

Audited Financial Statements

Light of the World Academy

Pinckney, Michigan

June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Light of the World Academy

We have audited the accompanying financial statements of the governmental activities and major fund of the Light of the World Academy as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Light of the World 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Light of the World Academy as of June 30, 2017, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and the 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 Light of the World Academy's basic financial statements. The introductory section, and schedules of revenues and expenditures, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of revenues and expenditures are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of revenues and expenditures are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have 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 25, 2017, on our consideration of Light of the World 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 the effectiveness of Light of the World Academy's 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 Light of the World Academy's internal control over financial reporting and compliance.



Croskey Lanni, PC

**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 the Board of Directors
of Light of the World 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 and major fund of the Light of the World Academy, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Light of the World Academy's basic financial statements, and have issued our report thereon dated October 25, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Light of the World 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 Light of the World Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of Light of the World 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 Light of the World 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.



Croskey Lanni, PC

October 25, 2017
Rochester, Michigan

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Light of the World Academy’s, “LOTWA”, annual financial report presents our discussion and analysis of the school’s financial performance during the fiscal year that ended on June 30, 2017. Please read it in conjunction with the school’s financial statements, which immediately follow this section.

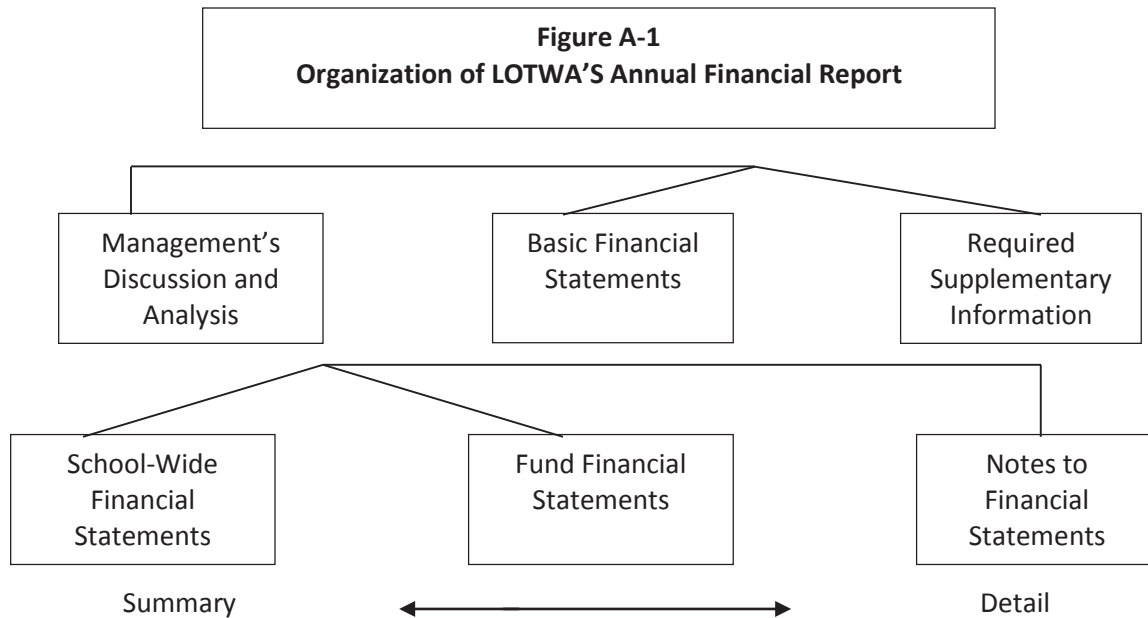
FINANCIAL HIGHLIGHTS

- ❖ The total cost of basic programs was \$676,536.
- ❖ Revenues were \$1,652,171 and expenditures were \$1,584,964 in the general fund.
 - Blended enrollment used for state aid purposes was 202.49.
- ❖ The school decreased its outstanding long term debt by \$31,800.
- ❖ The school increased its fund balance by \$67,207 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – the management’s discussion and analysis (this section), the basic financial statements and the required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy:

- The first two statements are school-wide financial statements that provide both short-term and long-term information about the school’s overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the school, reporting the schools operations in more detail.
- The governmental fund statements tell how basic services like regular and special education were financed.



