



W-A-Y Academy - Flint  
Audited Financial Statements

June 30, 2014

*Prepared by Taylor & Morgan, P.C.*

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W-A-Y ACADEMY - FLINT  
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INDEPENDENT AUDITORS' REPORT

September 18, 2014

Board of Directors  
W-A-Y Academy - Flint

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of W-A-Y Academy - Flint as of and for the year ended June 30, 2014, 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 of material misstatement.

An audit involves performing procedures to obtain 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 estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of W-A-Y Academy - Flint as of June 30, 2014 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-8 and 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other information*

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

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2014 on our consideration of W-A-Y Academy - Flint's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering W-A-Y Academy - Flint's internal control over financial reporting and compliance.

Sincerely,

*Taylor & Morgan, P.C.*

Taylor & Morgan, P.C.  
Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS  
(MD & A)

# W-A-Y Academy - Flint

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## Management's Discussion and Analysis For Fiscal Year Ended June 30, 2014

W-A-Y Academy - Flint is a grade 7-12 Public School Academy located in Flint, Michigan. This Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Academy administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2014.

### OVERVIEW OF THE FINANCIAL STATEMENTS

U.S. generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: Government-wide Financial Statements and Fund Financial Statements.

#### Fund Financial Statements:

For the most part, the fund financial statements are comparable to general purpose financial statements. The primary difference is that the Account Groups: General Fixed Assets and General Long-Term Debt are not reported. The fund level statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the Academy's major instruction and instructional support activities are reported in the General Fund. Additional governmental activities are reported in their relevant Special Revenue Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. Payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

#### Government-wide Financial Statements:

The Government-wide financial statements are maintained using the "full accrual" basis. They report all of the Academy's assets and liabilities, both short and long term, regardless if they are "currently available" or not. Capital assets and long-term obligations of the Academy are reported in the Statement of Net Position of the Government-wide financial statements. The Academy has no capital assets or long-term obligations as of the end of the fiscal year.

During the year, the Academy adopted new accounting guidance, *GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, and *No. 65, Items Previously Reported as Assets and Liabilities*.

### FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

#### Summary of Net Position:

The following summarizes the net position for the fiscal year ended June 30, 2014:

# W-A-Y Academy - Flint

## Management's Discussion and Analysis For Fiscal Year Ended June 30, 2014

The change in net position is summarized as follows:

	Governmental Activities
<b>Assets</b>	
Cash and Cash Equivalents	\$ 5,458
Prepays	440
Due from Other Governmental Units	302,392
Total Assets	308,290
<b>Liabilities</b>	
Accounts Payable	254,372
State Aid Loan	46,355
Advances from Grantors	2,485
Total Liabilities	303,212
<b>Net Position</b>	
Unrestricted	5,078
Total Net Position	\$ 5,078

2013-2014 was W-A-Y Academy – Flint’s first year of operation. The W-A-Y Academy – Flint received both Charter and Implementation Grants to assist with startup costs. In addition, W-A-Y Academy-Flint borrowed \$225,000 in a State Aid Note to assist with cash flow needs. Enrollment increased from 108 students in the fall to 147 in the spring. Plans are to open a second site in the fall and district enrollment is projected to double.

	Expenses	Program Revenues Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
<b>Functions/Programs</b>				
<b>Governmental Activities</b>				
Basic Programs	\$ 730,364	\$ -	\$ 141,899	\$ (588,465)
Added Needs	50,862	-	104,252	53,390
Support Services	390,843	-	-	(390,843)
Total Governmental Activities	\$ 1,172,069	\$ -	\$ 246,151	(925,918)
<b>General Purpose Revenues</b>				
State School Aid - Unrestricted				930,081
Miscellaneous				915
Total General Revenue				930,996
Change in Net Position				5,078
Net Position - July 1				-
Net Position - June 30				\$ 5,078

# W-A-Y Academy - Flint

## Management's Discussion and Analysis For Fiscal Year Ended June 30, 2014

### FINANCIAL ANALYSIS OF THE ACADEMY'S FUNDS

Factors affecting the change in net position during the year are discussed below: 2013-2014 was the initial year of operation for W-A-Y Academy - Flint. Initial revenues and expenditures both decreased due to a reduction in anticipated students at the newly opened site. However, enrollment numbers increased in the spring. State issued At Risk funds were not received until June. Federal funds were not made available until late in the spring, and therefore, could not be utilized in the current fiscal year.

