

West Village Academy

**Financial Report
with Supplemental Information
June 30, 2014**

West Village Academy

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Independent Auditor's Report

To the Board of Directors
West Village Academy

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the remaining fund information of West Village Academy (the "Academy"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise West Village 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the remaining fund information of West Village Academy as of June 30, 2014 and the respective changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
West Village Academy

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the major fund budgetary comparison schedule on pages 3-8 and 28, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2014 on our consideration of West Village 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 West Village Academy's internal control over financial reporting and compliance.

Plante & Moran, PLLC

August 15, 2014

West Village Academy

Management's Discussion and Analysis

This section of West Village Academy's (the "Academy") annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2014. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand West Village 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. The 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 operations in more detail than the government-wide financial statements by providing information about the Academy's most significant fund, the General Fund, with the other fund presented in one column as the nonmajor Food Services Fund.

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

Basic Financial Statements

Government-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental 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 position and the statement of activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

West Village Academy

Management's Discussion and Analysis (Continued)

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

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

Reporting the Academy's Most Significant Funds - Fund Financial Statements

The Academy's fund financial statements provide detailed information about the most significant funds - not the Academy as a whole. Some funds are required to be established by state law and by bond covenants. However, the Academy establishes other funds to help it control and manage money for particular purposes (the Food Services Fund is an example) or to show that it is meeting legal responsibilities for using grants and other money. The governmental funds of the Academy use the following accounting approach:

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

West Village Academy

Management's Discussion and Analysis (Continued)

The Academy as a Whole

Recall that the statement of net position provides the perspective of the Academy as a whole. Table I provides a summary of the Academy's net position as of June 30, 2014 and 2013:

TABLE I

	Governmental Activities	
	June 30	
	2014	2013
	(in thousands)	
Assets		
Current and other assets	\$ 1,127.0	\$ 724.2
Capital assets	<u>39.4</u>	<u>40.1</u>
Total assets	1,166.4	764.3
Liabilities - Current liabilities	<u>790.2</u>	<u>469.5</u>
Net Position		
Net investment in capital assets	39.4	40.1
Unrestricted	<u>336.8</u>	<u>254.7</u>
Total net position	<u>\$ 376.2</u>	<u>\$ 294.8</u>

The above analysis focuses on the net position (see Table I). The change in net position (see Table 2) of the Academy's governmental activities is discussed below. The Academy's net position was approximately \$376,200 at June 30, 2014. Capital assets, net of related debt, totaling approximately \$39,400, compares the original cost less depreciation of the Academy's capital assets to long-term debt used to finance the acquisition of those assets. Of the remaining net position, approximately \$336,800 was unrestricted.

The \$336,800 in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The unrestricted net position balance enables the Academy to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

West Village Academy

Management's Discussion and Analysis (Continued)

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 changes in net position for fiscal years 2014 and 2013.

TABLE 2

	Governmental Activities	
	Year Ended June 30	
	2014	2013
	(in thousands)	
Revenue		
Program revenue:		
Charges for services	\$ 7.5	\$ 8.5
Operating grants and contributions	1,423.5	1,244.8
General revenue:		
State foundation allowance	3,144.4	2,928.9
Other	7.5	4.6
Total revenue	4,582.9	4,186.8
Functions/Program Expenses		
Instruction	1,841.7	1,655.3
Support services	2,282.4	2,325.9
Athletics	9.3	3.1
Food services	313.0	259.4
Community services	25.8	11.4
Depreciation - Unallocated	29.3	23.5
Total functions/program expenses	4,501.5	4,278.6
Increase (Decrease) in Net Position	81.4	(91.8)
Net Position - Beginning of year	294.8	386.6
Net Position - End of year	\$ 376.2	\$ 294.8

As reported in the statement of activities, the cost of all of our governmental activities this year was approximately \$4.5 million. Certain activities were partially funded by other governments and organizations that subsidized certain programs with grants and contributions of approximately \$1.4 million. We paid for the remaining "public benefit" portion of our governmental activities with approximately \$3.1 million in state foundation allowance.

