

WSC ACADEMY
Ypsilanti, Michigan

Annual Financial Report

For the year ended June 30, 2017

**WSC Academy
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For the year ended June 30, 2017

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

October 24, 2017

The Board of Directors
WSC Academy
Ypsilanti, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of WSC Academy (the "Academy") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion 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 and the major fund information of WSC Academy as of June 30, 2017, and the respective changes in financial position and budgetary comparison for the General Fund 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 on pages 4 through 9 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 October 24, 2017 on our consideration of WSC Academy'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 WSC Academy's internal control over financial reporting and compliance.



Certified Public Accountants

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MANAGEMENT'S DISCUSSION AND ANALYSIS

WSC Academy
Management's Discussion and Analysis
June 30, 2017

As management of WSC Academy, we offer readers of the financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with WSC Academy's financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of two parts: Management's Discussion and Analysis (this section), and the Basic Financial Statements. The Basic Financial Statements include two kinds of statements that present different views of WSC Academy:

- The first two statements, the Statement of Net Position and the Statement of Activities, are *academy-wide* financial statements that provide both short-term and long-term information about WSC Academy's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of WSC Academy, reporting operations in more detail than the academy-wide statements.
 - ♦ *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.

The Basic Financial Statements also include Notes to Basic Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data.

Academy-wide Statements

The academy-wide financial statements report information about WSC Academy as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of WSC Academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two academy-wide statements report WSC Academy's net position, and how they have changed. Net position - the difference between assets and liabilities - is one way to measure WSC Academy's financial health or position.

- Over time, increases or decreases in WSC Academy's net position is an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess WSC Academy's overall health, one should consider additional non-financial factors such as changes in pupil membership and the condition of the Academy's building and equipment.

In the academy-wide financial statements, WSC Academy's activities are presented as follows:

- *Governmental activities*: WSC Academy's basic services are included here, such as regular and special education, instructional support, and administration. State aid finances most of these activities.

WSC Academy
Management's Discussion and Analysis
June 30, 2017

Condensed Academy-wide Financial Information

The Statement of Net Position provides financial information for WSC Academy as a whole.

	<u>2017</u>	<u>2016</u>
Assets		
Current assets	\$ 320,164	\$ 336,654
Net capital assets	<u>135,432</u>	<u>204,032</u>
Total Assets	<u>455,596</u>	<u>540,686</u>
Liabilities		
Current liabilities	<u>28,528</u>	<u>52,706</u>
Net Position		
Net investment in capital assets	135,432	204,032
Unrestricted (deficit)	<u>291,636</u>	<u>283,948</u>
Total Net Position	<u>\$ 427,068</u>	<u>\$ 487,980</u>

The results of the fiscal year's operations for WSC Academy as a whole are presented in the Statement of Activities, which shows the change in total net position for the year.

	<u>2017</u>	<u>2016</u>
Program Revenues		
Operating grants	\$ 184,227	\$ 245,400
General Revenues		
State school aid, unrestricted	650,902	724,529
Other	<u>36,006</u>	<u>38,177</u>
Total Revenues	<u>871,135</u>	<u>1,008,106</u>
Expenses		
Instruction	320,181	366,219
Supporting services	<u>611,866</u>	<u>651,907</u>
Total Expenses	<u>932,047</u>	<u>1,018,126</u>
Decrease in net assets	(60,912)	(10,020)
Net Position, Beginning of Year	<u>487,980</u>	<u>498,000</u>
Net Position, End of Year	<u>\$ 427,068</u>	<u>\$ 487,980</u>

**WSC Academy
Management's Discussion and Analysis
June 30, 2017**

Financial Analysis of the Academy as a Whole

WSC Academy's financial position is the product of many factors. Unrestricted State aid revenue of \$650,902 was the result of a blended count of 88 full-time equivalent students in 2016-17.

Unrestricted state aid accounted for 75 percent of WSC Academy's revenue. Another 21 percent came from State, federal and local aid for specific programs.

WSC Academy's expenses related to instructing students accounted for 35 percent of total expenses. Instruction support, administration and operation and maintenance accounted for 65 percent of total costs.

Total expenses surpassed revenues, generating net position of \$427,068 at June 30, 2017.

Fund Financial Statements

The fund financial statements provide more detailed information about WSC Academy's funds, focusing on its only and "major" fund (the General Fund) - not the Academy as a whole. Funds are accounting devices used to keep track of specific sources of funding and spending on particular programs.

