's cash and investments are subject to custodial credit risk, which is examined in more detail.

**UNIVERSAL ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 3 - DEPOSITS AND INVESTMENTS *(continued)*

Custodial Credit Risk of Bank Deposits – Custodial credit risk is the risk that in the event of a bank failure, the Academy’s deposits may not be returned to it. The Academy evaluates its depositories and only those with an acceptable risk level are used for the Academy’s deposits. The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

At year end, the Academy’s deposits and investments were reported in the basic financial statements as cash and cash equivalents of \$3,871,957. The deposits of the Academy were reflected in the accounts of the financial institution at \$3,874,450 of which \$566,380 is covered by federal depository insurance.

NOTE 4 - CAPITAL ASSETS

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

Building	\$ 9,880,722	\$ -	\$ 9,880,722
Leasehold improvements	31,561	-	31,561
Furniture, fixtures & computer equipment	1,475,698	157,852	1,633,550
Playground equipment	23,085	-	23,085
Other equipment	31,890	-	31,890
Vehicles	20,050	-	20,050
	<hr/>	<hr/>	<hr/>
Subtotal	\$ 11,463,006	\$ 157,852	\$ 11,620,858
Accumulated depreciation:			
Building	\$ 1,646,787	\$ 494,036	\$ 2,140,823
Leasehold improvements	25,289	1,578	26,867
Furniture, fixtures & computer equipment	1,475,698	157,852	1,633,550
Playground equipment	23,085	-	23,085
Other equipment	21,783	3,189	24,972
Vehicles	15,342	4,010	19,352
	<hr/>	<hr/>	<hr/>
Subtotal	3,207,984	660,665	3,868,649
Net Capital Assets	<u>\$ 8,255,022</u>	<u>\$ (502,813)</u>	<u>\$ 7,752,209</u>

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

**UNIVERSAL ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 - RISK MANAGEMENT

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

NOTE 6 - ADMINISTRATIVE SERVICES

The Academy has entered into a management agreement with Hamadeh Educational Services, Inc. (H.E.S.). Under the terms of the management agreement, H.E.S. provides all the required labor, materials, and supervision necessary for the provision of educational services to the students, as well as the management, operation, and maintenance of the Academy. All costs incurred in providing this educational program at the Academy are reimbursed by the Academy to H.E.S. In addition, the Academy pays a 10 percent management fee computed on all state and federal revenue sources.

Management fees for the year ended June 30, 2019 were approximately \$745,894.

NOTE 7 - BONDS PAYABLE

On December 1, 2013, University Academy issued the following “Public School Academy Revenue Bonds” to finance the acquisition and the construction of real estate property located in the City of Detroit.

Bonds payable can be summarized as follows:

<u>July 1, 2018</u>	<u>Payments</u>	<u>June 30, 2019</u>	<u>Within a Year</u>
\$ 11,028,329	\$ 195,199	\$ 10,833,130	\$ 268,535

**UNIVERSAL ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 - BONDS PAYABLE *(continued)*

Future Bond Debt Service is as follows:

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
12/1/2019	268,535	734,684	1,003,219
12/1/2020	278,535	724,854	1,003,389
12/1/2021	288,535	714,359	1,002,894
12/1/2022	303,535	703,049	1,006,584
12/1/2023	314,507	688,974	1,003,481
2024 - 2028	1,629,508	2,554,687	4,184,195
2029 - 2033	2,240,000	2,468,199	4,708,199
2034 - 2038	3,255,000	1,451,507	4,706,507
2039 - 2040	2,254,975	816,260	3,071,235
TOTAL	\$ 10,833,130	\$ 10,856,572	\$ 21,689,702

NOTE 9 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 24, 2019, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

