

W-A-Y Academy

Detroit, Michigan

**Annual Financial Statements
and
Independent Auditors' Report**

June 30, 2014

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W-A-Y Academy
Members of the Board of Directors and Administration
June 30, 2014

Members of the Board of Directors

Elizabeth Bauer	President
Pamela Wong	Vice President
Michael Murray	Treasurer
Dr. Glenn Croxton	Secretary
Patrick Irwin	Member
Dr. Barbara LeRoy	Member

Administration

Sonya Townsend	School Leader
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Independent Auditors' Report

Management and the Board of Directors
W-A-Y Academy
Detroit, Michigan

Report on the Financial Statements

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, 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.

Auditors' 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 auditors' 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, each major fund, and the aggregate remaining fund information of W-A-Y Academy, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters:

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2014, on our consideration of W-A-Y Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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's internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Flint, Michigan
September 11, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

W-A-Y Academy

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

W-A-Y Academy is a grade 9-12 Public School Academy located in Detroit, 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: Academy-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 capital assets and 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.

Academy-wide Financial Statements:

The Academy-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 Academy-wide financial statements. The Academy has no capital assets or long-term obligations as of the end of the fiscal year.

W-A-Y Academy

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

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:

Assets

Cash	\$ 261,102
Accounts Receivable	200,000
Due from other governmental units	1,048,608
Prepaid items	<u>1,103</u>

Total assets 1,510,813

Liabilities

Accounts payable	941,420
State aid note payable	72,747
Accrued expenditures	157,656
Unearned revenue	<u>26,722</u>

Total liabilities 1,198,545

Net position \$ 312,268

The change in net position is summarized as follows:

2013-2014 was W-A-Y Academy's second year of operation. A second site was opened in the fall, located on the west side of Detroit. The Academy received both Charter and Implementation Grants to assist with start up costs. Enrollment increased 217 students over the prior school year for a total enrollment of 489 for the fiscal year. The Academy is projecting moderate growth or stability between the two sites for next year's enrollment.

W-A-Y Academy

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

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues</u> Operating Grants and Contributions	<u>Net (Expense) Revenue and Changes in Net Position</u>
Functions/Programs				
Governmental activities				
Instruction	\$ 3,012,573	\$ -	\$ 954,688	\$ (2,057,885)
Supporting services	1,638,248	-	455,845	(1,182,403)
Food services	<u>59,930</u>	<u>128</u>	<u>43,268</u>	<u>(16,534)</u>
Total governmental activities	<u>\$ 4,710,751</u>	<u>\$ 128</u>	<u>\$ 1,453,801</u>	<u>(3,256,822)</u>
General revenues				
State aid - unrestricted				3,545,334
Other				<u>3,791</u>
Change in net position				292,303
Net position - beginning				<u>19,965</u>
Net position - ending				<u>\$ 312,268</u>

FINANCIAL ANALYSIS OF THE ACADEMY'S FUNDS

Factors affecting the change in net position during the year are discussed below: 2013-2014 was the second year of operation for W-A-Y Academy. Overall growth of the academy regarding student enrollment increased 80% from the prior year. However, initial revenues and expenditures both decreased due to a reduction in anticipated students at the newly opened second site due to space limitations. Similar to last year, federal funds and amendments continue to be delayed and not made available until late in the spring, and therefore, could not be utilized in the current fiscal year.

W-A-Y Academy

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

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

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Local sources	\$ 446,804	\$ 32	\$ 446,836
State sources	3,800,768	4,160	3,804,928
Federal sources	<u>525,902</u>	<u>39,108</u>	<u>565,010</u>
Total revenues	<u>4,773,474</u>	<u>43,300</u>	<u>4,816,774</u>
Expenditures			
Current			
Education			
Instruction	2,710,671	-	2,710,671
Supporting services	1,474,072	-	1,474,072
Food services	-	59,930	59,930
Capital outlay	<u>466,078</u>	<u>-</u>	<u>466,078</u>
Total expenditures	<u>4,650,821</u>	<u>59,930</u>	<u>4,710,751</u>
Excess (deficiency) of revenues over expenditures	<u>122,653</u>	<u>(16,630)</u>	<u>106,023</u>
Other Financing Sources (Uses)			
Transfers in	-	16,630	16,630
Transfers out	<u>(16,630)</u>	<u>-</u>	<u>(16,630)</u>
Total other financing sources (uses)	<u>(16,630)</u>	<u>16,630</u>	<u>-</u>
Net change in fund balance	106,023	-	106,023
Fund balance - beginning	<u>6,245</u>	<u>-</u>	<u>6,245</u>
Fund balance - ending	<u>\$ 112,268</u>	<u>\$ -</u>	<u>\$ 112,268</u>