The Academy experienced an increase in net position of approximately \$81,400. The key reasons for the change in net position were increasing revenues from previously unrealized funding sources to offset growing expenses.

West Village Academy

Management's Discussion and Analysis (Continued)

As discussed above, the net cost shows the financial burden that was placed on the State by each of these functions. Since unrestricted state aid constitutes the vast majority of the Academy's 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 taxpayers and others provide to it and may provide more insight into the Academy's overall financial health.

As the Academy completed this year, the governmental funds reported a combined fund balance of approximately \$336,800, which is an increase of approximately \$82,100 from last year. The primary reason for the increase is an increase in student enrollment along with a decrease in support services expenditures.

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

Our Special Revenue Fund fund balance remained consistent with the prior year. It is designated to break even and has a fund balance of \$0.

General Fund Budgetary Highlights

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was 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 supplemental information of these financial statements.

There was a significant variance between the final budget and actual amounts for pupil transportation services due to the lack of an increase in the budget line item to correspond with the need of an additional bus.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2014, the Academy had \$39,421 invested in capital assets relating to leasehold improvements and furniture and equipment.

No major capital projects are planned for the 2014-2015 fiscal year.

West Village Academy

Management's Discussion and Analysis (Continued)

Debt

At the end of this year, the Academy had no long-term debt outstanding.

Economic Factors and Next Year's Budgets and Rates

Our administration considers many factors when setting the Academy's 2014-2015 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2015 fiscal year is 10 percent and 90 percent of the February 2015 and October 2014 student counts, respectively. The 2015 budget was adopted in June 2014, based on an estimate of students that will be enrolled in September 2014. Approximately 74 percent of total General Fund revenue is from the foundation allowance. Under state law, the Academy cannot assess additional property tax revenue for general operations. As a result, academy funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2014 school year, we anticipate that the fall student count will exceed the estimates used in creating the 2015 budget. Once the final student count and related per-pupil funding are validated, state law requires the Academy to amend the budget if actual academy resources are not sufficient to fund original appropriations.

Since the Academy's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenue to fund its appropriation to academies. The State periodically holds a revenue-estimating conference to estimate revenue. Based on the results of the most recent conference, it is uncertain whether state funds are sufficient to fund the appropriation.

West Village Academy

Statement of Net Position June 30, 2014

	<u>Governmental Activities</u>
Assets	
Cash (Note 3)	\$ 244,402
Receivables:	
Accounts receivable	1,547
Due from other governmental units	825,993
Prepaid costs and other assets	55,000
Capital assets - Net (Note 5)	<u>39,421</u>
Total assets	1,166,363
Liabilities	
Accounts payable	340,510
Accrued payroll-related liabilities	244,166
State aid anticipation note (Note 10)	135,321
Other accrued liabilities	24,011
Unearned revenue (Note 4)	<u>46,184</u>
Total liabilities	<u>790,192</u>
Net Position	
Net investment in capital assets	39,421
Unrestricted	<u>336,750</u>
Total net position	<u><u>\$ 376,171</u></u>

West Village Academy

Statement of Activities Year Ended June 30, 2014

Functions/Programs	Program Revenue			Governmental
	Expenses	Charges for Services	Operating Grants and Contributions	Activities Net (Expense) Revenue and Changes in Net Position
Primary government - Governmental activities:				
Instruction	\$ 1,841,726	\$ -	\$ 884,604	\$ (957,122)
Support services	2,282,336	-	215,334	(2,067,002)
Athletics	9,332	-	-	(9,332)
Food services	313,037	7,451	300,211	(5,375)
Community services	25,784	-	23,384	(2,400)
Depreciation expense (unallocated)	29,304	-	-	(29,304)
Total primary government	<u>\$ 4,501,519</u>	<u>\$ 7,451</u>	<u>\$ 1,423,533</u>	(3,070,535)
General revenue:				
State aid not restricted to specific purposes				3,144,441
Other				7,501
Total general revenue				<u>3,151,942</u>
Change in Net Position				81,407
Net Position - Beginning of year				<u>294,764</u>
Net Position - End of year				<u>\$ 376,171</u>

