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# Riverside Academy Charter School

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**Financial Report  
with Supplemental Information  
June 30, 2021**

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## Independent Auditor's Report

To the Board of the Academy  
Riverside Academy Charter School

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the remaining fund information of Riverside Academy Charter School (the "Academy") as of and for the year ended June 30, 2021 and the related notes to the financial statements, which collectively comprise Riverside Academy Charter School'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 remaining fund information of Riverside Academy Charter School as of June 30, 2021 and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of the Academy  
Riverside Academy Charter School

**Required Supplemental Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the major fund budgetary comparison schedule, as listed 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, which 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 supplemental 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 October 14, 2021 on our consideration of Riverside Academy Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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 Riverside Academy Charter School'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 Riverside Academy Charter School's internal control over financial reporting and compliance.



October 14, 2021

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

### ***Using This Annual Report***

This annual report consists of a series of financial statements and notes to those financial statements. These statements are organized so the reader can understand Riverside Academy Charter School financially as a whole. The government-wide financial statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term and what remains for future spending. The fund financial statements look at the Academy's operations in more detail than the government-wide financial statements by providing information about the Academy's most significant fund, the General Fund, with the Cafeteria Fund presented as a nonmajor fund. This report is composed of the following elements:

### **Management's Discussion and Analysis (MD&A) (Required Supplemental Information)**

#### **Basic Financial Statements**

Government-wide Financial Statements

Fund Financial Statements

Notes to Financial Statements

#### **Required Supplemental Information**

Budgetary Comparison Schedule - General Fund

### ***Reporting the Academy as a Whole - Government-wide Financial Statements***

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenue and expenses are taken into account, regardless of when cash is received or paid.

These two statements report the Academy's net position - the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, as reported in the statement of net position - as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net position, as reported in the statement of activities, are indicators of whether its financial health is improving or deteriorating. The relationship between revenue and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the Academy.

The statement of net position and the statement of activities report the governmental activities for the Academy, which encompass all of the Academy's services, including instruction, support services, community services, and food services. Unrestricted state aid (foundation allowance revenue) and state and federal grants finance most of these activities.

### ***Reporting the Academy's Fund Financial Statements***

The Academy's fund financial statements provide detailed information about the most significant funds, not the Academy as a whole. Some funds are required to be established by state law. However, the Academy established another fund, the Cafeteria Fund, to help it control and manage money for food services.

# Riverside Academy Charter School

## Management's Discussion and Analysis (Continued)

### Governmental Funds

Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Academy and the services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in a reconciliation.

### **The Academy as a Whole**

Recall that the statement of net position provides the perspective of the Academy as a whole. The following table provides a summary of the Academy's net position as of June 30, 2021 and 2020:

	Governmental Activities	
	2021	2020
	(in thousands)	
<b>Assets</b>		
Current and other assets	\$ 4,361.2	\$ 3,466.7
Capital assets	109.9	182.2
Total assets	4,471.1	3,648.9
<b>Liabilities</b>		
Current liabilities	2,164.3	2,542.6
Noncurrent liabilities	126.3	75.6
Total liabilities	2,290.6	2,618.2
<b>Net Position</b>		
Net investment in capital assets	109.9	182.1
Restricted	1.4	1.5
Unrestricted	2,069.2	847.1
Total net position	<u>\$ 2,180.5</u>	<u>\$ 1,030.7</u>

The above analysis focuses on net position. The change in net position of the Academy's governmental activities is discussed below. The Academy's net position was \$2,180,516 at June 30, 2021. Net investment in capital assets totaling \$109,856 compares the original cost, less depreciation of the Academy's capital assets, to long-term debt used to finance the acquisition of those assets. Restricted net position is reported separately to show enabling legislation that limits the Academy's ability to use that net position for day-to-day operations. The remaining amount of net position, \$2,069,194, was unrestricted.

The \$2,069,194 in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The unrestricted net position balance enables the Academy to meet working capital and cash flow requirements, as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

# Riverside Academy Charter School

## Management's Discussion and Analysis (Continued)

The results of this year's operations for the Academy as a whole are reported in the condensed statement of activities below, which shows the changes in net position for the years ended June 30, 2021 and 2020:

	Governmental Activities	
	2021	2020
	(in thousands)	
<b>Revenue</b>		
Program revenue	\$ 3,798.0	\$ 3,212.8
General revenue:		
State aid not restricted to specific purposes	7,411.5	7,288.0
Other	(46.4)	34.0
Total revenue	<u>11,163.1</u>	<u>10,534.8</u>
<b>Expenses</b>		
Instruction	4,359.2	4,570.2
Support services	5,282.9	5,414.9
Food services	294.7	564.6
Community services	33.8	22.3
Depreciation expense (unallocated)	42.7	73.4
Total expenses	<u>10,013.3</u>	<u>10,645.4</u>
<b>Change in Net Position</b>	1,149.8	(110.6)
<b>Net Position - Beginning of year</b>	<u>1,030.7</u>	<u>1,141.3</u>
<b>Net Position - End of year</b>	<u><u>\$ 2,180.5</u></u>	<u><u>\$ 1,030.7</u></u>

As reported in the statement of activities, the cost of all of our governmental activities this year was approximately \$10.0 million. Certain activities were partially funded by other governments and organizations that subsidized certain programs with grants and contributions (approximately \$3.8 million). We paid for the remaining public benefit portion of our governmental activities with approximately \$7.4 million in state foundation allowance and other revenue (i.e., interest and general entitlements).

The Academy experienced an increase in net position of approximately \$1,150,000. Key reasons for the change in net position were the successful implementation of cost-control measures and additional funding as a result of various federal and state programs due to the COVID-19 pandemic.

As discussed above, the net cost shows the financial burden that was placed on the State by each of these functions. Since unrestricted state aid constitutes the vast majority of district operating revenue sources, the Board of the Academy and administration must annually evaluate the needs of the Academy and balance those needs with state-prescribed available unrestricted resources.

### ***The Academy's Funds***

As we noted earlier, the Academy uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Academy is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Academy's overall financial health.

As the Academy completed this year, the governmental funds reported a combined fund balance of approximately \$2,197,000, which is an increase of approximately \$1,339,000 from last year. The primary reasons for the increase are the successful implementation of cost-control measures and additional funding as a result of various federal programs due to the COVID-19 pandemic.

The General Fund fund balance is available to fund costs related to allowable school operating purposes.

# Riverside Academy Charter School

## Management's Discussion and Analysis (Continued)

### **Budgetary Highlights**

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted in June 2021. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

There were no significant revisions made to the 2020-2021 General Fund original budget.

There were no significant variances between the final budget and actual amounts.

### **Capital Assets and Debt Administration**

#### **Capital Assets**

As of June 30, 2021, the Academy had \$109,856 invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents a net decrease (including additions, disposals, and depreciation) of \$72,304 from last year.

	2021	2020
Construction in progress	\$ 22,748	\$ -
Leasehold improvements	895,959	895,959
Furniture and equipment	525,366	525,366
Buses and other vehicles	4,700	4,700
Computers	54,456	172,854
Total capital assets	1,503,229	1,598,879
Less - Accumulated depreciation	1,393,373	1,416,719
Total capital assets - Net of accumulated depreciation	<b>\$ 109,856</b>	<b>\$ 182,160</b>

This year's additions of approximately \$23,000 included construction in progress related to new playground equipment. No major capital projects are planned for the 2021-2022 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

#### **Debt**

At the end of this year, the Academy had no bank debt outstanding.

However, other obligations include compensated absences and severance pay. We present more detailed information about our noncurrent liabilities in the notes to the financial statements.

#### **Economic Factors and Next Year's Budgets and Rates**

Our elected officials and administration consider many factors when setting the Academy's 2021-2022 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 2021-2022 budget was adopted in June 2021 based on an estimate of students who will enroll in September 2021. Approximately 67 percent of total General Fund revenue is from the foundation allowance. As a result, the 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 2021 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2022 budget. Once the final student count and related per pupil funding are validated, state law requires the Academy to amend the budget if actual academy resources are not sufficient to fund original appropriations.



# Riverside Academy Charter School

## Statement of Net Position

June 30, 2021

Governmental  
Activities

### Assets

Cash (Note 4)	\$ 1,283,472
Due from other governmental units	2,097,816
Prepaid costs and other assets (Note 9)	979,922
Capital assets - Net (Note 5)	<u>109,856</u>
Total assets	4,471,066

### Liabilities

Accounts payable	1,712,230
State aid anticipation note (Note 12)	278,287
Unearned revenue (Note 11)	173,748
Noncurrent liabilities (Note 10) - Due within one year	<u>126,285</u>
Total liabilities	<u>2,290,550</u>

### Net Position

Net investment in capital assets	109,856
Restricted - Food services	1,466
Unrestricted	<u>2,069,194</u>
Total net position	<u><u>\$ 2,180,516</u></u>

