



# THE CLAIRMOUNT GROUP, PLC

Certified Public Accountants

## **Rutherford Winans Academy**

(A Michigan Public School Academy)

**Financial Statements**

**For the Year Ended**

**June 30, 2016**



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THE CLAIRMOUNT GROUP, PLC  
Certified Public Accountants

## Independent Auditor's Report

To the Board of Directors  
Rutherford Winans Academy

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Rutherford Winans Academy as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Rutherford Winans 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, the major fund, and the aggregate remaining fund information of Rutherford Winans Academy as of June 30, 2016, 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 on page \_\_\_\_ be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Academy's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2016, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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 Rutherford Winans Academy's internal control over financial reporting and compliance.

The Clairmount Group  
October 31, 2016  
Detroit, MI 48226



THE CLAIRMOUNT GROUP, PLC  
Certified Public Accountants

**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**

To Board of Directors  
Rutherford Winans Academy

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Rutherford Winans Academy, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Rutherford Winans Academy's basic financial statements, and have issued our report thereon dated October 31, 2016.

**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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

This section of Rutherford Winans Academy's Annual Financial Report presents discussion and analysis of the Academy's financial performance during the year ended June 30, 2016. It should be read in conjunction with the Academy's financial statements, which immediately follow this section.

October 31, 2016  
Detroit, MI 48226

## **Rutherford Winans Academy Management's Discussion and Analysis**

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### Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. Those statements are organized so the reader can understand Rutherford Winans Academy financially as a whole. The government-wide financial statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. These fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the Academy's operation in more detail than the government-wide financial statements by providing information about the Academy's most significant fund, The General Fund, with all other presented in one column as non-major funds. The components of the annual report are as follows:

Management's Discussion and Analysis (MD&A)  
(Required Supplementary Information)

Basic Financial Statements  
Government-wide Financial Statements- Fund Financial Statements  
Notes to the Basic Financial Statements  
(Required Supplementary Information)  
Budgetary Information for Major Fund

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

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

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

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

**Rutherford Winans Academy  
Management's Discussion and Analysis (continued)**

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**Reporting the Academy's Governmental Fund – Fund Financial Statements**

The Academy's fund financial statements provide detailed information about the General Fund not the Academy as a whole. The governmental funds of the Academy use the following accounting approach:

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

**The Academy as a Whole**

As discussed above, the statement of net position provides information of the Academy as a whole. Table 1 provides a summary of the Academy's net position as of June 30, 2016:

**Table 1- Summary of Rutherford Winans Academy's Net Position**

	<b>Governmental Activities</b>	
<b><u>Assets</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Current and other assets	#REF!	\$ 701,685
Capital Assets - net of accumulated depreciation	75,777	58,235
<b>Total Assets</b>	<u>#REF!</u>	<u>759,920</u>
<b><u>Liabilities</u></b>		
Current Liabilities	366,360	476,401
<b><u>Net Position</u></b>		
Invested in capital assets	75,777	58,235
Unrestricted	351,098	225,284
<b>Total Net position</b>	<u>426,875</u>	<u>283,519</u>
<b>Total Liabilities and Net position</b>	<u>\$ 793,235</u>	<u>\$ 759,920</u>

**Net Position-** The Academy's financial position increased from the prior period as total net position increased by \$143,356. The increase in the financial position is primarily due to an increase of receivables over accounts payables. At year end, the Academy anticipated receiving \$313,685 of funds from the State of Michigan.



**Rutherford Winans Academy  
Management's Discussion and Analysis (continued)**

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The above analysis focuses on the net position (see Table 1). The change in net position (see Table 2) of the Academy's governmental activities is discussed below. The Academy's net position was \$426,875 at June 30, 2016. Capital assets, recorded at historical cost, net of depreciation totaled \$75,777. The unrestricted net assets balance enables the Academy to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the general fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Academy as a whole are reported in the statement of activities (see Table 2), which shows the change in net assets for fiscal year ended June 30, 2016.

