



Light of the World Academy
Audited Financial Statements

June 30, 2020

Prepared by Taylor & Morgan, P.C.

2302 Stonebridge Drive, Bldg. D | Flint, MI 48532 | 810.230.8200

3150 Livernois Road, Suite 175 | Troy, MI 48083 | 248.688.9399

1213 W. Morehead St. | Charlotte, NC 28208 | 704.926.7570

www.tmcpa.com

Light of the World Academy
Table of Contents

| | <u>Page</u> |
|--|-------------|
| <u>Financial Section</u> | |
| Independent Auditor's Report | 1-2 |
| Management's Discussion & Analysis | 3-5 |
| Basic Financial Statements: | |
| Government-Wide Financial Statements: | |
| Statement of Net Position | 6 |
| Statement of Activities | 7 |
| Fund Financial Statements: | |
| Balance Sheet-Governmental Funds | 8 |
| Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities | 9 |
| Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds | 10 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 11 |
| Notes to the Basic Financial Statements | 12-19 |
| Required Supplemental Information: | |
| Budgetary Comparison Schedule - General Fund | 20 |
| Other Information | |
| Independent Auditors' 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 | 21-22 |

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Light of the World Academy

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Light of the World Academy as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Light of the World Academy as of June 30, 2020, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

FLINT, MI OFFICE

G-2302 STONEBRIDGE DR., BUILDING D,
FLINT, MICHIGAN 48532

CHARLOTTE, NC OFFICE

1213 W. MOREHEAD ST.
CHARLOTTE, NC 28208

TROY, MI OFFICE

3150 LIVERNOIS RD., SUITE 175
TROY, MI 48083

OFFICE # (810) 230-8200 FAX # (810) 230-8203 OFFICE # (704) 926-7570 FAX # (704) 247-6433 OFFICE # (248) 688-9399 FAX # (248) 688-9397

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3–5 and 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2020, on our consideration of the 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 solely 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 the 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 the Light of the World Academy's internal control over financial reporting and compliance.

Taylor & Morgan, P.C.

Taylor & Morgan, P.C.
Flint, Michigan
Certified Public Accountants

October 15, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS
(MD & A)

LIGHT OF THE WORLD ACADEMY MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Light of the World Academy's (the Academy) annual financial report presents our discussion and analysis of the school's financial performance during the fiscal year that ended on June 30, 2020. Please read it in conjunction with the school's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- Government-wide revenues were at \$2,081,203 while expenditures were \$1,980,521.
- At June 30, 2020, the Academy's net assets exceeded its liabilities by \$206,835.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of a series of financial statements that show information for the Academy as a whole and for its funds. The Statement of Net Position and the Statement of Activities provide information about the activities of the Academy as a whole and presents a longer-term view of the Academy's finances. Our fund financial statements are included later in the financial report. For our governmental activities, these statements tell how we financed our services in the short-term as well as what remains for future spending. Fund statements may give you some insights into the Academy's overall financial health. Fund financial statements also report operations in more detail than the government-wide financial statements by providing information about the general fund.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are reported in compliance with GASB 34. These statements present information on the Academy's finances in a manner similar to private sector businesses. One of the most important questions asked about the Academy is, "Is the Academy as a whole better off or worse off financially as a result of the year's activities?" The Statement of Net Position and Statement of Activities report information on the Academy as a whole and its activities in a way that helps answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position shows assets and liabilities, with the difference between the two reported as net position. All capital assets and long-term liabilities are shown in the Statement of Net Position.

The Statement of Activities shows revenues, expenses, and the change in net position for the Academy as a whole. Revenues and expenses attributable to specific functions are segregated from general revenues, to display the extent to which program revenues support each function.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Total assets, liabilities and net position for the year ended June 30, 2020, were as follows:

| | 2020 | 2019 |
|----------------------------|-------------|-------------|
| Assets | | |
| Current and Other Assets | \$ 657,385 | \$ 513,027 |
| Capital Assets, net | 394,160 | 406,992 |
| Total Assets | 1,051,545 | 920,019 |
| Liabilities | | |
| Current Liabilities | 270,920 | 206,815 |
| Long-Term Liabilities | 573,790 | 607,051 |
| Total Liabilities | 844,710 | 813,866 |
| Net Position | | |
| Investment in Fixed Assets | 394,160 | 406,992 |
| Unrestricted (Deficit) | (187,325) | (300,839) |
| Total Net Position | \$ 206,835 | \$ 106,153 |