**A. Results of Operations:** For the fiscal year ended June 30, 2014, the results of the Academy's operations were:

	General Fund	Total Governmental Funds
Revenues		
Other Local Sources	\$ 915	\$ 915
State Sources	990,006	990,006
Federal Sources	186,226	186,226
Total Revenues	1,177,147	1,177,147
Expenditures		
Instruction		
Basic Programs	730,364	730,364
Added Needs	50,862	50,862
Total Instruction	781,226	781,226
Support Services		
Pupil Services	2,838	2,838
Instructional Staff	16,767	16,767
General Administration	205,760	205,760
School Administration	173	173
Business Services	32,963	32,963
Operation & Maintenance	68,069	68,069
Personnel & Information	64,273	64,273
Total Support Services	390,843	390,843
Total Expenditures	1,172,069	1,172,069
Excess/(Deficiency of Revenues over/(under) Expenditures	5,078	5,078
Net Changes in Fund Balance	5,078	5,078
Fund Balance - July 1	-	-
Fund Balance - June 30	\$ 5,078	\$ 5,078

# W-A-Y Academy - Flint

## Management's Discussion and Analysis For Fiscal Year Ended June 30, 2014

### B. Unrestricted State Aid

State aid revenue is determined by the following variables:

- Per Student, Foundation Allowance: Annually, the State of Michigan sets the per student foundation allowance. The W-A-Y Academy – Flint foundation allowance was \$7,168 per pupil.
- Student Enrollment: The Academy's student enrollment for the fall count of 2013-14 was 108 students. Enrollment increased 36.4% to 147 for the supplemental count in February. To calculate total state aid to be provided by the foundation allowance, a blend of 50% of the fall count and 50% of the February count is multiplied by the Academy's foundation allowance.

Subsequent to year-end June 30, 2014, preliminary student enrollments for 2014 - 2015 indicate that the 2014 fall student enrollment will more than double in the fall. The expected increase in enrollment is due to targeted recruitment at the district's existing location on East Kearsley Street in Flint and opening a second location in Washtenaw County in August, 2014.

### C. General Fund Budgetary Highlights

#### General Fund Operations

The Academy's revenues from General Fund operations exceeded expenditures by \$5,078 for the fiscal year ended June 30, 2014.

#### Final Budget vs. Actual

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Local Sources	\$ 500,000	\$ 176,000	\$ 915	\$ (175,085)
State Sources	1,837,565	995,516	990,006	(5,510)
Federal Sources	228,900	95,422	186,226	90,804
<b>Total Revenues</b>	<b>2,566,465</b>	<b>1,266,938</b>	<b>1,177,147</b>	<b>(89,791)</b>
<b>Expenditures</b>				
<b>Education</b>				
<b>Instruction</b>				
Basic Programs	1,689,875	730,017	730,364	(347)
Added Needs	244,043	91,872	50,862	41,010
<b>Supporting Services</b>				
Pupil Services	4,800	2,250	2,838	(588)
Instructional Staff	32,957	41,100	16,767	24,333
General Administration	183,415	150,821	205,760	(54,939)
School Administration	-	5,000	173	4,827
Business Services	28,000	33,254	32,963	291
Operation & Maintenance	187,061	68,553	68,069	484
Personnel & Information	184,893	84,466	64,273	20,193
<b>Total Expenditures</b>	<b>2,555,044</b>	<b>1,207,333</b>	<b>1,172,069</b>	<b>35,264</b>
<b>Excess of Revenues Over/(Under) Expenditures</b>	<b>11,421</b>	<b>59,605</b>	<b>5,078</b>	<b>(54,527)</b>
<b>Fund Balance - July 1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balance - June 30</b>	<b>\$ 11,421</b>	<b>\$ 59,605</b>	<b>\$ 5,078</b>	<b>\$ (54,527)</b>

# W-A-Y Academy - Flint

## Management's Discussion and Analysis For Fiscal Year Ended June 30, 2014

### Original vs. Final Budget

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1 of the start of the fiscal year.