West Village Academy

Governmental Funds Balance Sheet June 30, 2014

	General Fund	Nonmajor Food Services Fund	Total Governmental Funds
Assets			
Cash (Note 3)	\$ 244,402	\$ -	\$ 244,402
Receivables:			
Accounts receivable	1,547	-	1,547
Due from other governmental units	825,993	-	825,993
Due from other funds (Note 6)	-	76,871	76,871
Prepaid costs and other assets	55,000	-	55,000
	<u>55,000</u>	<u>-</u>	<u>55,000</u>
Total assets	<u>\$ 1,126,942</u>	<u>\$ 76,871</u>	<u>\$ 1,203,813</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 248,803	\$ 76,871	\$ 325,674
Accrued payroll-related liabilities	244,166	-	244,166
State aid anticipation note (Note 10)	135,321	-	135,321
Other accrued liabilities	24,011	-	24,011
Due to other funds (Note 6)	91,707	-	91,707
Unearned revenue (Note 4)	46,184	-	46,184
	<u>46,184</u>	<u>-</u>	<u>46,184</u>
Total liabilities	790,192	76,871	867,063
Fund Balances			
Nonspendable - Prepaid assets	55,000	-	55,000
Unassigned	281,750	-	281,750
	<u>281,750</u>	<u>-</u>	<u>281,750</u>
Total fund balances	336,750	-	336,750
	<u>336,750</u>	<u>-</u>	<u>336,750</u>
Total liabilities and fund balances	<u>\$ 1,126,942</u>	<u>\$ 76,871</u>	<u>\$ 1,203,813</u>

West Village Academy

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position June 30, 2014

Fund Balance Reported in Governmental Funds	\$	336,750
Amounts reported for governmental activities in the statement of net position are different because capital assets used in governmental activities are not financial resources and are not reported in the funds:		
Cost of capital assets	\$	356,323
Accumulated depreciation		<u>(316,902)</u>
		<u>39,421</u>
Net Position of Governmental Activities	\$	<u>376,171</u>

West Village Academy

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2014

	General Fund	Nonmajor Food Services Fund	Total Governmental Funds
Revenue			
Local sources	\$ 7,501	\$ 7,451	\$ 14,952
State sources	3,367,106	3,410	3,370,516
Federal sources	900,657	296,801	1,197,458
Total revenue	4,275,264	307,662	4,582,926
Expenditures			
Current:			
Instruction	1,841,726	-	1,841,726
Support services	2,282,336	-	2,282,336
Athletics	9,332	-	9,332
Food services	-	313,037	313,037
Community services	25,784	-	25,784
Capital outlay	28,620	-	28,620
Total expenditures	4,187,798	313,037	4,500,835
Excess of Revenue Over (Under) Expenditures	87,466	(5,375)	82,091
Other Financing Sources (Uses)			
Transfers in (Note 6)	-	5,375	5,375
Transfers out (Note 6)	(5,375)	-	(5,375)
Total other financing (uses) sources	(5,375)	5,375	-
Net Change in Fund Balances	82,091	-	82,091
Fund Balances - Beginning of year	254,659	-	254,659
Fund Balances - End of year	\$ 336,750	\$ -	\$ 336,750

West Village Academy

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2014

Net Change in Fund Balances - Total Governmental Funds \$ 82,091

Amounts reported for governmental activities in the statement of activities are different because governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	\$ (29,304)	
Capitalized capital outlay	<u>28,620</u>	<u>(684)</u>

Change in Net Position of Governmental Activities \$ 81,407

West Village Academy

Fiduciary Fund Statement of Fiduciary Assets and Liabilities June 30, 2014

	<u>Agency Funds</u>
Assets - Due from other funds (Note 6)	<u>\$ 14,836</u>
Liabilities	
Accounts payable	\$ 2,374
Due to student activities	<u>12,462</u>
Total liabilities	<u>\$ 14,836</u>

Note I - Nature of Business and Significant Accounting Policies

The accounting policies of West Village Academy (the "Academy") conform to accounting principles generally 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 provides education for students grades K through 8.