WSC Academy utilizes only one kind of fund:

- *Governmental fund:* All of WSC Academy's basic services are included in its governmental (General) fund, which generally focuses on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed, short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance Academy programs. Because this information does not encompass the additional long-term focus of the academy-wide statements, additional information following the governmental fund statements explain the relationship (or differences) between them.

Financial Analysis of the Academy's Fund

WSC Academy uses the General Fund to record and analyze financial information, described as follows:

Major Fund

The General Fund is WSC Academy's primary operating fund. The General Fund had total revenues of \$871,135, and total expenditures of \$863,447. It ended the fiscal year with a fund balance of \$291,636.

**WSC Academy
Management's Discussion and Analysis
June 30, 2017**

General Fund Budgetary Highlights

WSC Academy revised the General Fund budget three times during the year. These budget amendments and the differences between budgeted and actual amounts were as follows:

- Changes made to reflect actual enrollment at the Academy. The Academy was paid on a blend of the fall and winter student count.
- Actual revenues were \$344 lower than expected, due mainly to reduced federal funding for special education.
- Actual expenditures were \$2,380 under budget, spread over various budget categories.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2017, WSC Academy had invested a total of \$434,644 in furniture and equipment. More detailed information about capital assets can be found in Note D in the Notes to Basic Financial Statements.

The net book value of capital assets at June 30, 2017 is as follows:

Furniture and equipment	<u>\$ 135,432</u>
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Long-term Debt

The Academy had no long-term debt during, or at, the year ended June 30, 2017.

Factors Bearing on the Academy's Future

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

- The Academy anticipates enrollment to remain consistent for the 2017-18 year. However, growth is expected in upcoming years based on City of Ypsilanti urban growth changes.
- The Academy anticipates additional special population funding (single parents and students over 20 years old).
- The uncertainty of the State's fiscal climate; however, ESSA promised to grant additional funding to schools that work with our demographic population.
- Federal grant dollars will remain consistent in 2017-18 as compared to the previous fiscal year.

**WSC Academy
Management's Discussion and Analysis
June 30, 2017**

Contacting the Academy's Financial Management

This financial report is designed to provide WSC Academy's parents, citizens, customers, investors and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Work Skills Corporation, 100 Summit Street, Brighton, Michigan 48116.

BASIC FINANCIAL STATEMENTS

WSC Academy
Statement of Net Position
June 30, 2017

	<u>Governmental Activities</u>
Assets	
Cash equivalents (Note B)	\$ 186,186
Due from other governmental units (Note C)	133,978
Capital assets being depreciated, net (Note D)	<u>135,432</u>
Total Assets	<u>455,596</u>
Liabilities	
Due to other governmental units	3,901
Accrued payroll	<u>24,627</u>
Total Liabilities	<u>28,528</u>
Net Position	
Net investment in capital assets	135,432
Unrestricted	<u>291,636</u>
Total Net Position	<u><u>\$ 427,068</u></u>

See accompanying notes to basic financial statements.

**WSC Academy
Statement of Activities
For the year ended June 30, 2017**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants	
Governmental Activities				
Instruction	\$ 320,181	\$ -	\$ 181,999	\$ (138,182)
Supporting services	611,866	-	2,228	(609,638)
Total Governmental Activities	<u>\$ 932,047</u>	<u>\$ -</u>	<u>\$ 184,227</u>	<u>(747,820)</u>
General Revenues				
				650,902
				36,006
				<u>686,908</u>
				Change in Net Position (60,912)
				<u>487,980</u>
				Net Position - Beginning of Year
				<u>\$ 427,068</u>
				Net Position - End of Year

See accompanying notes to basic financial statements.

**WSC Academy
Balance Sheet
Governmental Fund
June 30, 2017**

Assets

Cash equivalents (Note B)	\$ 186,186
Due from other governmental units (Note C)	<u>133,978</u>
Total Assets	<u><u>\$ 320,164</u></u>

Liabilities and Fund Balances

Liabilities

Due to other governmental units	\$ 3,901
Accrued payroll	<u>24,627</u>
Total Liabilities	<u>28,528</u>

Fund Balances (Note A)

Unassigned	<u>291,636</u>
Total Liabilities and Fund Balances	<u><u>\$ 320,164</u></u>

See accompanying notes to basic financial statements.

WSC Academy
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2017

Total governmental fund balances	\$ 291,636
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$434,644 and accumulated depreciation is \$299,212.	<u>135,432</u>
Total net position - governmental activities	<u><u>\$ 427,068</u></u>

See accompanying notes to basic financial statements.