**Table 2 – Summary of the Statement of Activities**

	<b>Governmental Activities</b>	
<u>Revenues</u>	<u>2016</u>	<u>2015</u>
<b>Program Revenues:</b>		
Operating grants and contributions	\$ 566,500	\$ 557,444
<b>General Revenues:</b>		
State foundation allowance	1,556,555	1,535,631
Other	14,474	15,574
<b>Total Revenues</b>	<u>\$ 2,137,529</u>	<u>2,108,649</u>
<b>Function/Program Expenses:</b>		
Instruction	\$ 904,890	\$ 946,950
Support services	1,075,047	1,042,136
Depreciation	14,235	3,869
<b>Total Expenses</b>	<u>\$ 1,994,172</u>	<u>\$ 1,992,955</u>
<b>Increase in Net Position</b>	<u><b>\$ 143,357</b></u>	<u><b>\$ 115,694</b></u>

**Increase in Net Assets**

As reported in the statement of activities, the cost of our governmental activities this year was \$1,994,172. Certain activities were partially funded from those who benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions of \$566,500. We paid for the remaining "public benefit" portion of our governmental activities with \$1,556,555 in state foundation allowance and with our other revenues.

## **Rutherford Winans Academy Management's Discussion and Analysis (continued)**

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

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

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

As the Academy completed this year, the governmental funds reported a combined fund balance of \$351,099. The General Fund is available to fund costs related to school operations.

### **General Fund Budgetary Highlights:**

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

There were revisions made to the 2015-2016 General Fund original budgets. Budgeted revenues decreased to represent actual amounts received in State Aid and Federal allocations. Overall the budgeted expenditures decreased due to cost saving methods adopted by management.

### **Capital Assets**

As of June 30, 2016, the Academy had \$76,777 invested in net capital assets, in furniture and equipment.

### **Economic Factors Affecting Next Year's Budgets:**

The Academy's administration considered many factors when setting the Academy's 2016 fiscal year's budget. One of the most important factors affecting the budget is the Academy's student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. Currently the foundation allowance is \$7,311 for fiscal year 2015-2016. The blended count for the 2015-2016 fiscal years is 10 percent and 90 percent of February 2015 and September 2015 student count, respectively. This type of funding is based on parameters set by the Michigan Department of Education that schools must meet to receive performance based funding. The 2016 budget was adopted in June 2015, based on estimated number of students that will be enrolled in September 2015. Approximately 85 percent of the total general fund revenue is from the foundation allowance. As a result, the Academy funding is heavily dependent on the state's ability to fund local school operations, thus the Academy is looking for an increase in student enrollment for the 2016 fiscal year of approximately 10 percent through the advertisement of the Academy. In addition, as a priority school, the Academy will focus more on curriculum and learning achievement criteria. The Academy is also looking to receive more grants and private revenues. This will allow the Academy to place more funds in the classroom and enhance its financial position.

**Rutherford Winans Academy**  
**Statement of Net Position**  
**June 30, 2016**

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<b>Assets</b>	
<b>Current Assets</b>	
Cash and investments	\$ 94,112
Due from governmental units	623,347
<b>Capital Assets - Net of Accumulated Depreciation</b>	<u>75,777</u>
Total assets	<u>\$ 793,236</u>
<b>Liabilities and Net Position</b>	
<b>Liabilities</b>	
Accounts payable	\$ 119,447
Loan payable	39,530
Other accrued liabilities	<u>207,383</u>
Total current liabilities	<u>366,360</u>
Total liabilities	<u>366,360</u>
<b>Net Position</b>	
Invested in capital assets - net of related debt	75,777
Unrestricted	<u>351,098</u>
Total net position	<u>426,875</u>
Total liabilities and net position	<u>\$ 793,235</u>

The accompanying notes are an integral part of these financial statements

▼ #REF!  
 ▼ #REF!

**Rutherford Winans Academy  
Statement of Activities  
For the Year Ended June 30, 2016**

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<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenues and Changes in Net Assets</u>
Primary government-Governmental Activities:				
Instruction	\$ 904,890	\$ -	\$ 566,500	\$ (338,390)
Support Services				
Pupil support	28,556	-	-	(28,556)
General administration	277,734	-	-	(277,734)
School administration	340,533	-	-	(340,533)
Business support services	17,717	-	-	(17,717)
Operation and maintenance	325,430	-	-	(325,430)
Pupil transportation and services	56,698	-	-	(56,698)
Central services	28,379	-	-	(28,379)
Depreciation unallocated	14,235	-	-	(14,235)
Total Governmental Activities	<u>\$ 1,994,172</u>	<u>\$ -</u>	<u>\$ 566,500</u>	\$ (1,427,672)
General Revenues:				
State aid not restricted to specific purposes				1,556,555
Other Income				14,474
Total general revenues				<u>1,571,029</u>
Change in net position				143,357
Net Position, July 1, 2015				<u>283,518</u>
Net Position, June 30, 2016				<u>\$ 426,875</u>