On July 1, 2011, the Academy entered into a three-year renewed contract with Central Michigan University 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. The Academy obtained reauthorization of its charter for a term not to exceed five years beginning July 1, 2014.

The Central Michigan University board of trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Central Michigan University board of trustees 3.0 percent of state aid as administrative fees. The administrative fees for the year ended June 30, 2014 paid to the Central Michigan University board of trustees totaled approximately \$94,000.

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the Academy. Based on application of the criteria, the entity does not contain component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy's government-wide activities are considered governmental activities.

Note I - Nature of Business and Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (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. Intergovernmental payments and other items not properly included among program revenue are reported instead as general revenue.

Separate financial statements are provided for governmental funds and the fiduciary fund, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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 revenue 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.

When an expense is incurred for purposes for which both restricted and unrestricted net position or fund balance are available, the Academy's policy is to first apply restricted resources. When an expense is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the Academy's policy to spend funds in this order: committed, assigned, and unassigned.

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

Note I - Nature of Business and 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. Revenue not meeting this definition is classified as a deferred inflow of resources. For this purpose, the Academy considers revenue to be available if it is 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.

Additionally, the Academy reports the following fund types:

Special Revenue Fund - The Special Revenue Fund is used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The Academy's Special Revenue Fund includes the Food Services Fund. Revenue sources for the Food Services Fund include sales to customers, as well as grants received from state and federal sources. Any operating deficit generated by these activities is the responsibility of the General Fund.

Student Activities Fund - The Student Activities Fund is the Academy's only fiduciary fund and accounts for assets held by the Academy in a trustee capacity or as an agent.

Assets, Liabilities, and Net Position or Equity

Cash - Cash includes cash on hand and demand deposits.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." 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."

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

Note I - Nature of Business and Significant Accounting Policies (Continued)

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

Capital Assets - Capital assets are defined by the Academy as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of three years. Furniture and fixtures are depreciated using the straight-line method over the useful life of the capitalized asset.

Fund Balance - Fund balance classifications comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications are comprised of the following - nonspendable, restricted, committed, assigned, and unassigned.

In the fund financial statements, governmental funds report the following components of fund balance:

- **Nonspendable** - 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 directors for use for specific purposes. Commitments are made and can be rescinded only via resolution of the board of directors.
- **Assigned** - Intent to spend resources on specific purposes expressed by the board of directors, which is authorized to make assignments
- **Unassigned** - Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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

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 the Special Revenue Fund, except that capital outlay expenditures are reported in other expenditure categories. All annual appropriations lapse at fiscal year end.

The Academy formally adopted a General Fund budget by line item and a Special Revenue Fund budget by function for the fiscal year ended June 30, 2014. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits academies to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. Amendments were made during the year to refine enrollment and related spending projections, as well as adjustment for amendments made to federal grants.

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 - The Academy had significant expenditure to budget variances for the following:

	<u>Budget</u>	<u>Actual</u>
Pupil transportation services	\$ 135,455	\$ 157,308

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, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Academy's deposits are in accordance with statutory authority. As of June 30, 2014, the Academy does not have any investments.

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

The investment policy adopted by the board in accordance with state statutes has authorized investment in bonds and securities of the United States government; obligations, the principal and interest of which are fully guaranteed by the United States; obligations of the State; certificates of deposit issued by financial institutions organized and authorized to operate in this state; commercial paper rated prime 1 or prime 2 at the time of purchase and maturing not more than 270 days after the date of purchase; and Michigan Investment Liquid Asset Fund Plus (MILAF) investment pools, but not the remainder of state statutory authority as listed above.

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level be used for the Academy's deposits for custodial credit risk. At year end, the Academy's deposit balance of \$348,674 had \$98,674 of bank deposits that were uninsured and uncollateralized. The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Academy evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 4 - Unavailable/Unearned Revenue

Governmental funds report unavailable revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the Academy had unearned revenue of \$46,184 related to grant and categorical aid payments received prior to meeting all eligibility requirements.