REQUIRED SUPPLEMENTAL INFORMATION

UNIVERSAL ACADEMY
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances Over/(Under)</u>
	<u>Original</u>	<u>Final</u>		<u>Final to Actual</u>
Revenues				
Local sources	\$ 29,750	\$ 47,760	\$ 48,660	\$ 900
State sources	6,474,255	6,510,368	6,438,386	(71,982)
Federal sources	815,075	1,083,394	816,377	(267,017)
Total Governmental Fund Revenues	7,319,080	7,641,522	7,303,423	(338,099)
Expenditures				
Instructional Services	3,002,681	2,874,698	2,639,942	(234,756)
Supporting Services:				
Pupil support services	310,309	331,170	314,420	(16,750)
Instructional staff services	799,198	980,599	893,667	(86,932)
General administration	1,068,578	1,167,712	1,049,341	(118,371)
School administration	44,943	57,813	57,622	(191)
Business support services	45,976	36,462	29,824	(6,638)
Operations and maintenance	522,653	544,609	500,448	(44,161)
Transportation	40,621	36,788	30,777	(6,011)
Central support services	283,651	327,454	282,578	(44,876)
Other support services	100,471	94,443	77,410	(17,033)
Community activities	92,765	125,346	110,751	(14,595)
Facilities acquisition and construction	-	15,000	-	(15,000)
Debt service interest & fees	944,106	947,467	962,467	15,000
Total Governmental Fund Expenditures	7,255,952	7,539,561	6,949,247	(590,314)
Excess (Deficiency) of Revenues over Expenditures	63,128	101,961	354,176	252,215
Fund Balance, July 1, 2018	3,254,662	3,565,486	3,565,486	-
Fund Balance, June 30, 2019	\$ 3,317,790	\$ 3,667,447	\$ 3,919,662	\$ 252,215

OTHER SUPPLEMENTAL INFORMATION

**UNIVERSAL ACADEMY
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2019**

Revenues	<u>Food Services</u>
Local sources	\$ 12,983
State sources	11,214
Federal sources	<u>403,210</u>
Total Revenues	427,407
Expenditures	
Food services	<u>381,466</u>
Total Expenditures	381,466
Excess of Revenues Over Expenditures and Other Financing Sources	45,941
Fund Balance- Beginning of Year	<u>168,283</u>
Fund Balance-End of Year	<u><u>\$ 214,224</u></u>

UNIVERSAL ACADEMY
SUPPLEMENTAL INFORMATION
SINGLE AUDIT REPORT
JUNE 30, 2019

SECTION A

**UNIVERSAL ACADEMY
SUPPLEMENTAL INFORMATION
SINGLE AUDIT REPORT**

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Wilkerson & Associate P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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

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
Universal 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, the major fund, and the aggregate remaining fund information of Universal Academy (a non-profit organization), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Universal Academy's basic financial statements, and have issued our report thereon dated September 24, 2019.

Internal Control Over Financial Reporting

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

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

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

To the Board of Directors
Universal Academy

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 Universal 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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Wilkinson & Associates PC

Dearborn, Michigan
September 24, 2019

Wilkerson & Associate P.C.

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

Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

To the Board of Directors of
Universal Academy

Report on Compliance for each Major Federal program

We have audited Universal Academy's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Universal Academy's major federal programs for the year ended June 30, 2019. Universal Academy's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Universal Academy's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable

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

To the Board of Directors
Universal Academy
Page 2

assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Universal Academy's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Universal Academy's compliance.

Opinion on Each Major Federal Program

In our opinion, Universal Academy complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of Universal Academy is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Universal Academy's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Universal Academy's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Universal Academy (the “Academy”) as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the Academy’s basic financial statements, and have issued our report thereon dated September 24, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management as was derived from and relates directly to underlying

Universal Academy
To the Board of Directors
Page 4

accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Wilkinson & Associates PC

Dearborn, Michigan
September 24, 2019

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019**

PROGRAM TITLE/ PROJECT NUMBER/ SUBRECIPIENT NAME	CFDA NUMBER	APPROVED AWARD AMOUNT	(MEMO ONLY) PRIOR YEAR EXPENDITURES	ACCRUED (DEFERRED) REVENUE JULY 1, 2018	FEDERAL FUNDS/ PAYMENTS IN-KIND RECEIVED	EXPENDITURES	ACCRUED (DEFERRED) REVENUE AT JUNE 30, 2019
Cluster:							
Child Nutrition Cluster:							
U.S. Department of Agriculture - Passed through the Michigan Department of Education:							
Non-Cash Assistance (Commodities) 2018-2019							
National School Lunch Program - Regular	10.555	\$ 30,538	\$ -	\$ -	\$ 29,317	\$ 29,317	\$ -
Cash Assistance							
National School Breakfast Program - 2017-2018 (Grant No. 181970)	10.553	52,900	44,413	2,842	11,329	8,487	-
National School Breakfast Program - 2018-2019 (Grant No. 191970)	10.553	55,738	-	-	51,022	55,738	4,717
National School Lunch Program - 2017-2018 (Grants No. 181960)	10.555	296,806	264,062	6,537	39,281	32,744	-
National School Lunch Program - 2018-2019 (Grants No. 191960)	10.555	265,491	-	-	251,731	265,491	13,760
National School Lunch Program - 2018-2019 (Grants No. 191980)	10.555	11,433	-	-	11,433	11,433	-
Total Cash Assistance		<u>682,370</u>	<u>308,475</u>	<u>9,378</u>	<u>364,797</u>	<u>373,894</u>	<u>18,477</u>
Total Child Nutrition Cluster		712,908	308,475	9,378	394,114	403,210	18,477
Special Education Cluster - U.S. Department of Education - Passed through the Wayne County RESA - IDEA							
IDEA - Regular Flow through 2018-2019 (Grant No. 190450)	84.027	81,892	-	-	54,924	81,892	26,968
Total Special Education Cluster		<u>81,892</u>	<u>-</u>	<u>-</u>	<u>54,924</u>	<u>81,892</u>	<u>26,968</u>
Other Federal Awards:							
U.S. Department of Education - Passed through the Michigan Department of Education - Title I, Part A:							
Improving Basic Program - 2017-2018 Regular (Grant No. 181530)	84.010	747,072	429,819	187,729	412,699	224,970	-
Improving Basic Program - 2018-2019 Regular (Grant No. 191530)	84.010	<u>567,626</u>	<u>-</u>	<u>-</u>	<u>355,805</u>	<u>435,916</u>	<u>80,111</u>
Total Title I		1,314,698	429,819	187,729	768,504	660,886	80,111