The accompanying notes are an integral part of these financial statements

**Rutherford Winans Academy**  
**Balance Sheet – Governmental Funds**  
**June 30, 2016**

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	<u>Governmental Funds</u>
	<u>General Fund</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 94,112
Due from other governmental units	317,527
<b>Total assets</b>	<u>\$ 411,639</u>
<b>Liabilities</b>	
Accounts payable	\$ 119,447
Deferred revenue	
Loan payable	39,530
Other accrued liabilities	207,383
<b>Total liabilities</b>	<u>366,360</u>
<b>Fund Balances</b>	
Unrestricted	45,279
Total fund balance	<u>45,279</u>
Total liabilities and fund balances	<u>\$ 411,639</u>

**Rutherford Winans Academy  
 Reconciliation of the Governmental  
 Fund Balance to Statement of Net Position of Governmental Activities  
 Year Ended June 30, 2016**

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**Fund Balance** - Total governmental funds \$ 45,279

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

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

Cost of capital assets

97,527

Accumulated depreciation

(21,750)

75,777

**Total Net Position** - Governmental activities \$ 121,056

The accompanying notes are an integral part of these financial statements

**Rutherford Winans Academy**  
**Governmental Funds**  
**Statement of Revenue, Expenditures and Changes in Fund Balance**  
**For the Year Ended June 30, 2016**

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	<u>Governmental Funds</u>
	General
	<u>Fund</u>
<b>Revenues</b>	
Local sources	\$ 14,474
State sources	1,701,345
Federal sources	115,890
<b>Total revenues</b>	<u>1,831,709</u>
<b>Expenditures</b>	
Current	
Instruction services	
Basic programs	455,810
Added needs	449,080
Support services	
Pupil	28,556
General administration	277,734
School administration	340,533
Business services	19,097
Operation and maintenance	328,675
Pupil transportation and services	56,698
Central services	55,531
<b>Total expenditures</b>	<u>2,011,714</u>
<b>Excess of Revenue Over Expenditures</b>	(180,005)
<b>Fund Balances - Beginning of year</b>	<u>225,284</u>
<b>Fund Balances - End of year</b>	<u>\$ 45,279</u>

The accompanying notes are an integral part of these financial statements

**Rutherford Winans Academy**  
**Reconciliation of the Statement of Revenue, Expenditures and Changes in**  
**Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2016**

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**Net Change in Fund Balance - Total governmental funds** \$ (180,005)

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

Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation or amortization:	31,777
Depreciation and amortization expense	(14,235)

Revenue is recorded in the statement of activities when earned; it is not reported in the governmental funds until collected or collectible within 60 days of year end.	305,820
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<b>Change in Net Position of Governmental Activities</b>	<u>\$ 143,357</u>
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**Rutherford Winans Academy  
Notes to Financial Statements  
June 30, 2016**

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**NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Rutherford Winans Academy (the "Academy") conform to accounting principles accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy:

**Reporting Entity**

The Academy was formed as a charter school Academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy was established on July 1, 2012 as a public school Academy. The Academy is located in the metropolitan Detroit area providing education for approximately 217 students in grades K-5.

On July 1, 2012, the Academy entered into a five-year contract with the School District of the City of Detroit ("Detroit Public Schools") to charter a public school academy. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. Detroit Public Schools is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Detroit Public Schools 3 % of state aid as administrative fees. The total administrative fees for the year ended June 30, 2016 to the Detroit Public School were approximately \$47,458.

**Administrative Services** - The Academy entered into a management agreement effective August 31, 2012 with Solid Rock Management Company for a fee of 12% of State Aid revenue. The Management Company is responsible for complete management, operation, administration and education of the Academy. The Academy subcontracts all employees from the management company and reimburses the management company for operating costs. The Academy incurred management fees totaling \$204,068 for the year ended June 30, 2016.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

**Government-wide Financial Statements**- The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

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

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

**NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

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 Academy.