W-A-Y Academy

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 foundation allowance was \$7,168 per pupil.
- Student Enrollment: The Academy's student enrollment for the fall count of 2013-14 was 486 students. Enrollment increased slightly to 492 for the supplemental count in February. To calculate total state aid to be provided by the foundation allowance, a blend of the fall count and 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 increase moderately. The expected increase in enrollment is due to minor growth at the second location on Chicago Avenue in West Detroit.

C. General Fund Budgetary Highlights

General Fund Operations

The Academy's revenues from General Fund operations exceeded expenditures by \$122,653 for the fiscal year ended June 30, 2014. \$16,630 was used to balance the Food Service Fund, leaving a General Fund Balance of \$112,268.

Final Budget vs. Actual

<u>Fiscal Year</u>	<u>Final Budget</u>	<u>Final Actual</u>
Revenues		
2013-2014	\$ 5,129,299	\$ 4,773,474
2014-2015 (projected)	4,875,395	
Expenditures		
2013-2014	4,855,919	4,650,821
2014-2015 (projected)	4,593,605	

W-A-Y Academy

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 9, 2014 budget amendment was the final budget for the fiscal year. The W-A-Y Academy 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	\$ 6,849,870
Total Revenues Final Budget	<u>5,129,299</u>
Increase in Budgeted Revenues	\$ <u>1,720,571</u>

The Academy's final general fund revenues were less than the final budget by \$355,825, a variance of 6.94%. This variance was primarily a result of unspent federal grant allocations awarded to the Academy. 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.

W-A-Y Academy

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

Expenditures:

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

Total Expenditures Original Budget	\$ 6,512,950
Total Expenditures Final Budget	<u>4,855,919</u>
Increase in Budgeted Expenditures	\$ <u>1,657,031</u>

The Academy's actual expenditures were less than final budget by \$ 205,098 a variance of 4.2%. 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.
- 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 9, 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 540 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

W-A-Y Academy

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

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
Statement of Net Position
June 30, 2014

	<u>Governmental Activities</u>
Assets	
Cash	\$ 261,102
Accounts receivable	200,000
Due from other governmental units	1,048,608
Prepaid items	<u>1,103</u>
 Total assets	 <u>1,510,813</u>
 Liabilities	
Accounts payable	941,420
State aid anticipation note payable	72,747
Accrued expenditures	157,656
Unearned revenue	<u>26,722</u>
 Total liabilities	 <u>1,198,545</u>
 Net Position	
Restricted for:	
Grant-specific expenditures	200,000
Unrestricted	<u>112,268</u>
 Total net position	 <u>\$ 312,268</u>

See Accompanying Notes to Financial Statements

W-A-Y Academy
Statement of Activities
For the Year Ended June 30, 2014

	Program Revenues			Net (Expense)
Expenses	Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position	
Functions/Programs				
Governmental activities				
Instruction	\$ 3,012,573	\$ -	\$ 954,688	\$ (2,057,885)
Supporting services	1,638,248	-	455,845	(1,182,403)
Food services	59,930	128	43,268	(16,534)
Total governmental activities	\$ 4,710,751	\$ 128	\$ 1,453,801	(3,256,822)
General revenues				
				3,545,334
				3,791
			Total general revenues	3,549,125
			Change in net position	292,303
			Net position - beginning	19,965
			Net position - ending	\$ 312,268