As a matter of practice, W-A-Y Academy amends its budget periodically as needed during the school year. For the fiscal year 2013-2014, the budget was amended in June 2014. The June 3, 2014 budget amendment was the final budget for the fiscal year. The W-A-Y Academy - Flint Board does not budget for expenditures covered by grants or for the grant revenue until an award is received. The General Fund does budget for capital outlays in the original budget.

### Change from Original to Final General Fund Budget

#### Revenues:

Total Revenues Original Budget	\$ 2,566,465
Total Revenues Final Budget	<u>1,266,938</u>
Decrease in Budgeted Revenues	<u>\$ 1,299,527</u>

The Academy's final general fund revenues were less than the final budget by \$89,791 a variance of 7.09%. This variance was primarily a result of unspent federal grant allocations awarded to the W-A-Y Academy-Flint. Those allocations are available through September 30 and it is anticipated that a majority of these unspent allocations at June 30 will be used before the end of the grant period.

The following are the significant changes in revenues from the original budget:

- Decrease in student enrollment over initial projections.
- Adjustment to actual grant allocations as estimates were used in the original budget.

#### Expenditures:

The Academy's budget for expenditures changed as follows during the year:

Total Expenditures Original Budget	\$ 2,555,044
Total Expenditures Final Budget	<u>1,207,333</u>
Increase in Budgeted Expenditures	<u>\$ 1,347,711</u>

The Academy's actual expenditures were less than final budget by \$ 35,264 a variance of 2.9%. These cost savings were primarily a result of under spending federal grant allocations described above under the explanation of the revenue variance. The approval of carry over funds from the prior year and current year amendments of federal funds were not made available to the Academy until late in the spring of 2014.

The following are the significant changes in expenditures from the original budget:

- Adjustment to actual state and federal grant allocations expenditures as estimates were used in the original budget. The Academy broadened grant services due to an increase in grant allocations.
- Adjustment was made to update budgeted line-item for salaries and benefits due to actual staffing costs.

## W-A-Y Academy - Flint

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### Management's Discussion and Analysis For Fiscal Year Ended June 30, 2014

- Management and authorizer fees adjusted due to state and federal grant allocation changes.

#### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Preliminary Budget for the 2014-15 fiscal year was adopted by the Board of Education on June 3, 2014. Few definite factors were known as the budget was being drafted, and others were unknown and needed to be projected with management's best estimates based on perceived interest from the community. Some key factors and estimates used in the 2014-15 budget preparation process include:

- Projected 2014-2015 increase of \$125 will bring the actual allowance to \$7,293 per pupil.
- Enrollment projections of 480 students in grades 7-12:
- Increases in staffing to accommodate increased student enrollment.
- Slight increases in benefit costs due to both increases in premiums and the increase in the number of staff eligible to receive benefits.

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 School Districts and Public School Academies. The State periodically holds revenue-estimating conferences to estimate what the State's available resources will be throughout the remainder of its fiscal year.

#### CONTACTING THE ACADEMY'S MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the Academy's finances. If you have questions about this report or need additional information, please contact Kelli Glenn, Director of Finance, at 369 Main Street, Belleville, Michigan, 48111 (313-444-9292).

## BASIC FINANCIAL STATEMENTS

W-A-Y ACADEMY - FLINT  
STATEMENT OF NET POSITION  
JUNE 30, 2014

	<u>Governmental Activities</u>
Assets	
Cash and Cash Equivalents	\$ 5,458
Prepays	440
Due from Other Governmental Units	<u>302,392</u>
Total Assets	<u>308,290</u>
Liabilities	
Accounts Payable	254,372
State Aid Loan	46,355
Advances from Grantors	<u>2,485</u>
Total Liabilities	<u>303,212</u>
Net Position	
Unrestricted	<u>5,078</u>
Total Net Position	<u>\$ 5,078</u>