The Academy's revenues and expenses were as follows:

| | 2020 | 2019 |
|------------------------------------|--------------|--------------|
| Revenues | | |
| State School Aid - Unrestricted | \$ 1,802,889 | \$ 1,790,338 |
| Operating Grants and Contributions | 143,612 | 135,887 |
| Miscellaneous Income | 134,702 | 124,048 |
| Total Revenues | 2,081,203 | 2,050,273 |
| Expenditures | | |
| Instructional | 1,016,132 | 946,773 |
| Support Services | 888,305 | 884,264 |
| Interest on Long Term Debt | 23,219 | 53,907 |
| Unallocated Depreciation | 52,865 | 36,851 |
| Total expenditures | 1,980,521 | 1,921,795 |
| Change in Net Position | 100,682 | 128,478 |
| Beginning Net Position (Deficit) | 106,153 | (22,325) |
| Ending Net Position | \$ 206,835 | \$ 106,153 |

ANALYSIS OF OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS

During the year ended June 30, 2020, the Academy's revenues of \$2,081,203 exceeded its expenses of \$1,980,521 by \$100,682, ending the year with a net position balance of \$206,835. Per pupil funding and student enrollment are the primary factors in determining the revenue and expenses for the Academy. The student count for the year ended June 30, 2020 was 228 students, with no increase or decrease from the prior year. The Academy's per-pupil state aid allowance was approximately \$8,111.

FUND FINANCIAL STATEMENTS

Governmental funds account for the same functions as are reported as governmental activities in the government-wide financial statements. Governmental fund reporting focuses on how money flows in and out of funds and the balances left at year end that are available for spending. They are reported using the accounting method called “modified accrual” accounting, which measures cash and all other financial assets that can be readily converted to cash. This information is essential for preparation of and compliance with annual budgets. 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 reconciliations following the fund statements. The notes to the financial statements provide additional information that is essential to a complete understanding of the data provided in the financial statements.

BUDGET VARIATIONS

Actual revenue exceeded budgeted revenue by \$124,920, and budgeted expenses exceeded actual amounts by \$39,867. Budgeted other financing sources and uses exceeded actual amounts by \$975. This resulted in actual fund balance exceeding budgeted fund balance amounts by \$165,762.

CAPITAL ASSETS

The Academy had \$394,160 invested in capital assets, net of depreciation, at June 30, 2020. Please refer to the notes to the basic financial statements for further information.

OUTSTANDING DEBT AT YEAR END

At June 30, 2020, the Academy had \$533,218 in long-term debt owed Bank Michigan. Please refer to the notes to the basic financial statements for more information

At June 30, 2020, the Academy had \$40,573 in long-term lease payments owed to Wells Fargo Bank. Please refer to the notes to the basic financial statements for more information

REQUESTS FOR INFORMATION

Our financial report is designed to provide our parents, teachers, students, investors and creditors with an overview of the Academy’s finances. If you have any questions about this report or need any clarification of information please contact the Light of the World Academy offices, located at:

Light of the World Academy
550 E. Hamburg St
Pinckney, MI 48169
P: 734-720-9760
F: 734-720-9763

BASIC FINANCIAL STATEMENTS

LIGHT OF THE WORLD ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2020

| | | | Governmental Activities |
|-------------------------|-------------------------------------|----|----------------------------|
| Assets | | | |
| | Cash and Cash Equivalents | \$ | 333,316 |
| | Due from Other Governmental Units | | 314,768 |
| | Accounts Receivable | | 560 |
| | Prepaid Items | | 8,741 |
| | Capital Assets Net of Depreciation | | 394,160 |
| | Total Assets | | 1,051,545 |
| Liabilities | | | |
| | Accounts Payable | | 75,554 |
| | Due to Educational Service Provider | | 31,209 |
| | State Aid Anticipation Note Payable | | 37,536 |
| | Accrued Expenses | | 124,767 |
| | Advances from Grantors | | 1,854 |
| | Long Term Liabilities | | |
| | Due in less than one year | | 560,080 |
| | Due in more than one year | | 13,710 |
| | Total Liabilities | | 844,710 |
| Net Position | | | |
| | Investment in Fixed Assets | | 394,160 |
| | Unrestricted (Deficit) | | (187,325) |
| | Total Net Position | \$ | 206,835 |

See accompanying notes to basic financial statements

LIGHT OF THE WORLD ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

| | | Program Revenues | | | |
|-------------------------------|--------------|-------------------------|--|----|--|
| Expenses | | Charges for Services | Operating Grants and Contributions | | Net (Expense) Revenue and Changes in Net Position |
| Functions/Programs | | | | | |
| Governmental Activities | | | | | |
| Instruction | \$ 1,016,132 | \$ - | \$ 143,612 | \$ | (872,520) |
| Support Services | 888,305 | - | - | | (888,305) |
| Interest on Long Term Debt | 23,219 | - | - | | (23,219) |
| Unallocated Depreciation | 52,865 | - | - | | (52,865) |
| Total Governmental Activities | \$ 1,980,521 | \$ - | \$ 143,612 | | (1,836,909) |
| General Purpose Revenues | | | | | |
| | | | | | 1,802,889 |
| | | | | | 134,702 |
| | | | Total General Revenue | | 1,937,591 |
| | | | | | 100,682 |
| | | | | | 106,153 |
| | | | | | \$ 206,835 |