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the school's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-2
Major Features of School-Wide and Fund Financial Statements

Fund Financial Statements			
	School-Wide Statements	Government Funds	Fiduciary Funds
Scope	Entire school (except fiduciary funds)	The activities of the school that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the school administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required Financial Statements	*Statement of net position *Statement of activities	*Balance sheet *Statement of revenues, expenditures and changes in fund balances	*Statement of fiduciary net position *Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when good or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the school's financial statements, including the portion of the school's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

SCHOOL-WIDE STATEMENTS

The school-wide statements report information about the school as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the school's assets, deferred outflows, liabilities, and deferred inflows. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two school-wide statements report the school's net position and how it has changed. Net position – the difference between the school's assets, deferred outflows, liabilities, and deferred inflows – are one way to measure the school's financial health or position.

- ❖ Over time, increases or decreases in the school's position is an indicator of whether its financial position is improving or deteriorating, respectively.
- ❖ To assess the overall health of the school, you need to consider additional non-financial factors such as changes in the school's enrollment and the condition of school buildings and other facilities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the school's funds, focusing on its most significant or "major" funds – not the school as a whole. Funds are accounting devices the school uses to keep track of specific sources of funding and spending on particular programs:

- ❖ *Governmental activities* – Most of the school's basic services are included in the general fund, such as regular and special education and administration. State foundation aid finances most of these activities.
- ❖ The school establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues.

The school has one kind of fund:

- ❖ *Governmental funds* – Most of the school's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the school's programs. Because this information does not encompass the additional long-term focus of the school-wide statements, we provide additional information with governmental funds statements that explains the relationship (or differences) between them.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

The school's financial position is the product of many factors. This is the Academy's second year operating as a charter school. For the fiscal year ended June 30, 2017, the school increased fund balance by \$67,207 due to careful planning and conservative budgeting. Continued planning and consideration will be given going forward to ensure the school can continue to build fund balance.

School Governmental

Enrollment at LOTWA is steady which will assist in maintaining and growing fund balance in the future.

General Fund Budgetary Analysis

Over the course of the year, the school reviewed the annual operating budget several times and amended it twice. The following operational changes were made:

- ❖ Significant changes were made to account for final enrollment counts and changes in assumptions since the original budget was adopted. The original budget also did not have the proper breakdown of costs.

Financial Outlook

Light of the World Academy's financial forecast is optimistic heading into the 2017/2018 school year. This is partly due to the following:

- ❖ There is additional room to grow enrollment in the future. There is continued student interest as the school is looking to expand. Current estimated student counts are greater than those as of June 30, 2017.
- ❖ School leadership is stable and budget conscious. All expenditures are reviewed carefully against the budget.
- ❖ A new financial leadership team was put into place during the year ended June 30, 2017. Additional controls and more regular monitoring of financial transactions has and will continue to help improve the school's financial health.

Figure A-3
Light of the World Academy's Net Position

	2017	2016
Current assets	\$ 390,703	\$ 208,674
Capital assets, net	307,121	299,917
Total assets	697,824	508,591
Current liabilities	311,292	164,730
Long-term debt, long-term portion	598,967	662,507
Total liabilities	910,259	827,237
Net position:		
Net investments in capital assets	(323,586)	(362,590)
Unrestricted	111,151	43,944
Total net position	<u>\$ (212,435)</u>	<u>\$ (318,646)</u>

Figure A-4
Changes in Light of the World Academy's Net Position

	2017	2016
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 130,231	\$ 11,612
General revenues:		
State aid - unrestricted	1,512,904	995,803
Other	9,036	36,112
Total general revenues	1,521,940	1,031,915
Total revenues	1,652,171	1,043,527
Expenses:		
Instruction	726,558	574,873
Support services	756,260	782,217
Unallocated depreciation	6,078	5,083
Unallocated interest	57,064	-
Total expenses	1,545,960	1,362,173
Change in net position	<u>\$ 106,211</u>	<u>\$ (318,646)</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2017, the school had invested \$307,121 in capital assets, including the building, furniture, computers and software, net of accumulated depreciation. (More detailed information about capital assets can be found in Note 5 to the financial statements.) The Academy's capital assets are as follows:

Figure A-5
Light of the World Academy's Capital Assets

	Balance June 30, 2017	Balance June 30, 2016
Building	\$ 305,000	\$ 305,000
Furniture	11,664	-
Technology	1,618	-
	<hr/>	<hr/>
Total cost	318,282	305,000
	<hr/>	<hr/>
Less accumulated depreciation	11,161	5,083
	<hr/>	<hr/>
Net book value	<u>\$ 307,121</u>	<u>\$ 299,917</u>

The school's fiscal year 2018 budget anticipates around \$45,000 in capital expenditures.

Long-Term Debt

The school is currently making payments on the building which was purchased in May, 2016. Final payments are anticipated in 2021.

FACTORS BEARING ON THE SCHOOL'S FUTURE

- ❖ Improvement of enrollment trends
- ❖ Stabilized leadership and staffing

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our students, parents and creditors with a general overview of the school's finances and to demonstrate the school's accountability for the money it receives. If you have questions about this report or need additional information, contact the school's office at:

Light of the World Academy, 550 E. Hamburg St, Pinckney, MI 48169

LIGHT OF THE WORLD ACADEMY

STATEMENT OF NET POSITION JUNE 30, 2017

ASSETS AND DEFERRED OUTFLOWS

Current Assets

Cash	\$ 99,511
Due from other governmental units	287,226
Prepaid expenses	<u>3,966</u>
Total current assets	390,703

Capital Assets - Net of Accumulated Depreciation

307,121

Total assets and deferred outflows	<u><u>\$ 697,824</u></u>
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LIABILITIES, DEFERRED INFLOWS AND NET POSITION

Current Liabilities

Accounts payable	\$ 79,151
Notes payable	106,500
Unearned revenue	4,455
Other accrued expenses	89,446
Long-term debt - current portion	<u>31,740</u>
Total current liabilities	311,292

Long-Term Debt - Long-Term Portion

598,967

Net Position

Net investment in capital assets	(323,586)
Unrestricted	<u>111,151</u>
Total net position	<u>(212,435)</u>
Total liabilities, deferred inflows and net position	<u><u>\$ 697,824</u></u>

See accompanying notes to financial statements

LIGHT OF THE WORLD ACADEMY

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2017

		Program Revenues		Net (Expense) Revenues and Changes in Net Position
	Expenses	Charges for Services	Operating Grants	Government Type Activities
Functions				
Instruction				
Basic programs	\$ 676,536	\$ -	\$ 11,553	\$ (664,983)
Added needs	50,022	-	32,556	(17,466)
Support services				
Pupil support services	86,122	-	86,122	-
Instructional staff support services	2,343	-	-	(2,343)
General administration	248,293	-	-	(248,293)
School administration	137,850	-	-	(137,850)
Business support services	51,813	-	-	(51,813)
Operations and maintenance	120,399	-	-	(120,399)
Central support services	65,426	-	-	(65,426)
Prior period adjustments	44,014	-	-	(44,014)
Unallocated depreciation	6,078	-	-	(6,078)
Unallocated interest	57,064	-	-	(57,064)
Total primary government	<u>\$ 1,545,960</u>	<u>\$ -</u>	<u>\$ 130,231</u>	<u>(1,415,729)</u>
General Purpose Revenues				
State school aid - unrestricted				1,512,904
Miscellaneous revenues				<u>9,036</u>
Total general purpose revenues				<u>1,521,940</u>
Change in net position				106,211
Net position - July 1, 2016				<u>(318,646)</u>
Net position - June 30, 2017				<u>\$ (212,435)</u>