The Academy reports the following major governmental fund:

**General Fund** - The General Fund is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

**Assets, Liabilities and Net Position**

**Cash and Investments** – Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of twelve months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** – In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.”

Accounts receivable are shown net of allowance for uncollectible amounts. Management determines the allowance based on specific review of items where collectability is questionable.

**Deferred Outflow and Inflow of Resources** – Deferred Outflow of Resources are defined as the consumption or usage of net assets applicable to a future reporting period. These types of resources are similar to assets and have a positive effect on the Statement of net Position. Deferred Inflow of Resources are defined as the acquisition of net position applicable to a future reporting period. These types of resources are similar to liabilities and have a negative effect on the Statement of Net Position. As of June 30, 2016, the Academy had \$305,820 of deferred inflow of unavailable revenue of \$305,820.

**Capital Assets** - Capital assets, which include building improvements and furniture and equipment, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$1,500 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure-type assets. Furniture and other equipment are depreciated using the straight-line method over the useful life of 5-20 years.

**NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Net Position** – Net position represents the difference between assets, deferred outflows, liabilities and deferred inflows. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws of regulations of other governments.

**Fund Equity** – The Academy adopted GASB 54 as part of its fiscal year reporting. The intention of GASB 54 is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the Academy's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on those resources.

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted into cash or they are legally or contractually required to remain intact. This category typically includes prepaid items and inventories.

In addition to nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

*Non-spendable:* Amounts that are not in spendable form or are legally or contractually required to be maintained intact.

*Restricted:* Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose.

*Committed:* Amounts that have been formally set aside by the Board of the Academy for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Board of the Academy.

*Assigned:* Intent to spend resources on specific purposes expressed by the Board of the Academy or CEO, who is authorized by resolution approved by the Board of the Academy to make assignments

*Unassigned:* The residual classification of the General Fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

**Revenue Recognition** – All grant and contract revenues are recognized only to the extent earned.

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

**Use of Estimates** - The preparation of 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 estimates.

**Rutherford Winans Academy**  
**Notes to Financial Statements (Continued)**  
**June 30, 2016**

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**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information-** Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year-end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law.

State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The Academy increased budgeted amounts during the year in response to changes in enrollment and related revenues and expenditures.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

**Excess of Expenditures over Appropriations in Budgeted Funds** - During the year, the Academy did incur expenditures in the General Fund in excess of budgeted amounts as shown below

	<u>Final Budget</u>	<u>Actual</u>	<u>Total</u>
Added needs	\$ 404,991	\$ 449,080	\$ 44,089
Pupil support	28,050	28,556	506
School administration	326,400	340,533	14,133
Business support services	17,480	19,097	1,617
Pupil transportation services	54,345	56,698	2,353
Central services	51,458	55,531	4,073
Total	<u>\$ 882,724</u>	<u>\$ 949,495</u>	<u>\$ 66,771</u>

**NOTE 3 – DEPOSITS AND INVESTMENTS**

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

The Academy has designated one bank for the deposit of its funds.

The Academy's cash and investments are subject to several types of risks, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** – Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the Academy's deposits. At year end, the Academy's deposit balance was \$150,157 for bank deposits of which were insured by FDIC.

**Rutherford Winans Academy**  
**Notes to Financial Statements (Continued)**  
**June 30, 2016**

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**NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**Custodial Credit Risk of Investments** – Custodial credit risk of investments is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Academy does not have an investment policy for custodial credit risk. The Academy does not have investments with custodial risk.

**Interest Rate Risk** – Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Academy’s investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270 day maturity. The Academy does not have a policy for interest rate risk.

**Credit Risk** – State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Academy’s investment policy does not further limit its investment choices.

At year end, the Academy had no investments.

**Concentration of Credit Risk** – The Academy places no limit on the amount the Academy may invest in any one issuer. The Academy does not have a policy to minimize concentration of credit risk.

**Foreign Currency Risk** – Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange. State law and the Academy’s policy prohibit investment in foreign currency.