# Riverside Academy Charter School

## Statement of Activities

Year Ended June 30, 2021

	Program Revenue	Governmental Activities
Expenses	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
<b>Functions/Programs</b>		
Primary government - Governmental activities:		
Instruction	\$ 4,359,209	\$ (1,802,891)
Support services	5,282,925	(4,340,345)
Food services	294,743	4,333
Community services	33,774	(33,774)
Depreciation expense (unallocated)	42,737	(42,737)
Total primary government	<b><u>\$ 10,013,388</u></b>	<b><u>(6,215,414)</u></b>
General revenue:		
State aid not restricted to specific purposes		7,411,529
Loss on disposal of capital assets		(52,315)
Other		6,005
	Total general revenue	<u>7,365,219</u>
	<b>Change in Net Position</b>	<b>1,149,805</b>
	<b>Net Position - Beginning of year</b>	<u>1,030,711</u>
	<b>Net Position - End of year</b>	<b><u>\$ 2,180,516</u></b>

**Riverside Academy Charter School**

**Governmental Funds  
Balance Sheet**

**June 30, 2021**

	General Fund	Nonmajor Fund - Cafeteria Fund	Total Governmental Funds
<b>Assets</b>			
Cash (Note 4)	\$ 1,201,594	\$ 81,878	\$ 1,283,472
Due from other governmental units	2,097,816	-	2,097,816
Due from other funds (Note 6)	98,987	46,257	145,244
Prepaid costs and other assets (Note 9)	949,922	30,000	979,922
	<u>\$ 4,348,319</u>	<u>\$ 158,135</u>	<u>\$ 4,506,454</u>
Total assets			
<b>Liabilities</b>			
Accounts payable	\$ 1,654,548	\$ 57,682	\$ 1,712,230
Due to other funds (Note 6)	46,257	98,987	145,244
State aid anticipation note (Note 12)	278,287	-	278,287
Unearned revenue (Note 11)	173,748	-	173,748
	<u>2,152,840</u>	<u>156,669</u>	<u>2,309,509</u>
Total liabilities			
<b>Fund Balances</b>			
Nonspendable - Prepaid assets	929,922	30,000	959,922
Unassigned	1,265,557	(28,534)	1,237,023
	<u>2,195,479</u>	<u>1,466</u>	<u>2,196,945</u>
Total fund balances			
	<u>\$ 4,348,319</u>	<u>\$ 158,135</u>	<u>\$ 4,506,454</u>
Total liabilities and fund balances			

**Riverside Academy Charter School**

**Governmental Funds**  
**Reconciliation of the Balance Sheet to the Statement of Net Position**

**June 30, 2021**

<b>Fund Balances Reported in Governmental Funds</b>	\$ 2,196,945
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:	
Cost of capital assets	1,503,229
Accumulated depreciation	<u>(1,393,373)</u>
Net capital assets used in governmental activities	109,856
Some employee fringe benefits are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	
	<u>(126,285)</u>
<b>Net Position of Governmental Activities</b>	<b><u><u>\$ 2,180,516</u></u></b>

**Riverside Academy Charter School**

**Governmental Funds**  
**Statement of Revenue, Expenditures, and Changes in Fund Balances**

**Year Ended June 30, 2021**

	General Fund	Nonmajor Fund - Cafeteria Fund	Total Governmental Funds
<b>Revenue</b>			
Local sources	\$ 25,869	\$ -	\$ 25,869
State sources	8,811,129	16,606	8,827,735
Federal sources	2,145,814	282,470	2,428,284
Total revenue	10,982,812	299,076	11,281,888
<b>Expenditures</b>			
Current:			
Instruction	4,315,696	-	4,315,696
Support services	5,271,392	4,333	5,275,725
Food services	-	294,743	294,743
Community services	33,774	-	33,774
Capital outlay	22,748	-	22,748
Total expenditures	9,643,610	299,076	9,942,686
<b>Net Change in Fund Balances</b>	1,339,202	-	1,339,202
<b>Fund Balances - Beginning of year</b>	856,277	1,466	857,743
<b>Fund Balances - End of year</b>	<b>\$ 2,195,479</b>	<b>\$ 1,466</b>	<b>\$ 2,196,945</b>

**Riverside Academy Charter School**

**Governmental Funds**

**Reconciliation of the Statement of Revenue, Expenditures, and Changes in  
Fund Balances to the Statement of Activities**

**Year Ended June 30, 2021**

<b>Net Change in Fund Balances Reported in Governmental Funds</b>	<b>\$ 1,339,202</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capitalized capital outlay	22,748
Depreciation expense	(42,737)
Net book value of assets disposed of	<u>(52,315)</u>
Total	(72,304)
Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in the funds until it is available	(66,380)
Compensated absences and severance pay do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	<u>(50,713)</u>
<b>Change in Net Position of Governmental Activities</b>	<b><u><u>\$ 1,149,805</u></u></b>

June 30, 2021

### Note 1 - Nature of Business

Riverside Academy Charter School (the "Academy") is an Academy in the state of Michigan that provides educational services to students.