See accompanying notes to basic financial statements

W-A-Y ACADEMY - FLINT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Functions/Programs				
Governmental Activities				
Basic Programs	\$ 730,364	\$ -	\$ 141,899	\$ (588,465)
Added Needs	50,862	-	104,252	53,390
Support Services	<u>390,843</u>	<u>-</u>	<u>-</u>	<u>(390,843)</u>
Total Governmental Activities	<u>\$ 1,172,069</u>	<u>\$ -</u>	<u>\$ 246,151</u>	<u>(925,918)</u>
General Purpose Revenues				
				930,081
State School Aid - Unrestricted				915
Miscellaneous				<u>915</u>
			Total General Revenue	<u>930,996</u>
			Change in Net Position	5,078
			Net Position - July 1	<u>-</u>
			Net Position - June 30	<u>\$ 5,078</u>

See accompanying notes to basic financial statements

W-A-Y ACADEMY - FLINT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2014

	<u>General Fund</u>		<u>Total Governmental Funds</u>
Assets			
Cash and Cash Equivalents	\$ 5,458	\$	5,458
Prepays	440		440
Due from Other Governmental Units	<u>302,392</u>		<u>302,392</u>
Total Assets	<u>\$ 308,290</u>	\$	<u>308,290</u>
Liabilities and Fund Balance			
Current Liabilities			
Accounts Payable	\$ 254,372	\$	254,372
State Aid Loan	46,355		46,355
Advances from Grantors	<u>2,485</u>		<u>2,485</u>
Total Current Liabilities	303,212		303,212
Fund Balance			
Assigned	4,638		4,638
Non-Spendable	440		440
Unassigned	<u>-</u>		<u>-</u>
Total Fund Balance	<u>5,078</u>		<u>5,078</u>
Total Liabilities and Fund Balance	<u>\$ 308,290</u>	\$	<u>308,290</u>

See accompanying notes to basic financial statements

W-A-Y ACADEMY - FLINT  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES  
TO NET POSITION OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2014

Total Governmental Fund Balances	\$ <u>5,078</u>
Total Net Position - Governmental Activities	\$ <u><u>5,078</u></u>

See accompanying notes to basic financial statements

W-A-Y ACADEMY - FLINT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2014

	General Fund	Total Governmental Funds
Revenues		
Other Local Sources	\$ 915	\$ 915
State Sources	990,006	990,006
Federal Sources	186,226	186,226
Total Revenues	1,177,147	1,177,147
Expenditures		
Instruction		
Basic Programs	730,364	730,364
Added Needs	50,862	50,862
Total Instruction	781,226	781,226
Support Services		
Pupil Services	2,838	2,838
Instructional Staff	16,767	16,767
General Administration	205,760	205,760
School Administration	173	173
Business Services	32,963	32,963
Operation & Maintenance	68,069	68,069
Personnel & Information	64,273	64,273
Total Support Services	390,843	390,843
Total Expenditures	1,172,069	1,172,069
Excess/(Deficiency of Revenues over/(under) Expenditures	5,078	5,078
Net Changes in Fund Balance	5,078	5,078
Fund Balance - July 1	-	-
Fund Balance - June 30	\$ 5,078	\$ 5,078

See accompanying notes to basic financial statements

W-A-Y ACADEMY - FLINT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014

Total Net Change in Fund Balances - Governmental Funds	\$ <u>5,078</u>
Change in Net Position of Governmental Activities	\$ <u><u>5,078</u></u>

See accompanying notes to basic financial statements

## NOTES TO FINANCIAL STATEMENTS

W-A-Y ACADEMY - FLINT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

**Note 1 - Summary of Significant Accounting Policies**

Reporting Entity

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

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

Basic Financial Statements – Government-wide Statements

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

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

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

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

Basic Financial Statements - Fund Financial Statements

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

Governmental Funds

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

W-A-Y ACADEMY - FLINT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

**Note 1 - Summary of Significant Accounting Policies (continued)**

General Fund - The General Fund is used to record the general operations of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Basis of Accounting/Measurement Focus

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

Accrual

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

Modified Accrual

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

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

Cash and Investments – Cash and cash equivalents include amounts in demand deposits, sweep accounts, and certificate of deposits with original maturities less than 180 days. The Academy reports its investments in accordance with Governmental Accounting Standards Board (GASB) *Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and *No. 40, Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), or National Credit Union Administration (NCUA), respectively; and in commercial paper rated at the time of purchase within the three highest classifications established by no less than two standard rating services and which matures not more than 270 days after the date of purchase.