**NOTE 4 – RECEIVABLES AND DEFERRED REVENUE**

Receivables as of year-end for the Academy’s individual major funds and the non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund
State of Michigan	\$313,685
Federal	3,842
	<u>\$317,527</u>

The accounts receivable as of June 30, 2016 has been deemed collectible.

**Rutherford Winans Academy**  
**Notes to Financial Statements (Continued)**  
**June 30, 2016**

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**NOTE 5 – CAPITAL ASSETS**

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

	Balance July 1, 2015	Additions	Disposals	Balance June 30, 2016
<b>Governmental Activities</b>				
Capital assets being depreciated:				
Furniture & Equipment	\$ 65,750	\$ 31,777	\$ -	\$ 97,527
Subtotal	65,750	31,777	-	97,527
Accumulated depreciation:				
Furniture & Equipment	7,515	14,235	-	21,750
Net capital assets being depreciated	\$ 58,235	\$ 17,542	\$ -	\$ 75,777

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

**NOTE 6 – OPERATING LEASES**

The Academy entered into an operating lease agreement with the school district of the City of Detroit on August 6, 2012 through June 30, 2017. The Academy is responsible for insurance, repairs and maintenance of the building. The Academy incurred rent expenses of \$61,627 for the period ended June 30, 2016.

**NOTE 7 – RISK MANAGEMENT**

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

**NOTE 8 – DEFINED PENSION PLAN**

The Academy did not participate in the Michigan Public School Employees' Retirement System (MPERS). The Academy's employees are leased from Academy Management Company. Therefore, no pension plan disclosure is deemed necessary.

**NOTE 9 – LEASED EMPLOYEES**

The Academy leases its entire staff from Academy Management Company, Solid Rock. Solid Rock Management is responsible for providing personnel to the Academy and the Academy shall reimburse Solid Rock Management for its payment of all such compensation as approved by the Board and provided for in the budget.

**Rutherford Winans Academy**  
**Notes to Financial Statements (Continued)**  
**June 30, 2016**

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**NOTE 10 – CONTINGENCIES**

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds.

**Note 12 – SUBSEQUENTS EVENTS**

Subsequent events have been evaluated through October 31, 2016, which is the date the financial statements were available to be issued. Events occurring after the date have not been evaluated to determine whether a change in the financial statements would be required.

## **Required Supplemental Information**

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**Rutherford Winans Academy  
Required Supplemental Information  
Budget Comparison Schedule - General Fund  
June 30, 2016**

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Revenue</b>				
Local sources	\$ 12,050	\$ 10,300	\$ 14,474	\$ 4,174
State sources	1,855,967	1,697,439	1,701,345	3,906
Federal sources	318,579	365,264	115,890	(249,374)
	<u>2,186,597</u>	<u>2,073,003</u>	<u>1,831,709</u>	<u>(241,294)</u>
Total revenue				
<b>Expenditures</b>				
Current				
Instruction:				
Basic programs	569,905	477,009	455,810	(21,199)
Added needs	373,376	404,991	449,080	44,089
	<u>943,281</u>	<u>882,000</u>	<u>904,890</u>	<u>22,890</u>
Support services:				
Pupil services	77,100	28,050	28,556	506
General administration	284,330	284,993	277,734	(7,259)
School administration	303,800	326,400	340,533	14,133
Business support services	13,680	17,480	19,097	1,617
Operation and maintenance	394,427	345,448	325,430	(20,018)
Pupil transportation and services	36,500	54,345	56,698	2,353
Central services	58,700	51,458	55,531	4,073
Other Financing Uses	4,951	4,951	-	(4,951)
	<u>1,173,488</u>	<u>1,113,125</u>	<u>1,103,579</u>	<u>(9,546)</u>
Total support services				
Total expenditures	<u>2,116,769</u>	<u>1,995,125</u>	<u>2,008,469</u>	<u>13,344</u>
<b>Excess of Revenue Over (Under)</b>				
Expenditures	69,828	77,878	(176,760)	(254,638)
<b>Fund Balance - July 1, 2015</b>	<u>225,284</u>	<u>225,284</u>	<u>225,284</u>	<u>-</u>
<b>Fund Balance - June 30, 2016</b>	<u>\$ 295,112</u>	<u>\$ 303,162</u>	<u>\$ 48,524</u>	<u>\$ (254,638)</u>