See accompanying notes to financial statements

LIGHT OF THE WORLD ACADEMY

COMBINED BALANCE SHEET – ALL GOVERNMENTAL FUNDS JUNE 30, 2017

ASSETS

Cash	\$	99,511
Due from other governmental units		287,226
Prepaid expenses		<u>3,966</u>
Total assets	\$	<u><u>390,703</u></u>

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$	79,151
Notes payable		106,500
Unearned revenue		4,455
Other accrued expenses		<u>89,446</u>
Total liabilities		279,552

Fund Balance

Nonspendable		3,966
Unassigned		<u>107,185</u>
Total fund balance		<u>111,151</u>
Total liabilities and fund balance	\$	<u><u>390,703</u></u>

See accompanying notes to financial statements

LIGHT OF THE WORLD ACADEMY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES JUNE 30, 2017

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

Total Governmental Fund Balances	\$ 111,151
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$318,282 and the accumulated depreciation is \$11,161.	307,121
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(630,707)</u>
Net Position of Governmental Activities	<u><u>\$ (212,435)</u></u>

See accompanying notes to financial statements

LIGHT OF THE WORLD ACADEMY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – ALL GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2017

Revenues

Local sources	\$ 9,036
State sources	1,580,709
Federal sources	14,353
Interdistrict sources	<u>48,073</u>
Total governmental fund revenues	1,652,171

Expenditures

Instruction	
Basic programs	676,536
Added needs	50,022
Support services	
Pupil support services	86,122
Instructional staff support services	2,343
General administration	248,293
School administration	137,850
Business support services	51,813
Operations and maintenance	120,399
Central support services	65,426
Prior period adjustments	44,014
Capital outlay	13,282
Debt principal and interest	<u>88,864</u>
Total governmental fund expenditures	<u>1,584,964</u>

Excess (deficiency) of revenues over expenditures	67,207
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Fund balance - July 1, 2016	<u>43,944</u>
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Fund balance - June 30, 2017	<u><u>\$ 111,151</u></u>
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See accompanying notes to financial statements

LIGHT OF THE WORLD ACADEMY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2017

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

Net Change in Fund Balances - Total Governmental Funds	\$	67,207
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation and amortization expense. This is the amount by which capital outlays exceeded depreciation and amortization in the current period.

Capital outlay	\$	13,282	
Depreciation and amortization expense		<u>(6,078)</u>	7,204

The governmental funds report loan proceeds as an other financing source, while repayment of loan principal is reported as an expenditure. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of general loan obligations is as follows:

Repayment of loan principal		<u>31,800</u>
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Change in Net Position of Governmental Activities	\$	<u>106,211</u>
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LIGHT OF THE WORLD ACADEMY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Light of the World Academy (the “Academy”) conform to generally accepted accounting principles applicable to public school academies. The following is a summary of the significant accounting policies:

Reporting Entity

Light of the World Academy was formed as a public 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 filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, and began operation in July, 2015.

In July 2015, the Academy entered into a seven year contract, expiring June 30, 2022, with Grand Valley State University’s Board of Control 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 University’s Board of Control 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 Grand Valley State University’s Board of Control three percent of state aid as administrative fees. Total administrative fees paid for the year ended June 30, 2017 were approximately \$45,400.

In April 2015, the Academy entered into an agreement with GPS Solutions, LLC (GPS) to run concurrently with the authorizer agreement. Under the terms of this agreement, GPS provides a variety of services including educational programs and consulting as well as human resources and teacher training. The total paid for these services amounted to approximately \$110,650 for the year ended June 30, 2017.

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

Fund Financial Statements

Fund financial statements report detailed information about the Academy. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The Academy did not have any non-major funds as of June 30, 2017.

Basis of Presentation – Fund Accounting

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

LIGHT OF THE WORLD ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Governmental Funds

A governmental fund is a fund through which most Academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through a governmental fund.

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

Governmental and agency funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within sixty days of the end of the current fiscal period.
- b. Payments for inventorable types of supplies, which are not significant at year end, are recorded as expenditures at the time of purchase.
- c. Principal and interest of general long-term debt are not recorded as expenditures until their due dates.
- d. The State of Michigan utilizes a foundation allowance funding approach, which provides for specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law. A major portion of the Academy's revenue is derived from this state aid. As such, the Academy is considered to be economically dependent on this aid. The Academy's existence is dependent upon qualification for such aid.