See Accompanying Notes to Financial Statements

W-A-Y Academy
Governmental Funds
Balance Sheet
June 30, 2014

	General Fund	Nonmajor Fund Food Service Fund	Total Governmental Funds
Assets			
Cash	\$ 252,223	\$ 8,879	\$ 261,102
Accounts receivable	200,000	-	200,000
Due from other funds	-	2,746	2,746
Due from other governmental units	1,045,703	2,905	1,048,608
Prepaid items	1,103	-	1,103
Total assets	<u>\$ 1,499,029</u>	<u>\$ 14,530</u>	<u>\$ 1,513,559</u>
Liabilities			
Accounts payable	\$ 926,890	\$ 14,530	\$ 941,420
State aid anticipation note payable	72,747	-	72,747
Due to other funds	2,746	-	2,746
Accrued expenditures	157,656	-	157,656
Unearned revenue	26,722	-	26,722
Total liabilities	<u>1,186,761</u>	<u>14,530</u>	<u>1,201,291</u>
Deferred inflows of resources			
Unavailable revenue			
Operating grants	200,000	-	200,000
Fund Balance			
Non-spendable			
Prepaid items	1,103	-	1,103
Assigned for technology	30,000	-	30,000
Assigned for Board of Directors discretion	81,165	-	81,165
Total fund balance	<u>112,268</u>	<u>-</u>	<u>112,268</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 1,499,029</u>	<u>\$ 14,530</u>	<u>\$ 1,513,559</u>

See Accompanying Notes to Financial Statements

W-A-Y Academy
Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2014

Total fund balances for governmental funds	\$ 112,268
Total net position for governmental activities in the statement of net position is different because:	
Certain receivables are not available to pay for current period expenditures and, therefore, are unavailable in the funds.	
Other local sources	<u>200,000</u>
Net position of governmental activities	<u>\$ 312,268</u>

W-A-Y Academy
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2014

	General Fund	Nonmajor Fund Food Service Fund	Total Governmental Funds
Revenues			
Local sources	\$ 446,804	\$ 32	\$ 446,836
State sources	3,800,768	4,160	3,804,928
Federal sources	525,902	39,108	565,010
Total revenues	<u>4,773,474</u>	<u>43,300</u>	<u>4,816,774</u>
Expenditures			
Current			
Education			
Instruction	2,710,671	-	2,710,671
Supporting services	1,474,072	-	1,474,072
Food services	-	59,930	59,930
Capital outlay	466,078	-	466,078
Total expenditures	<u>4,650,821</u>	<u>59,930</u>	<u>4,710,751</u>
Excess (deficiency) of revenues over expenditures	<u>122,653</u>	<u>(16,630)</u>	<u>106,023</u>
Other Financing Sources (Uses)			
Transfers in	-	16,630	16,630
Transfers out	(16,630)	-	(16,630)
Total other financing sources (uses)	<u>(16,630)</u>	<u>16,630</u>	<u>-</u>
Net change in fund balance	106,023	-	106,023
Fund balance - beginning	6,245	-	6,245
Fund balance - ending	<u>\$ 112,268</u>	<u>\$ -</u>	<u>\$ 112,268</u>

See Accompanying Notes to Financial Statements

W-A-Y Academy
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

Net change in fund balances - Total governmental funds	\$ 106,023
Total change in net position reported for governmental activities in the statement of activities is different because:	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Operating grants	<u>186,280</u>
Change in net position of governmental activities	<u>\$ 292,303</u>

W-A-Y Academy
Notes to Financial Statements
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of W-A-Y Academy (Academy) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the Academy's significant accounting policies:

Reporting Entity

The Academy was established on June 26, 2012 as a public school academy pursuant to the Michigan School Code of 1976, as amended, and administered by Lake Superior State University (LSSU). The Academy is located in the Detroit area providing education for approximately 480 students from grades seven through twelve. The Academy was organized on a non-stock, directorship basis, as a Michigan nonprofit corporation.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Academy's reporting entity, and which organizations are legally separate component units of the Academy. The Academy has no component units.

Academy-wide Financial Statements

The Academy's basic financial statements include both Academy-wide (reporting for the Academy as a whole) and fund financial statements (reporting the Academy's major

funds). The Academy-wide financial statements as well as the fund statements categorize all nonfiduciary activities as governmental.

The statement of net position presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method 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: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

The statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues and certain intergovernmental revenues. 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 (either operating or capital) 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. In creating the Academy-wide financial statements the Academy has eliminated interfund transactions.

The Academy-wide focus is on the sustainability of the Academy as an entity and the change in the Academy's net position resulting from current year activities.

W-A-Y Academy
Notes to Financial Statements
June 30, 2014

Fund Financial Statements

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

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

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

The Academy reports the following major governmental funds:

General Fund – The General Fund is used to record the general operations of the Academy pertaining to education and those operations not required to be provided for in other funds.