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019**

PROGRAM TITLE/ PROJECT NUMBER/ SUBRECIPIENT NAME	CFDA NUMBER	APPROVED AWARD AMOUNT	(MEMO ONLY) PRIOR YEAR EXPENDITURES	ACCRUED (DEFERRED) REVENUE JULY 1, 2018	FEDERAL FUNDS/ PAYMENTS IN-KIND RECEIVED	EXPENDITURES	ACCRUED (DEFERRED) REVENUE AT JUNE 30, 2019
Other Federal Awards (con't):							
U.S. Department of Education:							
Passed through the Michigan Department of Education:							
Title II, Part A:							
Teacher/Principal Training - 2017-2018 (Grant No. 180520)	84.367	74,910	24,108	560	9,860	9,300	-
Teacher/Principal Training - 2018-2019 (Grant No. 190520)	84.367	113,317	-	-	24,924	24,924	-
Total Title II		<u>188,227</u>	<u>24,108</u>	<u>560</u>	<u>34,784</u>	<u>34,224</u>	<u>-</u>
U.S. Department of Education:							
Passed through the Michigan Department of Education:							
Title III, Part A:							
Language Instructon Immigrant Students- 2018-19 (Grant No. 190570)	84.365A	8,939	-	-	-	1,833	1,833
Total Title III		<u>8,939</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,833</u>	<u>1,833</u>
U.S. Department of Education:							
Passed through the Michigan Department of Education:							
Title IV, Part A:							
Teacher/Principal Training - 2017-2018 (Grant No. 180750)	84.424	10,000	7,182	7,182	9,649	2,468	-
Teacher/Principal Training - 2018-2019 (Grant No. 190750)	84.424	35,078	-	-	8,872	10,638	1,766
Total Title IV		<u>45,078</u>	<u>7,182</u>	<u>7,182</u>	<u>18,521</u>	<u>13,106</u>	<u>1,766</u>
Total noncluster programs passed through the Michigan Department of Education		<u>1,556,942</u>	<u>461,109</u>	<u>195,471</u>	<u>821,808</u>	<u>710,048</u>	<u>83,710</u>
TOTAL FEDERAL AWARDS		<u>\$ 2,351,742</u>	<u>\$ 769,584</u>	<u>\$ 204,849</u>	<u># \$ 1,270,846</u>	<u>\$ 1,195,151</u>	<u>\$ 129,154</u>

**UNIVERSAL ACADEMY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of Universal Academy under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Universal Academy, it is not intended to, and does not, present the financial position, changes in net position, or cash flows, if applicable, of Universal Academy. Pass-through entity identify numbers are presented where available.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3 - INDIRECT COST RATE

Universal Academy has elected to use the 10 percent *de minimis* indirect cost rate allowed under the Uniform Guidance.

NOTE 4 – RECONCILIATION FUNDS STATEMENT – FEDERAL SOURCES

General Fund	\$ 816,377
Food Service Fund	403,210
Deferred Revenue from current year	9,077
Deferred Revenue from prior year	<u>(33,513)</u>
Total Revenue per Schedule of Expenditures of Federal Awards	<u><u>\$1,195,151</u></u>

NOTE 5 - GRANT SECTION AUDITOR REPORT

Management has utilized the Cash Management System (CMS) Grant Auditor Report and the related Disbursement and Payment Ledger reports, in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.