WSC Academy
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Fund
For the year ended June 30, 2017

Revenues	
Local sources	\$ 36,006
State sources	720,090
Federal sources	115,039
	<hr/>
Total Revenues	871,135
	<hr/>
Expenditures	
Current:	
Instruction	305,643
Supporting services	557,804
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Total Expenditures	863,447
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Net Change in Fund Balances	7,688
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Fund Balances, Beginning of Year	283,948
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Fund Balances, End of Year	\$ 291,636
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See accompanying notes to basic financial statements.

WSC Academy
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of the Governmental Fund
to the Statement of Activities
For the year ended June 30, 2017

Net change in fund balances - total governmental fund \$ 7,688

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

Governmental funds report capital outlays as expenditures. However, in
the Statement of Activities, the cost of these assets is capitalized and
allocated over their estimated useful lives as depreciation expense.
This is the amount by which depreciation exceeded capital outlays
in the current period:

	Capital outlays	\$ 8,235	
	Depreciation expense	(76,835)	(68,600)
		(68,600)	(68,600)
Total changes in net position - governmental activities		\$ (60,912)	\$ (60,912)

See accompanying notes to basic financial statements.

**WSC Academy
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2017**

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Revenues				
Local sources	\$ -	\$ 6,925	\$ 36,006	\$ 29,081
State sources	818,518	694,045	720,090	26,045
Federal sources	213,908	170,509	115,039	(55,470)
Total Revenues	<u>1,032,426</u>	<u>871,479</u>	<u>871,135</u>	<u>(344)</u>
Expenditures				
Current:				
Instruction:				
Basic programs	183,113	163,175	161,840	1,335
Added needs	164,319	143,696	143,803	(107)
Supporting services:				
Pupil services	94,863	90,903	90,792	111
Instructional staff services	11,951	8,776	8,776	-
General administrative services	161,400	127,154	127,034	120
School administrative services	194,965	176,364	176,073	291
Business services	6,450	5,573	5,564	9
Operation and maintenance services	142,912	117,459	117,360	99
Transportation services	5,000	2,138	2,138	-
Central services	3,300	7,189	7,124	65
Other supporting services	25,000	23,400	22,943	457
Total Expenditures	<u>993,273</u>	<u>865,827</u>	<u>863,447</u>	<u>2,380</u>
Net Change in Fund Balances	39,153	5,652	7,688	2,036
Fund Balances, Beginning of Year	<u>283,948</u>	<u>283,948</u>	<u>283,948</u>	<u>-</u>
Fund Balances, End of Year	<u>\$ 323,101</u>	<u>\$ 289,600</u>	<u>\$ 291,636</u>	<u>\$ 2,036</u>

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

WSC Academy
Notes to Basic Financial Statements
June 30, 2017

Note A – Summary of Significant Accounting Policies

WSC Academy received its charter under Public Act 416 of 1994 from Lake Superior State University. As part of the chartering process, WSC Academy filed Articles of Incorporation with the Michigan Department of Commerce. According to the contract with Lake Superior State University, WSC Academy is to act exclusively as a governmental agency, for the purposes of operating as a public school academy, and is not to undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. Under this contract, Lake Superior State University provides certain services to WSC Academy including approval of WSC Academy's operating plan, monitoring compliance with provisions of the charter contract and the selection of members for the Board of Directors. Lake Superior State University is paid 3% of State Aid payments received by WSC Academy for such services.

The Academy is governed by a Board of Directors consisting of seven members approved by Lake Superior State University and administered by a Principal who is appointed by the aforementioned Board. The Academy provides educational services for approximately 88 full-time students as specified by State statute and Board of Directors policy. These services include secondary education and general administrative services.

The financial statements of WSC Academy (the "Academy") have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Academy's significant accounting policies are described below.

1. The Reporting Entity

The financial reporting entity consists of a primary government and its component units. The Academy is a primary government because it is a special-purpose government that has a separately appointed governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the Academy for financial statement presentation purposes, and the Academy is not included in any other governmental reporting entity. Consequently, the Academy's financial statements include the funds of those organizational entities for which its governing board is financially accountable.

2. Academy-wide and Fund Financial Statements

Academy-wide Financial Statements - The academy-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) present financial information about the Academy as a whole. The reported information includes all of the nonfiduciary activities of the Academy. The Academy does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the Academy. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The Academy does not have any *business-type activities*.