### Note 2 - Significant Accounting Policies

#### *Accounting and Reporting Principles*

The Academy follows accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies used by the Academy:

#### *Reporting Entity*

The Academy was formed as a charter 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.

In August 2002, the Academy entered into a contract with Central Michigan University to charter a public school academy. The contract, which is effective through June 2022, 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 Central Michigan 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 the Central Michigan University board of trustees 3.0 percent of state aid as administrative fees. The total administrative fees paid for the year ended June 30, 2021 to the Central Michigan University board of trustees were approximately \$221,000, of which approximately \$40,000 was payable at year end.

In August 2002, the Academy entered into a contract with a related party (a management company owned by the primary founder of the Academy) to provide all functions relating to the provision of educational services and the management and operation of the Academy. In addition, the Academy subcontracts substantially all of its employees from this management company. The agreement, which is effective through June 2024, provides that the Academy will pay the management company a fee of 9.5 percent of revenue, excluding State of Michigan At-Risk categorical funding, as administrative fees. The total administrative fee expenditures incurred for the year ended June 30, 2021 were approximately \$1,000,000. As of June 30, 2021, the Academy owed this related party approximately \$543,000 in fees and approximately \$668,000 for other expenses. These amounts are included in accounts payable at June 30, 2021.

#### *Report Presentation*

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. 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. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

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

June 30, 2021

**Note 2 - Significant Accounting Policies (Continued)**

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

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

***Basis of Accounting***

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the Academy has spent its resources.

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Revenue is not recognized until it is collected or collected soon enough after the end of the year that it is available to pay for obligations outstanding at the end of the year. For this purpose, the Academy considers amounts collected within 60 days of year end to be available for recognition. Revenue not meeting this definition is classified as a deferred inflow of resources.

***Fund Accounting***

The Academy accounts for its various activities in two different funds in order to demonstrate accountability for how it spends certain resources; separate funds allow the Academy to show the particular expenditures for which specific revenue is used.

**Governmental Funds**

Governmental funds include all activities that provide general governmental services that are not business-type activities. Governmental funds can include the General Fund, special revenue funds, debt service funds, capital project funds, and permanent funds. The Academy's only major fund is the General Fund, which is the primary operating fund because it accounts for all financial resources used to provide government services other than specifically assigned to another fund.

Additionally, the Academy reports the following special revenue fund as a nonmajor fund:

The Cafeteria Fund is used to account for the proceeds of specific revenue sources that are restricted to expenditure for food services. The majority of Cafeteria Fund revenue comes from federal and state grants. Any operating deficit generated by this activity is the responsibility of the General Fund.

**Interfund Activity**

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, certain eliminations are made in the preparation of the government-wide financial statements.

Furthermore, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.



**Note 2 - Significant Accounting Policies (Continued)**

***Specific Balances and Transactions***

**Cash**

Cash includes cash on hand and demand deposits.

**Receivables and Payables**

In general, outstanding balances between funds are reported as due to/from other funds.

All trade receivables, primarily intergovernmental receivables, are shown net of an allowance for uncollectible amounts. The Academy considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

**Prepaid Items**

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital Assets**

Capital assets, which include leasehold improvements, buses, furniture and equipment, and computers, are reported in the applicable governmental activities column 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 one year. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed. 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 infrastructure-type assets.

Capital assets are depreciated using the straight-line method over the following useful lives:

Asset Class	Depreciable Life - Years
Leasehold improvements	Lesser of 15 years or lease term
Furniture and equipment	5-7
Buses and other vehicles	7
Computers	3-5

**Long-term Obligations**

In the government-wide financial statements, long-term obligations are reported as liabilities in the statement of net position. The long-term obligations of the Academy consist of accrued compensated absences and severance pay.