**UNIVERSAL ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Section 1 - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

* Material weakness(es) identified? Yes X No

* Reportable condition(s) identified that are not considered to be material weaknesses? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

* Material weakness(es) identified? Yes X No

* Reportable condition(s) identified that are not considered to be material weaknesses? Yes X None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Audit Requirements of the Uniform Guidance? Yes X No

Identification of major program:

CFDA Number	Federal Program
84.010,84.365A & 84.424	TITLE I, III & IV

UNIVERSAL ACADEMY
REPORT TO THE BOARD OF DIRECTORS

JUNE 30, 2019

Wilkerson & Associate P.C.

CERTIFIED PUBLIC ACCOUNTANTS

3 PARKLANE BLVD. SUITE 612
DEARBORN, MICHIGAN 48126
313-982-4340 FAX 313-982-4342

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

To the Board of Directors of
Universal Academy

We have recently completed our audit of the basic financial statements of Universal Academy (the "Academy") as of and for the year ended June 30, 2019. In addition to our audit report, we are providing the following required audit communication, recommendations, and informational items which impact the Academy:

	<u>Page(s)</u>
Results of Audit	2-5
Recommendations	6
Informational Items	6-7

We are grateful for the opportunity to be of service to Universal Academy. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Wilkerson & Associate PC

September 24, 2019

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

To the Board of Directors
Universal Academy
September 24, 2019

Results of the Audit

We have audited the financial statements of Universal Academy (the “Academy”) as of and for the year ended June 30, 2019 and have issued our report thereon dated September 24, 2019. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated March 1, 2019, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Academy. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Our audit of the Academy’s financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of the Academy’s compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated September 24, 2019 regarding our consideration of the Academy’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

To the Board of Directors
Universal Academy
September 24, 2019

We are also obligated to communicate certain matters related to our audit of those responsible for the governance of the Academy, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* require disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters during the preliminary audit phase.

Significant Audit Findings

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 the Academy 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 the year ended June 30, 2019.

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. There were no significant estimates included in this year's financial statements.

To the Board of Directors
Universal Academy
September 24, 2019

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statements disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive disclosures included in the financial statements.

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. There were no such misstatements identified.

Disagreements with Management

For the purpose 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 statement 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 as of the date of the audit report.

Management Consultants 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 consultant 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.

To the Board of Directors
Universal Academy
September 24, 2019

Other Audit Findings or Issues

In the normal course of our professional association with the Academy, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Academy, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the Academy's auditors.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the Academy's financial statements and report does not extend beyond the financial statements. We do not have an obligation to determine whether or not such information is properly stated. However, we read the management's discussion and analysis and budgetary comparison schedule and nothing came to our attention that caused us to believe that such information, or its manner of presentation is materially inconsistent with the information or manner of its presentation in the financial statements.

In addition to the comments and recommendations in this letter, our observations and comments regarding the Academy's internal controls, including any significant deficiencies or material weaknesses that we identified, have been reported to you in the 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*.

This information is intended solely for the use of the board of directors and management of Universal Academy and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Wilkerson & Associates PC

Larry D. Wilkerson, CPA

Universal Academy
September 24, 2019

Recommendations

UNIVERSAL ACADEMY RECOMMENDATIONS

As a result of auditing standards required to be implemented last year, the audit continues to require a strong emphasis to be placed on the Academy's internal control systems. The primary goal of internal controls is to provide a reasonable (as opposed to absolute) protection to the Academy and its assets and financial information. During this year's audit process, we noted no items that required management to make changes; therefore, no recommendations are made for this year.

Informational Items

UNIVERSAL ACADEMY

September 24, 2019

GASB Statement No. 87 – Leases

This statement is effective for the first time in the School District's June 30, 2021 financial statements. The statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows or outflows of resources based on payment provisions of the lease. The statement was issued to improve accounting and financial reporting for leases by governments. The statement establishes a single model for lease accounting for both lessees and lessors based on the foundational principle that leases are financings of the right to use an 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. The School District will have to identify and analyze all significant lease contracts to determine the lease asset and lease liability or deferred inflow or outflow of resources that will be required to be recognized upon implementation of the standard.

Lessee Accounting under GASB 87

A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the maximum lease term per the lease contract is 12 months or less, or it transfers ownership of the underlying asset. The lease liability is measured at the present value of lease payments expected to be made during the lease term (less any lease incentives). The right-to-use asset is measured at the amount of initial measurement of the lease liability, plus any payments made to the lessor at or before commencement of the lease term and certain direct costs incurred to place the leased asset in service. The lessee should reduce the lease liability as payments are made and recognize an outflow of resources (i.e., expense) for interest on the liability. The lease asset should be amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.