W-A-Y ACADEMY - FLINT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

**Note 1 - Summary of Significant Accounting Policies (continued)**

Cash and Investments (continued)

The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, mutual funds composed of investments outlined above, and investment pools, as authorized by the surplus funds investment pool act, Act. No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by an academy.

Inventories - Items purchased for future use are recorded as inventory and charged to expenditure accounts when requisitioned for use.

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

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

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

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

Economic Dependency – The Academy receives approximately 84% of its operating revenue from the State of Michigan.

**Note 2 - Budget and Budgetary Accounting**

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

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

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

W-A-Y ACADEMY - FLINT  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2014

**Note 2 - Budget and Budgetary Accounting (continued)**

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

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

**Budgetary information**

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

**Excess of expenditures over appropriations in budgeted funds**

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

<u>Budget Item</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Basic Program	\$ 730,017	\$ 730,364	\$ (347)
Pupil Services	\$ 2,250	\$ 2,838	\$ (588)
General Administration	\$ 150,821	\$ 205,760	\$ (54,939)

**Note 3 - Cash and Investments**

Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Academy's policy provides that to the extent practicable, investments are matched with anticipated cash flows. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer,

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NOTES TO FINANCIAL STATEMENTS  
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**Note 3 - Cash and Investments (continued)**

Interest Rate Risk (continued)

or an individual class of securities and are invested primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools.

Concentration of Credit Risk

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

Credit Risk

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

Custodial Credit Risk for Deposits

This is the risk that in the event of a bank failure, the Academy's deposits may not be returned or the Academy will not be able to recover collateral securities, if any, in the possession of an outside party. At June 30, 2014, the Academy had no deposit balances uninsured and uncollateralized.

Custodial Credit Risk for Investments

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

Foreign Currency Risk

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

**Note 4 - Capital Assets**

The Academy had no capital assets as of June 30, 2014.

**Note 5 – Defined Benefit Pension Plan & Retirement Plan**

The Academy did not participate in a defined benefit pension plan or defined contribution plan for its employees. Therefore, no pension plan disclosure is deemed necessary.

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**Note 6 - Fund Balance**

Non-spendable, Restricted, Committed, Assigned and Unassigned

The Board of Trustees adopts a budget each year that includes the appropriation of fund balance. Non-spendable fund balance represents assets that are not available in spendable form and are not expected to be converted to cash.

Non-spendable:

Prepaid expenses	\$	<u>440</u>
Total Non-spendable	\$	<u>440</u>

Restricted fund balances are reported separately to show legal constraints from debt covenants and legislation that limits the Academy's ability to use that fund balance for day-to-day operations. The Academy had no amounts restricted at June 30, 2014. Committed fund balance represents constrained amounts imposed by board resolution. The Academy had no amounts committed at June 30, 2014.

Assigned fund balance represents amounts intended to be used for specific purposes expressed by the Board of Trustees, Finance Committee, or the official authorized by the governing body. Residual amounts in governmental funds other than the General Fund are also assigned.

Assigned:

Appropriation of existing fund balance for Management Expenses	\$	<u>4,638</u>
Total Assigned	\$	<u>4,638</u>

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

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

**Note 7 - Contingencies and Commitments**

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

**Note 8 - Risk Management**

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

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NOTES TO FINANCIAL STATEMENTS  
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**Note 9 - Leases**

The Academy leases its facility at 817 E. Kearsley Street, Flint, Michigan under the terms of a lease agreement that expires on August 31, 2016. Lease expense for the year ended June 30, 2014 was \$49,244.