**Net Position**

Net position of the Academy is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase of those assets. The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

June 30, 2021

**Note 2 - Significant Accounting Policies (Continued)**

**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 nonspendable fund balance component represents amounts that are not in spendable form or are legally or contractually required to be maintained intact. Restricted fund balance represents amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose. 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 the Academy is the highest level of decision-making authority for the Academy that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) 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 the Academy may 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 exist only 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.

The Academy did not have any committed or assigned fund balance as of June 30, 2021

**Compensated Absences (Vacation and Sick Leave)**

It is the Academy's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Sick pay is accrued for the estimated amount that the Academy will pay upon employment termination; vacation pay is accrued when incurred. Both of these are reported in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

**Comparative Data/Reclassifications**

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

**Upcoming Accounting Pronouncement**

In June 2017, the Governmental Accounting Standards Board issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires 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 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 Academy is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement were originally effective for the Academy's financial statements for the year ended June 30, 2021 but were extended to June 30, 2022 with the issuance of GASB Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance*.

June 30, 2021

**Note 3 - Stewardship, Compliance, and Accountability**

***Budgetary Information***

Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund and the Cafeteria Fund. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits academies to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The Academy adjusted budgeted amounts during the year in response to actual and projected activity.

The Academy budgets and reports capital outlay expenditures within the related function in the budgetary comparison schedule - General Fund. In accordance with generally accepted accounting principles, the Academy reports capital outlay separately in the statement of revenue, expenditures, and changes in fund balances.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders or contracts) are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

***Excess of Expenditures Over Appropriations in Budgeted Funds***

The Academy did not have significant expenditure budget variances.

**Note 4 - Deposits**

State statutes and the Academy's cash management 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 no 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. The Academy's deposits consist solely of checking accounts at the local bank; therefore, the Academy has not adopted a formal investment policy.

The Academy's cash is subject to custodial credit risk, which is examined in more detail below:

***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 does not have a deposit policy for custodial credit risk. At year end, the Academy had \$1,283,472 of bank deposits, of which \$1,033,472 was uninsured and uncollateralized. 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. As a result, the Academy evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

June 30, 2021

**Note 5 - Capital Assets**

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

	Balance July 1, 2020	Additions	Disposals and Adjustments	Balance June 30, 2021
Capital assets not being depreciated - Construction in progress	\$ -	\$ 22,748	\$ -	\$ 22,748
Capital assets being depreciated:				
Leasehold improvements	895,959	-	-	895,959
Furniture and equipment	525,366	-	-	525,366
Buses and other vehicles	4,700	-	-	4,700
Computers	172,854	-	(118,398)	54,456
Subtotal	1,598,879	-	(118,398)	1,480,481
Accumulated depreciation:				
Buildings and improvements	793,524	33,096	-	826,620
Furniture and equipment	509,157	4,232	-	513,389
Buses and other vehicles	2,181	671	-	2,852
Computers	111,857	4,738	(66,083)	50,512
Subtotal	1,416,719	42,737	(66,083)	1,393,373
Net governmental activities capital assets	\$ 182,160	\$ (19,989)	\$ (52,315)	\$ 109,856

Depreciation expense was not charged to activities, as the Academy's assets benefit multiple activities and allocation is impractical.

**Note 6 - Interfund Receivables, Payables, and Transfers**

The composition of interfund balances is as follows:

Fund Due To	Fund Due From		
	General Fund	Cafeteria Fund	Total
Cafeteria Fund	\$ 46,257	\$ -	\$ 46,257
General Fund	-	98,987	98,987
Total	\$ 46,257	\$ 98,987	\$ 145,244

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

**Note 7 - Lease Agreements**

**Operating Leases**

The Academy has entered into two operating lease agreements with a related party (the primary founder of the Academy and majority owner of the management company) for its buildings and leasehold improvements. Additionally, the Academy is responsible for property taxes, insurance, repairs, and maintenance related to the facilities. The first lease requires annual rent of 15.5 percent of state aid received by the Academy. This lease expires in July 2028. The second lease requires monthly payments of \$55,000 through June 2023. The Academy incurred rent expense, including property taxes of approximately \$56,700, in connection with these leases of approximately \$1,346,000 for the year ended June 30, 2021.

The Academy owed approximately \$72,000 on leases at June 30, 2021, which is recorded in accounts payable.

The future minimum lease payments for these leases are as follows:

Years Ending	Amount
2022	\$ 1,395,944
2023	1,395,944
2024	735,944
2025	735,944
2026	735,944
Thereafter	1,533,216
Total	<u>\$ 6,532,936</u>

**Note 8 - Risk Management**

The Academy is exposed to various risks of loss related to general liability claims. The Academy has purchased commercial insurance for all claims. There have been no significant reductions in insurance coverage during fiscal year 2021. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since inception. Employee benefit-related risks are attributable to staff employed by the management company and are insured by the management company.