Government-Wide 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 non-fiduciary activities of the primary government. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationships between the government-wide statements and the statements for governmental funds.

LIGHT OF THE WORLD ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The government-wide Statement of Activities presents a comparison between expenses and program revenues for each segment of the business-type activities of the Academy and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are, therefore, clearly identifiable to a particular function. The Academy does not allocate indirect expenses to programs. In creating the government-wide financial statements the Academy has eliminated inter-fund transactions. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or function is self financing or draws from the general revenues of the Academy. When both restricted and unrestricted resources are available for use, it is the Academy's policy to use restricted resources first.

Net position should be reported as restricted when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The Academy first utilizes restricted resources to finance qualifying activities.

Cash and Cash Equivalents

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition. The Academy reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and GASB No. 40, Deposit and Investment Risk Disclosures.

Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity. The Academy held no investments during the year ended June 30, 2017. State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, saving accounts, deposit accounts, and or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Corporation or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or Federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Receivables

Receivables at June 30, 2017 consist primarily of state school aid due from the State of Michigan and the federal government. All receivables are expected to be fully collected in July and August of 2017 and are considered current for the purposes of these financial statements.

LIGHT OF THE WORLD ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Prepaid Assets

Payments made to vendors for services that will benefit periods beyond June 30, 2017, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

Capital Assets and Depreciation

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions or retirements during the year. The Academy follows the policy of not capitalizing assets with a useful life of less than one year. The Academy does not possess any infrastructure assets.

All reported capital assets, with the exception of land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Building and improvements	10 – 50 years
Furniture and equipment	5 – 15 years
Computers and software	3 – 10 years

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the non-current portion of capital leases that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

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.

LIGHT OF THE WORLD ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Equity

The Academy has adopted GASB 54 as part of its fiscal year reporting. The intention of the GASB 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 to 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.

- a. *Restricted fund balance* – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- b. *Committed fund balance* – amounts constrained to specific purposes by the Board; to be reported as committed, amounts cannot be used for any other purpose unless the Board takes action to remove or change the constraint.
- c. *Assigned fund balance* – amounts the Board intends to use for a specific purpose; intent can be expressed by the Board or by an official or committee to which the Board delegates the authority.
- d. *Unassigned fund balance* – amounts that are available for any purpose; these amounts are reported only in the general fund.

The Academy follows the policy that restricted, committed, or assigned amounts will be considered to have been spent when an expenditure is incurred for purposes for which both unassigned and restricted, committed or assigned fund balances are available. There are no governmental funds with a deficit.

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 those estimates.

LIGHT OF THE WORLD ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a consistent basis with accounting principles generally accepted in the United States of America and state law for the general fund. All annual appropriations lapse at fiscal year end and encumbrances are not formally recorded.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. The Academy is required by law to adopt a general fund budget. During the year ended June 30, 2017 the budget was amended in a legally permissible manner. The Academy incurred expenditures in certain budgetary functions in excess of the amounts appropriated for the year ended June 30, 2017 as detailed on page 18 of these financial statements, however, total expenditures were less than board approved appropriations. The budget statement differs from the presentation used in the fund level statements due to the presentation of capital outlay amount on a functional basis.

NOTE 3 - DEPOSITS AND INVESTMENTS

Interest Rate Risk

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

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2017, the Academy held no investments.

Concentration of Credit Risk

The Academy will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2017, none of the Academy's cash was exposed to custodial credit risk. All cash balances were uncollateralized as of June 30, 2017.

LIGHT OF THE WORLD ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 3 - DEPOSITS AND INVESTMENTS – Continued

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Academy will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Academy will do business.

Foreign Currency Risk

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

Fair Value

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Academy has the ability to access.
- b. Level 2 inputs are inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly.
- c. Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The observable inputs should be developed based on the best information available in the circumstances and may include the Academy's own data.)