WSC Academy
Notes to Basic Financial Statements
June 30, 2017

The Statement of Net Position is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The Academy's net position is reported in two parts: invested in capital assets, and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

Major individual governmental funds are reported as separate columns in the fund financial statements. The General Fund is the Academy's only major fund.

Fund Financial Statements – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the academy-wide level. Reconciliations between the two sets of statements are provided in separate schedules.

Revenues are recognized when susceptible to accrual; i.e., both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Unearned revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Unearned revenue also arises when resources are received by the Academy before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

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

Academy-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

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

WSC Academy
Notes to Basic Financial Statements
June 30, 2017

Governmental Funds

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

General Fund—The General Fund is the general operating fund of the Academy. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

When both restricted and unrestricted resources are available for use, it is the Academy's policy to use restricted resources first, then unrestricted as they are needed.

4. Budgets and Budgetary Accounting

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of an academy be under budgetary control and that both budgeted and actual financial results do not incur a deficit. An academy's General Appropriations Resolution (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from an academy's budget may occur without a corresponding amendment to the budget. An academy has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. An academy may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Directors. Expenditures may not legally exceed budget appropriations at the function level. All appropriations lapse at the end of the fiscal year.

WSC Academy utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- In the spring, administrative personnel propose the operating budget for the ensuing fiscal year.
- The preliminary operating budget is submitted to the Board of Directors. This budget includes proposed expenditures and the means of financing them.
- After the budget is finalized, the Board of Directors adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original General Fund budget was amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).
- The budget for the General Fund was adopted on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

5. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

WSC Academy
Notes to Basic Financial Statements
June 30, 2017

6. Investments

Investments are recorded at fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

7. Capital Assets

Capital assets, which may include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the academy-wide financial statements. Assets having a useful life in excess of one year, and whose costs exceed \$1,000, are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

Furniture and equipment are depreciated using the straight-line method over the following estimated useful lives:

Furniture and equipment	3-10 years
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8. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition or construction of those assets. Net position is reported as restricted when there are limitations imposed on their use either through legislation or through external restrictions imposed by creditors, grantors, laws or regulations from other governments.

9. Fund Balance

The Academy has adopted Governmental Accounting Standards Board (GASB) Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*". The stated objective of GASB Statement No. 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds, detailed as follows:

- Nonspendable – resources that cannot be spent because they are either (a) not in spendable form (inventories and prepaid amounts) or (b) legally or contractually required to be maintained intact (the principal of a permanent fund).
- Restricted – resources that cannot be spent because of (a) constraints externally imposed by creditors (debt covenants), grantors, contributors, or laws or regulations or (b) imposed by law through constitutional provisions or enabling legislation and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.
- Committed – resources that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority (Board of Directors). Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified uses by taking the same type of action it employed to previously commit those amounts.

WSC Academy
Notes to Basic Financial Statements
June 30, 2017

- Assigned – resources that are constrained by the government’s *intent* to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by (a) the governing body itself or (b) a body or official to which the governing body has designated the authority to assign amounts to be used for specific purposes.
- Unassigned – unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

WSC Academy has not established a policy for its use of unrestricted fund balance amounts; it considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

10. Estimates

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

Note B – Cash Equivalents

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.
- United States or federal agency obligation repurchase agreements.
- Banker’s acceptances of United States Banks.
- Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.
- Surplus funds investment pools.

WSC Academy
Notes to Basic Financial Statements
June 30, 2017

Balances at June 30, 2017 related to cash equivalents are detailed in the Basic Financial Statements as follows:

Statement of Net Position:	
Governmental activities	<u>\$ 186,186</u>

Cash Equivalents

Depositories actively used by the Academy during the year are detailed as follows:

- Fifth Third Bank

June 30, 2017 balances are detailed as follows:

Cash equivalents	<u>\$ 186,186</u>
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Cash equivalents consist of bank checking accounts.

Custodial Credit Risk as Related to Cash Equivalents

Custodial credit risk is the risk that in the event of bank failure, the Academy's cash equivalents may not be returned to the Academy. Protection of Academy cash equivalents is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the Academy's cash equivalents was \$186,186 and the bank balance was \$186,186. The bank balance was completely covered by federal depository insurance.

Investments

As of June 30, 2017, the Academy had no surplus funds that were classified as investments. The Academy's policies to minimize investment risk are as follows:

Credit Risk Related to Investments

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Academy's investment policy does not specifically address credit risk, but minimizes its credit risk by limiting investments to the types allowed by the State.

Interest Rate Risk

The Academy minimizes interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market, and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market funds, or similar investment pools and limiting the average maturity in accordance with the Academy's cash requirements.