**Note 9 - Prepaid Management Company Expenditures**

In a previous year, the management company of the Academy requested an advance from the General Fund equal to approximately one month of the General Fund's expenses. The Academy's advance, totaling approximately \$930,000, was authorized by the Board of the Academy and transferred to the Academy's account with the management company for payment of board-approved academy expenses in the subsequent month. An additional request in the amount of \$30,000 for the Cafeteria Fund, equal to approximately one month of the Cafeteria Fund's expenses, was also authorized by the Board of the Academy and transferred to the Academy's account with the management company for payment of board-approved academy expenses incurred in the subsequent month.

June 30, 2021

**Note 10 - Long-term Debt**

Long-term debt activity for the year ended June 30, 2021 can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Compensated absences	\$ 75,572	\$ 25,713	\$ -	\$ 101,285	\$ 101,285
Severance pay	-	25,000	-	25,000	25,000
Total governmental activities long-term debt	<u>\$ 75,572</u>	<u>\$ 50,713</u>	<u>\$ -</u>	<u>\$ 126,285</u>	<u>\$ 126,285</u>

**Note 11 - Unavailable and Unearned Revenue**

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

At June 30, 2021, the Academy had no unavailable revenue and approximately \$174,000 of unearned revenue related to grant and categorical aid payments received prior to meeting all eligibility requirements.

**Note 12 - State Aid Anticipation Note**

***State Aid Anticipation Note***

The Academy has direct borrowings from the Michigan Finance Authority (the "Lender") to provide sufficient resources before receiving its scheduled state aid. This liability is recorded as a fund liability in the General Fund.

During the year, the Academy borrowed \$1,550,000 in a state aid anticipation note, which has an outstanding balance of \$278,287 at June 30, 2021. The current note bears interest at 3.45 percent and is due on August 20, 2021. At June 30, 2021, the accrued interest on the note is insignificant. Subsequent to year end, the outstanding principal and interest was paid in full on August 20, 2021.

In the event of default, the notes are fully collateralized by the Academy's future state aid funding, and the Lender has the authority to intercept state aid payments at its discretion.

In September 2021, the Academy borrowed \$1,500,000 in a state aid anticipation note with an interest rate of 3.30 percent. The note matures in August 2022 and has similar terms and provisions as the note outstanding at June 30, 2021.

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## Required Supplemental Information

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# Riverside Academy Charter School

## Required Supplemental Information Budgetary Comparison Schedule - General Fund

Year Ended June 30, 2021

	Original Budget	Final Budget	Actual	(Under) Over Final Budget
<b>Revenue</b>				
Local sources	\$ 190,825	\$ 39,864	\$ 25,869	\$ (13,995)
State sources	8,716,037	8,946,039	8,811,129	(134,910)
Federal sources	1,620,004	1,815,764	2,145,814	330,050
Total revenue	10,526,866	10,801,667	10,982,812	181,145
<b>Expenditures</b>				
Current:				
Instruction:				
Basic programs	3,865,026	3,741,400	3,249,394	(492,006)
Added needs	1,162,443	1,155,000	1,089,050	(65,950)
Total instruction	5,027,469	4,896,400	4,338,444	(557,956)
Support services:				
Pupil	312,461	322,063	238,543	(83,520)
Instructional staff	867,110	1,114,353	872,099	(242,254)
General administration	550,476	487,966	454,108	(33,858)
School administration	242,452	308,452	280,629	(27,823)
Business	925,671	983,409	998,888	15,479
Operations and maintenance	2,153,874	2,187,500	2,097,093	(90,407)
Pupil transportation services	129,868	30,068	30,035	(33)
Central	280,485	368,550	299,997	(68,553)
Leasehold improvements	11,500	11,500	-	(11,500)
Total support services	5,473,897	5,813,861	5,271,392	(542,469)
Community services	25,500	38,000	33,774	(4,226)
Total expenditures	10,526,866	10,748,261	9,643,610	(1,104,651)
<b>Net Change in Fund Balance</b>	-	53,406	1,339,202	1,285,796
<b>Fund Balance - Beginning of year</b>	856,277	856,277	856,277	-
<b>Fund Balance - End of year</b>	<u>\$ 856,277</u>	<u>\$ 909,683</u>	<u>\$ 2,195,479</u>	<u>\$ 1,285,796</u>