Additionally, the Academy reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Academy's Special Revenue Funds include the Food Service Fund. Operating deficits generated by these activities are generally covered by a transfer from the General Fund.

Assets, Liabilities and Net Position

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as "due from/to other funds". These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

The Academy considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Deferred inflows of resources - A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period.

Fund Equity – In the fund financial statements, governmental funds report fund balance in the following categories:

Non-spendable – Amounts that are not available in a spendable form.

W-A-Y Academy
Notes to Financial Statements
June 30, 2014

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed – amounts that have been formally set aside by the Board of Directors for specific purposes. A fund balance commitment may be established, modified, or rescinded by a resolution of the Board of Directors.

Assigned – amounts intended to be used for specific purposes, as determined by the Board of Directors. Residual amounts in governmental funds other than the general fund are automatically assigned by their nature.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Academy's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the Academy's policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

Eliminations and Reclassifications

In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Adoption of New Accounting Standards

Upcoming Accounting and Reporting Changes

The Government Accounting Standards Board ("The GASB") has issued Statement 68, *Accounting and Financial Reporting for Pensions*, and Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statement 68 requires governments participating in public employee pension plans to recognize their portion of the long-term obligation for the pension benefits as a liability and to measure the annual costs of the pension benefits. The net pension liability will be recorded on the government-wide statements. Statement 71 amends Statement 68 to address an issue concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of Statement 68 by employers and non-employer contributing entities. The Academy does not anticipate that these standards will have any effect on the financial statements since it does not participate in a public employee pension plan. Statements 68 and 71 are effective for the year ending June 30, 2015.

The GASB has also issued Statement 69, *Government Combinations and Disposals of Government Operations*. Statement 69 provides detailed requirements for the accounting and disclosure of various types of government

W-A-Y Academy
Notes to Financial Statements
June 30, 2014

combinations, such as mergers, acquisitions, and transfers of operations. The guidance available previously was limited to nongovernmental entities, and therefore did not provide practical examples for situations common in government-specific combinations and disposals. The accounting and disclosure requirements for these events vary based on whether a significant payment is made, the continuation of termination of services, and the legal structure of the new or continuing entity. Statement 69 is effective for the year ending June 30, 2015.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end, thereby canceling all encumbrances. These appropriations are reestablished at the beginning of the year.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the Academy to have its budget in place by July 1. An Academy is not considered in violation of the law if reasonable procedures are in use by the Academy to detect violations.

The Director of Finance and Operations is authorized to transfer budgeted amounts between functions within any fund provided that the transfer does not exceed \$ 1,000. Any revisions that alter the total expenditures of any fund must be approved by the Board of Directors.

Budgeted amounts are as originally adopted or as amended by the Board of Directors throughout the year.

Excess of Expenditures over Appropriations

The Academy had expenditures in excess of budgeted amounts as follows:

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
Pupil	\$ 33,750	\$ 35,933	\$ 2,183
General administration	322,933	565,897	242,964
School administration	1,500	2,142	642
Operations and maintenance	322,764	326,313	3,549

W-A-Y Academy
Notes to Financial Statements
June 30, 2014

NOTE 3 - DEPOSITS AND INVESTMENTS

The Academy's deposits were reported in the basic financial statements in the following category:

	Governmental Activities
Cash	<u>\$ 261,102</u>

Interest rate risk – The Academy has a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

Credit risk – State statutes and the Academy's investment policy authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the Academy is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Academy has no investment policy that would further limit its investment choices.

Concentration of credit risk – The Academy has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy does not have a deposit policy for custodial credit risk. As of year-end,

\$ 12,263 of the Academy's bank balance of \$ 262,263 was uninsured and uncollateralized.

NOTE 4 - STATE AID ANTICIPATION NOTE

The School District issues state aid anticipation notes in advance of state aid collections, depositing the proceeds in the General Fund. These notes are necessary because the School District receives state aid from October through the following August for its fiscal year ending June 30th.

Short-term debt activity for the year was as follows:

	Beginning Balance	Proceeds	Repayments	Ending Balance
State aid anticipation note	<u>\$ -</u>	<u>\$ 405,000</u>	<u>\$ 332,253</u>	<u>\$ 72,747</u>

The State aid anticipation note agreement bears interest at 3.3% and includes an irrevocable set-aside of \$ 332,253 at year end that is considered defeased debt and not included in the ending balance.