The Academy does not have any investments that are subject to the fair value measurement.

LIGHT OF THE WORLD ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 4 – DUE FROM OTHER GOVERNMENTAL UNITS

Amounts due from other governmental units consist of the following:

State sources	\$	284,121
Federal sources		<u>3,105</u>
Total	\$	<u><u>287,226</u></u>

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2016	Additions	Disposals	Balance June 30, 2017
Capital assets subject to depreciation				
Building	\$ 305,000	\$ -	\$ -	\$ 305,000
Furniture	-	11,664	-	11,664
Technology	-	1,618	-	1,618
Sub-total	305,000	13,282	-	318,282
Accumulated depreciation				
Building	5,083	3,715	-	8,798
Furniture	-	2,093	-	2,093
Technology	-	270	-	270
Sub-total	5,083	6,078	-	11,161
Total net capital assets	<u>\$ 299,917</u>	<u>\$ 7,204</u>	<u>\$ -</u>	<u>\$ 307,121</u>

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

LIGHT OF THE WORLD ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued FOR THE YEAR ENDED JUNE 30, 2017

NOTE 6 – NOTES PAYABLE

Notes payable as of June 30, 2017 can be summarized as follows:

Loan Information

	Interest Rate	Maturity Date	Other
SAAN 15/16	9.90%	August, 2016	Paid in full
SAAN 16/17	6.50%	August, 2017	Issued to provide Academy with funds to finance school operations before first state aid payment is received; secured by future state aid payments

Loan Activity

	Balance July 1, 2016	Additions	Retirements and Payments	Balance June 30, 2017
SAAN 15/16	\$ 45,265	\$ -	\$ 45,265	\$ -
SAAN 16/17	-	426,000	319,500	106,500
Totals	<u>\$ 45,265</u>	<u>\$ 426,000</u>	<u>\$ 364,765</u>	<u>\$ 106,500</u>

NOTE 7 – OTHER ACCRUED EXPENSES

Other accrued expenses can be summarized as follows:

Purchased services	\$ 79,033
University oversight fee	8,269
Interest	<u>2,144</u>
Total other accrued expenses	<u>\$ 89,446</u>

LIGHT OF THE WORLD ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 8 - LONG-TERM OBLIGATIONS PAYABLE

The following is a summary of long-term obligations for the Academy during the year ended June 30, 2017:

Loan Information

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Other</u>
Loan 1	6.50%	May, 2021	Payable monthly at \$3,568. Secured by Academy building.
Loan 2	6.50%	May, 2021	Principal payments monthly at \$1,583. Secured by Academy building.

Loan Activity

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Retirements and Payments</u>	<u>Balance June 30, 2017</u>	<u>Due Within One Year</u>
Loan 1	\$ 474,090	\$ -	\$ 12,809	\$ 461,281	\$ 12,740
Loan 2	188,417	-	18,991	169,426	19,000
	<u>\$ 662,507</u>	<u>\$ -</u>	<u>\$ 31,800</u>	<u>\$ 630,707</u>	<u>\$ 31,740</u>

Following are maturities of long-term obligations for principal and interest for the next four years and in total:

	<u>Principal</u>	<u>Interest</u>
2018	\$ 31,740	\$ 40,672
2019	32,606	46,052
2020	33,451	36,477
2021	532,910	31,333
	<u>\$ 630,707</u>	<u>\$ 154,534</u>

LIGHT OF THE WORLD ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 9 - RISK MANAGEMENT