Future minimum payments under the lease are as follows:

June 30, 2015	\$ 84,418
June 30, 2016	\$ 97,806
June 30, 2017	\$ 16,747

**Note 10 - Subsequent Events**

Subsequent events have been reviewed through September 18, 2014, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

W-A-Y ACADEMY - FLINT  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2014

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Local Sources	\$ 500,000	\$ 176,000	\$ 915	\$ (175,085)
State Sources	1,837,565	995,516	990,006	(5,510)
Federal Sources	228,900	95,422	186,226	90,804
Total Revenues	2,566,465	1,266,938	1,177,147	(89,791)
Expenditures				
Education				
Instruction				
Basic Programs	1,689,875	730,017	730,364	(347)
Added Needs	244,043	91,872	50,862	41,010
Supporting Services				
Pupil Services	4,800	2,250	2,838	(588)
Instructional Staff	32,957	41,100	16,767	24,333
General Administration	183,415	150,821	205,760	(54,939)
School Administration	-	5,000	173	4,827
Business Services	28,000	33,254	32,963	291
Operation & Maintenance	187,061	68,553	68,069	484
Personnel & Information	184,893	84,466	64,273	20,193
Total Expenditures	2,555,044	1,207,333	1,172,069	35,264
Excess of Revenues Over/(Under) Expenditures	11,421	59,605	5,078	(54,527)
Fund Balance - July 1	-	-	-	-
Fund Balance - June 30	\$ 11,421	\$ 59,605	\$ 5,078	\$ (54,527)

## OTHER INFORMATION

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

September 18, 2014

Board of Directors  
W-A-Y Academy - Flint

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of W-A-Y Academy - Flint as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise W-A-Y Academy – Flint's basic financial statements, and have issued our report thereon dated September 18, 2014.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered W-A-Y Academy - Flint'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 W-A-Y Academy - Flint's internal control. Accordingly, we do not express an opinion on the effectiveness of W-A-Y Academy - Flint'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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting 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 financial reporting 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 the W-A-Y Academy - Flint's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

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

*Taylor & Morgan, P.C.*

TAYLOR & MORGAN, P.C.  
Certified Public Accountants

October 7, 2014

To the Members of the Board of Trustees  
of W-A-Y Academy - Flint

We have audited the general purpose financial statements of W-A-Y Academy - Flint (the "Academy") for the year ended June 30, 2014 and have issued our report thereon dated September 18, 2014. Professional standards require that we provide you with the following information related to our audit.

### **Our responsibility under Generally Accepted Audited Standards**

As stated in our engagement letter dated April 28, 2014, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we made a study and evaluation of the Academy's system of internal accounting control to the extent we considered necessary solely to determine the nature, timing and extent of our auditing procedures. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole, and accordingly, we do not express such an opinion.

### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and do not provide assurance on the internal control over financial reporting.

Our consideration of the internal control over the financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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### **Significant Accounting Policies**

Management has the responsibility for 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 general purpose financial statements.

### **Significant Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. We proposed no audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the Academy's financial reporting process.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on a certain situation. If a consultation involves application of an accounting principle to the Academy's general purpose 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.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Academy's auditors. These discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

### **Difficulties Encountered in Performing the Audit**

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

**Other items:**

*Accounting Software*

We noted the Academy's use of Quickbooks accounting software, an appropriate choice of software given its capabilities and the needs of the Academy. Currently, the Academy manually prepares disbursements and enters these into Quickbooks "after the fact."

We recommend the Academy utilize the accounts payable module in Quickbooks, inputting bills and generating check disbursements directly out of the software. In addition, deposit and payroll entries should be inputted as they occur. Doing so will facilitate more timely financial information, including bank reconciliations, budget comparisons, and grant reporting.

*Grant Revenues*

We noted a majority of the federal grant revenues were received after the end of the fiscal year (June 30<sup>th</sup>). We recommend the Academy implement processes to request on a more timely basis federal funds such as Title I. This will help improve the Academy's cash flows.

This information is intended solely for the use of the Board of Trustees and management of W-A-Y Academy - Flint and should not be used for any other purpose.

*Taylor & Morgan, P.C.*

Taylor & Morgan, P.C.  
Certified Public Accountants  
Flint, MI