W-A-Y Academy
Notes to Financial Statements
June 30, 2014

NOTE 5 - INTERFUND RECEIVABLE AND PAYABLE AND TRANSFERS

Individual interfund receivable and payable balances at year end were:

<u>Due From Fund</u>	<u>Due to Fund</u>	<u>Amount</u>
General Fund	Food Service Fund	<u>\$ 2,746</u>

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

Interfund net transfers were made during the year from the General Fund to the Food Service Fund totaling \$ 16,630. These transfers were made to cover the costs of the Academy's food service programs that were in excess of revenues generated from those activities.

NOTE 6 - CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time, although the Academy expects such amounts, if any, to be immaterial. A separate report on federal compliance has been issued for the year June 30, 2014.

NOTE 7 - RELATED PARTIES

The Academy's charter is authorized by LSSU. The Academy pays LSSU three percent of state aid as administration fees. The total fees incurred during the year was approximately \$ 115,000.

The Academy entered into a management agreement with W-A-Y Program, Incorporated (a Michigan non-profit corporation) to provide educational and administrative services.

For the term of the agreement, W-A-Y Program receives an annual fee per pupil for all pupils of the Academy. In addition, W-A-Y Program receives all residual revenues of the Academy after expenditures have been paid at year end as part of their fee to manage the Academy.

In addition, W-A-Y Program will be reimbursed for all costs incurred and paid on behalf of the Academy. Such costs include, but are not limited to, salaries of W-A-Y Program employees, costs related to curriculum, instructional materials, textbooks, library books, computers, software, supplies, food service, transportation, special education, psychological services and medical services. Total management, program, and administrative fee expense paid to W-A-Y Program for the year ended June 30, 2014 was approximately \$ 3,270,000.

W-A-Y Academy
Notes to Financial Statements
June 30, 2014

The Academy also subleases space from W-A-Y Program. Minimum lease payments of \$ 5,866 are due monthly until December 31, 2014 and then \$ 3,200 thereafter until June 30, 2015. In addition, the Academy must pay monthly common area maintenance costs, including property taxes and insurance premiums. Total rent expense for the year was \$ 99,420. In the event that the master lease is terminated for any reason, the sublease would be terminated as well.

The Academy has a liability to W-A-Y Program of approximately \$ 1,050,000 the year ended June 30, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

W-A-Y Academy
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Local sources	\$ 475,000	\$ 473,580	\$ 446,804	\$ (26,776)
State sources	5,513,250	3,803,429	3,800,768	(2,661)
Federal sources	<u>861,620</u>	<u>852,290</u>	<u>525,902</u>	<u>(326,388)</u>
Total revenues	<u>6,849,870</u>	<u>5,129,299</u>	<u>4,773,474</u>	<u>(355,825)</u>
Expenditures				
Instruction				
Basic programs	3,837,544	2,461,787	2,434,218	(27,569)
Added needs	450,885	620,918	276,453	(344,465)
Supporting services				
Pupil	12,300	33,750	35,933	2,183
Instructional staff	196,593	119,437	80,933	(38,504)
General administration	274,401	322,933	565,897	242,964
School administration	-	1,500	2,142	642
Business	51,500	58,080	53,382	(4,698)
Operations and maintenance	326,325	322,764	326,313	3,549
Pupil transportation services	-	15,500	10,839	(4,661)
Central	534,585	413,955	398,633	(15,322)
Capital outlay	<u>828,817</u>	<u>485,295</u>	<u>466,078</u>	<u>(19,217)</u>
Total expenditures	<u>6,512,950</u>	<u>4,855,919</u>	<u>4,650,821</u>	<u>(205,098)</u>
Excess of revenues over expenditures	<u>336,920</u>	<u>273,380</u>	<u>122,653</u>	<u>(150,727)</u>

W-A-Y Academy
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2014

	Budgeted Amounts			Over (Under) Budget
	Original	Final	Actual	
Other Financing Uses				
Transfers out	(8,800)	(17,200)	(16,630)	(570)
Net change in fund balance	328,120	256,180	106,023	(151,297)
Fund balance - beginning	6,245	6,245	6,245	-
Fund balance - ending	<u>\$ 334,365</u>	<u>\$ 262,425</u>	<u>\$ 112,268</u>	<u>\$ (151,297)</u>