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

SUPPLEMENTARY INFORMATION

LIGHT OF THE WORLD ACADEMY

REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2017

	Original Budget	Final Budget	Actual	Variance
Revenues				
Local sources	\$ -	\$ 7,466	\$ 9,036	\$ 1,570
State sources	1,502,200	1,579,709	1,580,709	1,000
Federal sources	115,064	18,500	14,353	(4,147)
Interdistrict sources	-	48,073	48,073	-
Total general fund revenues	1,617,264	1,653,748	1,652,171	(1,577)
Expenditures				
Instruction				
Basic programs	822,575	724,210	689,014	(35,196)
Added needs	175,000	59,150	50,022	(9,128)
Support services				
Pupil support services	91,530	99,000	86,122	(12,878)
Instructional staff support services	-	2,343	2,343	-
General administration	263,084	246,691	248,293	1,602
School administration	-	144,200	137,850	(6,350)
Business support services	42,000	53,000	51,813	(1,187)
Operations and maintenance	121,252	133,600	121,203	(12,397)
Central support services	22,000	66,215	65,426	(789)
Prior period adjustments	-	42,359	44,014	1,655
Debt principal and interest	66,808	92,000	88,864	(3,136)
Total general fund expenditures	1,604,249	1,662,768	1,584,964	(77,804)
Excess (deficiency) of revenues over expenditures	13,015	(9,020)	67,207	76,227
Fund balance - July 1, 2016	43,944	43,944	43,944	-
Fund balance - June 30, 2017	\$ 56,959	\$ 34,924	\$ 111,151	\$ 76,227

LIGHT OF THE WORLD ACADEMY

SCHEDULE OF REVENUES – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2017

Local Sources

Other local revenues	\$ 9,036
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State Sources

At risk	11,553
Special education	56,252
State aid	<u>1,512,904</u>

Total state sources	1,580,709
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Federal Sources

Title I	14,353
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Interdistrict Sources

<u>48,073</u>

Total general fund revenues	<u><u>\$ 1,652,171</u></u>
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LIGHT OF THE WORLD ACADEMY

SCHEDULE OF EXPENDITURES – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2017

Basic Programs

Purchased services	\$ 663,022
Supplies and materials	12,279
Other expenditures	<u>1,235</u>
Total basic programs	676,536

Added Needs

Purchased services	49,816
Supplies and materials	<u>206</u>
Total added needs	50,022

Pupil Support Services

Psychological services	3,200
Speech pathology and audiology	52,884
Social work services	<u>30,038</u>
Total pupil support services	86,122

Instructional Staff Support Services

Purchased services	2,343
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General Administration

Purchased services	89,368
Management fees	110,650
University oversight	45,387
Supplies and materials	<u>2,888</u>
Total general administration	248,293

School Administration

Purchased services	117,181
Rentals	12,632
Supplies and materials	4,298
Other expenditures	<u>3,739</u>
Total school administration	137,850

LIGHT OF THE WORLD ACADEMY

SCHEDULE OF EXPENDITURES – GENERAL FUND - Continued FOR THE YEAR ENDED JUNE 30, 2017

Business Support Services

Purchased services	51,813
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Operations and Maintenance

Purchased services	53,156
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Repairs and maintenance	19,828
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Supplies and materials	47,415
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Total operations and maintenance	120,399
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Central Support Services

Purchased services	30,042
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Supplies and materials	35,384
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Total central support services	65,426
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Prior Period Adjustments

44,014

Capital Outlay

13,282

Debt Principal and Interest

88,864

Total general fund expenditures	\$ 1,584,964
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LIGHT OF THE WORLD ACADEMY

SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2017

1) *Audit findings that have been fully corrected:*

Fiscal Year: 2016

Finding Number: 2016-001

Finding: For the year ended June 30, 2016, there were numerous errors within the general ledger originally provided by the Academy.

Comments: The Academy hired a new financial team during 2016-2017 in order to ensure the books and records are kept accurately and timely.

Fiscal Year: 2016

Finding Number: 2016-002

Finding: For the year ended June 30, 2016, the Academy's expenses exceeded the final budgeted level in a number of line items.

Comments: The Academy hired a new financial team during 2016-2017 that monitors the budget in real time and makes amendments when necessary.

Fiscal Year: 2016

Finding Number: 2016-003

Finding: For the year ended June 30, 2016, the Academy's audit report was not submitted on a timely basis.

Comments: The Academy hired a new financial team during 2016-2017 and has ensured timely submission of the Academy's audit report.

2) *Audit findings not corrected or partially corrected:*

None