West Village Academy

Notes to Financial Statements June 30, 2014

Note 5 - Capital Assets

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

Governmental Activities	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2014</u>
Capital assets being depreciated:				
Leasehold improvements	\$ 200,000	\$ -	\$ -	\$ 200,000
Furniture and equipment	<u>127,703</u>	<u>28,620</u>	<u>-</u>	<u>156,323</u>
Subtotal	327,703	28,620	-	356,323
Accumulated depreciation:				
Leasehold improvements	200,000	-	-	200,000
Furniture and equipment	<u>87,598</u>	<u>29,304</u>	<u>-</u>	<u>116,902</u>
Subtotal	<u>287,598</u>	<u>29,304</u>	<u>-</u>	<u>316,902</u>
Net capital assets being depreciated	<u>40,105</u>	<u>(684)</u>	<u>-</u>	<u>39,421</u>
Net capital assets	<u>\$ 40,105</u>	<u>\$ (684)</u>	<u>\$ -</u>	<u>\$ 39,421</u>

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

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Interfund balances include amounts due from the General Fund to the Food Services Fund and the Fiduciary Fund of \$76,871 and \$14,836, respectively. These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Transfers from the General Fund to the Food Services Fund represent payments to subsidize operations of the Food Services Fund in the amount of \$5,375.

Note 7 - Operating Leases

The Academy has entered into an operating lease agreement for its facility with a company owned by an affiliate of its former management company. The Academy extended the lease to July 31, 2017, with monthly payments of \$55,000. The Academy incurred rent expense in connection with its building leases of \$615,996 for the year ended June 30, 2014. The lease has an option to extend for two additional periods of three years.

Additionally, the Academy has entered into an operating lease agreement for office equipment. The lease term extends through March 25, 2015 with monthly payments of \$599. Equipment lease expense incurred for the year ended June 30, 2014 was \$7,194.

West Village Academy

Notes to Financial Statements June 30, 2014

Note 7 - Operating Leases (Continued)

The future minimum payments on the initial lease terms of the operating leases are as follows:

Years Ending June 30	Amount
2015	\$ 661,728
2016	660,000
2017	660,000
2018	55,000
Total	<u>\$ 2,036,728</u>

Note 8 - Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for all claims. Settled claims have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 9 - Management Agreement

Effective July 31, 2009, the Academy entered into a management agreement with a for-profit corporation. The management company is responsible for all human resources, personnel, payroll, benefits, and related administrative functions for the Academy. The Academy subcontracted most employees from the management company and reimburses the management company for operating costs. The operating costs charged to the Academy by the management company were \$56,903 for the year ended June 30, 2014. The agreement was renewed during June 2014 through June 30, 2015.

Note 10 - Notes Payable

During the year ended June 30, 2014, the Academy borrowed \$752,000 on a state aid anticipation note. The note requires monthly principal payments of \$69,478 at 2.8 percent interest through August 20, 2014. The outstanding balance of \$135,321 was fully repaid subsequent to year end.

Subsequent to year end, the Academy borrowed an additional \$713,000 on a state aid anticipation note that will be repaid in monthly payments of \$65,890, including interest at 2.8 percent through August 20, 2015.

Note 11 - Defined Benefit Pension Plan and Postemployment Benefits

Plan Description - The Academy has two employees that participate in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the Academy. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The system also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the pension and postemployment healthcare plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Pension Benefits - Employer contributions to the pension system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. For the period from July 1, 2013 through September 30, 2013, employees had the following plan options with the corresponding employer contribution rates:

	Basic MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus PHF*	Pension Plus to DC with PHF*	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
Pension Contributions	15.21 %	15.02 %	15.02 %	12.78 %	12.78 %	12.78 %	15.21 %
Health Contributions	9.11 %	9.11 %	8.18 %	8.18 %	9.11 %	8.18 %	8.18 %
Defined Contribution Plan Employer Contributions							
DC employer contributions	0.00 %	1.00 %	1.00 %	3.00 %	4.00 %	4.00 %	0.00 %
Personal Healthcare Fund	0.00 %	0.00 %	2.00 %	2.00 %	0.00 %	2.00 %	2.00 %

West Village Academy

Notes to Financial Statements June 30, 2014

Note 11 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)

For the period from October 1, 2013 through June 30, 2014, employees had the following plan options with the corresponding employer contribution rates:

	Basic MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus PHF*	Pension Plus to DC with PHF*	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
Pension Contributions	18.34 %	18.11 %	18.11 %	15.44 %	15.44 %	15.44 %	18.34 %
Health Contributions	6.45 %	6.45 %	5.52 %	5.52 %	6.45 %	5.52 %	5.52 %
Defined Contribution Plan Employer Contributions							
DC employer contributions	0.00 %	1.00 %	1.00 %	3.00 %	4.00 %	4.00 %	0.00 %
Personal Healthcare Fund	0.00 %	0.00 %	2.00 %	2.00 %	0.00 %	2.00 %	2.00 %

* First worked September 4, 2012 or later

Depending on the plan selected, plan member contributions range from 0 percent up to 7.0 percent of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

The Academy's required and actual contributions to the plan for the years ended June 30, 2014, 2013, and 2012 were \$33,600, \$24,548, and \$22,768, respectively.

Note 11 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)

Postemployment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent or 20 percent for those not Medicare eligible of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate ranged from 8.18 percent to 9.11 percent of covered payroll for the period from July 1, 2013 through September 30, 2013, and from 5.52 percent to 6.45 percent of covered payroll for the period from October 1, 2013 through June 30, 2014, dependent upon the employee's date of hire and plan election as noted above. Members can choose to contribute 3 percent of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit, or they can elect not to pay the 3 percent contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date and create a 2 percent employer match into the employee's 401(k) account.

The Academy's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2014, 2013, and 2012 were \$10,681, \$13,988, and \$12,955, respectively.

Note 12 - Upcoming Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Academy is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the year ending June 30, 2015.

Required Supplemental Information

West Village Academy

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Revenue				
Local sources	\$ 4,477	\$ 7,426	\$ 7,501	\$ 75
State sources	3,229,515	3,383,583	3,367,106	(16,477)
Federal sources	654,501	926,040	900,657	(25,383)
Total revenue	3,888,493	4,317,049	4,275,264	(41,785)
Expenditures - Current				
Instruction:				
Basic program	1,197,546	1,428,287	1,395,146	(33,141)
Added needs	456,304	468,550	446,580	(21,970)
Total instruction	1,653,850	1,896,837	1,841,726	(55,111)
Support services:				
Pupil	228,419	221,176	219,700	(1,476)
Instructional staff	122,103	186,137	180,198	(5,939)
General administration	299,880	302,089	303,043	954
School administration	439,597	440,975	448,803	7,828
Business	10,215	40,560	12,754	(27,806)
Operations and maintenance	951,887	997,281	966,900	(30,381)
Pupil transportation services	129,016	135,455	157,308	21,853
Central	16,500	23,800	22,250	(1,550)
Total support services	2,197,617	2,347,473	2,310,956	(36,517)
Athletics	3,600	9,420	9,332	(88)
Community services	11,127	23,738	25,784	2,046
Other	-	2,400	-	(2,400)
Total expenditures	3,866,194	4,279,868	4,187,798	(92,070)
Excess of Revenue Over Expenditures	22,299	37,181	87,466	50,285
Other Financing Uses - Transfers out	(13,147)	(19,795)	(5,375)	14,420
Net Change in Fund Balance	9,152	17,386	82,091	64,705
Fund Balance - Beginning of year	254,659	254,659	254,659	-
Fund Balance - End of year	<u>\$ 263,811</u>	<u>\$ 272,045</u>	<u>\$ 336,750</u>	<u>\$ 64,705</u>