Concentration of Credit Risk

The Academy minimizes concentration of credit risk which is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The Academy's investment policy places no restrictions on the amount or percentage that may be invested in any one type of security.

Foreign Currency Risk

The Academy is not authorized to invest in investments which have this type of risk.

WSC Academy
Notes to Basic Financial Statements
June 30, 2017

Note C – State School Aid

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts.

These additional State revenues pass through to Michigan schools in the form of a per pupil "Foundation Allowance" paid on a "blended count" of Academy pupil membership in February 2016 and October 2016. The 2016-17 "Foundation Allowance" for WSC Academy was \$7,511 for 88 "Full Time Equivalent" students, generating \$714,912 in state aid payments to the Academy of which \$130,042 was paid to the Academy in July and August 2017 and included in "Due From Other Governmental Units" of the General Fund.

Note D – Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows:

	<u>Balances</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2017</u>
Capital assets being depreciated:				
Furniture and equipment	\$ 426,409	\$ 8,235	\$ -	\$ 434,644
Less accumulated depreciation for:				
Furniture and equipment	222,377	\$ 76,835	\$ -	299,212
Net Capital Assets	<u>\$ 204,032</u>			<u>\$ 135,432</u>

Depreciation expense was charged to Academy activities as follows:

Governmental activities:	
Instruction	\$ 19,542
Supporting services	57,293
	<u>\$ 76,835</u>

Note E – Short-term Debt

The Academy has a \$500,000 line of credit promissory note with Work Skills Corporation, a Michigan non-profit corporation. There was no outstanding balance at June 30, 2016 or 2017, respectively.

WSC Academy
Notes to Basic Financial Statements
June 30, 2017

Note F – Operating Lease

WSC Academy has entered into a one-year operating lease agreements for the twelve months ending June 30, 2017 for the rental of the Academy school building, located at 855 Jefferson Avenue in Ypsilanti, Michigan. Monthly rental fees are \$4,628, and total rental expenses were \$50,280.

Note G – Retirement Plan

The staff of WSC Academy are employees of Work Skills Corporation. The Academy reimburses to Work Skills Corporation a 100% match up to 5% of each employee's salary, not to exceed \$2,000 annually that has elected to participate in a 403(b) plan. Contributions for the year ended June 30, 2017 totaled \$9,482.

Note H – Risk Management

The Academy is exposed to various risks of loss related to general liability. There have been no significant reductions in insurance coverage during the 2016-17 fiscal year, and claims did not exceed coverage less retained risk deductible amounts during the fiscal year.

INTERNAL CONTROL AND COMPLIANCE



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

October 24, 2017

The Board of Directors
WSC Academy
Ypsilanti, Michigan

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, and the major fund of WSC Academy (the “Academy”), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Academy’s basic financial statements, and have issued our report thereon dated October 24, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Academy’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy’s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy'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 Academy's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Hungerford Nichols".

Certified Public Accountants



October 24, 2017

The Board of Directors
WSC Academy
Ypsilanti, Michigan

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of WSC Academy for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and Government Auditing Standards), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 21, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by WSC Academy are described in the notes to the financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Government-Wide financial statements were:

Management's estimate of the lives of capital assets:

- We evaluated the key factors and assumptions used to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole. Certain amounts included in capital assets have been estimated by appraisers based on historical information for assets placed in service prior to implementation of GASB Statement No. 34

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. No significant adjustments were derived from the audit process. There were no significant adjustments derived from the audit process.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 24, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matter, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

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

Other Comments

The General Fund balance of the Academy increased by \$7,688 to \$291,636 at June 30, 2017. This balance represents 31.77% of the Academy's 2017-18 expenditure budget, up from 28.59% at June 30, 2016. Maintaining a fund balance of at least 10-20 percent of the ensuing year's expenditure budget is advisable for WSC Academy. This gives the Academy more stable operating funds during the year, helps avoid or reduce the necessity of borrowing for short-term cash flow purposes and acts as a buffer against the uncertainty of state aid revenues accruing to the Academy. In addition, employee benefit costs are expected to increase significantly in the next few years, which will require the use of fund balance reserves considering the expectation of small (or no) growth in state aid revenues.

Restriction on Use

This communication is intended solely for the use of the WSC Academy Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties. We have furnished a copy of this letter to Lake Superior State University and the Michigan Departments of Education and Treasury as an enclosure with the audit report as required by the State of Michigan.



Certified Public Accountants