See accompanying notes to basic financial statements

LIGHT OF THE WORLD ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2020

| | General Fund |
|-------------------------------------|-----------------|
| Assets | |
| Cash and Cash Equivalents | \$ 333,316 |
| Due from Other Governmental Units | 314,768 |
| Accounts Receivable | 560 |
| Prepaid Items | 8,741 |
| Total Assets | \$ 657,385 |
| Liabilities and Fund Balance | |
| Current Liabilities | |
| Accounts Payable | \$ 75,554 |
| Due to Educational Service Provider | 31,209 |
| State Aid Anticipation Note Payable | 37,536 |
| Accrued Expenses | 124,767 |
| Advances from Grantors | 1,854 |
| Total Current Liabilities | 270,920 |
| Fund Balance | |
| Non-spendable | 8,741 |
| Unassigned | 377,724 |
| Total Fund Balance | 386,465 |
| Total Liabilities and Fund Balance | \$ 657,385 |

See accompanying notes to basic financial statements

LIGHT OF THE WORLD ACADEMY
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2020

| | | |
|----------------------------------|----|---------|
| Total Governmental Fund Balances | \$ | 386,465 |
|----------------------------------|----|---------|

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

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

| | | | |
|--------------------------|----|------------------|---------|
| Cost of Capital Assets | \$ | 514,594 | |
| Accumulated Depreciation | | <u>(120,434)</u> | |
| | | | 394,160 |

Long-term liabilities, including capital leases payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

| | | |
|------------------------|--|------------------|
| Long-Term Note Payable | | <u>(573,790)</u> |
|------------------------|--|------------------|

| | | |
|--|----|-----------------------|
| Total Net Position - Governmental Activities | \$ | <u><u>206,835</u></u> |
|--|----|-----------------------|

See accompanying notes to basic financial statements

LIGHT OF THE WORLD ACADEMY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2020

| | General Fund |
|--|-----------------|
| Revenues | |
| Local Sources | \$ 134,702 |
| State Sources | 1,916,268 |
| Federal Sources | 30,233 |
| Total Revenues | 2,081,203 |
| Expenditures | |
| Instruction | |
| Basic Programs | 894,410 |
| Added Needs | 121,722 |
| Total Instruction | 1,016,132 |
| Support Services | |
| Compensatory Education | 17,168 |
| Pupil Services | 106,571 |
| Board of Education | 11,942 |
| General Administration | 330,791 |
| School Administration | 140,358 |
| Business Services | 84,294 |
| Operation and Maintenance | 148,852 |
| Central Services | 27,893 |
| Technology | 60,470 |
| Total Support Services | 928,339 |
| Debt Service | 82,626 |
| Total Expenditures | 2,027,097 |
| Excess/(Deficiency) of Revenues Over/(Under) Expenditures | 54,106 |
| Other Financing Sources/(Uses) Proceeds from Long-Term Note | 26,147 |
| Excess of Revenues Over/(Under) Expenditures and Other Financing Sources/(Uses) | 80,253 |
| Fund Balance - July 1 | 306,212 |
| Fund Balance - June 30 | \$ 386,465 |

See accompanying notes to basic financial statements

LIGHT OF THE WORLD ACADEMY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

Total Net Change in Fund Balances - Governmental Funds \$ 80,253

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

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

| | | |
|----------------------|--------------------|-----------------|
| Capitalized Assets | 40,034 | |
| Depreciation Expense | \$ <u>(52,865)</u> | <u>(12,831)</u> |

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 effect of these differences in the treatment of general loan obligations is as follows:

| | | |
|-----------------------------|--|---------------|
| Loan Proceeds | | (26,147) |
| Repayment of Loan Principal | | <u>59,407</u> |

Change in Net Position of Governmental Activities \$ 100,682

NOTES TO FINANCIAL STATEMENTS

LIGHT OF THE WORLD ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 1 - Summary of 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 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 per-pupil state aid as administrative fees. Total administrative fees paid for the year ended June 30, 2020 were \$54,087.

In April 2014, the Academy entered into an agreement with GPS Solutions, LLC ("GPS"). Under the terms of this agreement, GPS provides a variety of services including management, curriculum, educational programs and teacher training. The total paid for these services was \$191,627 for the year ended June 30, 2020.

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The Academy receives funding from local, state, and federal government sources and must comply with the accompanying requirements of these funding source entities. However, the Academy is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Directors has decision-making authority, the authority to determine its budget, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters.

Basic Financial Statements – Government-Wide Statements

The Academy's basic financial statements include both government-wide (reporting the Academy as a whole) and fund financial statements (reporting the Academy's major fund). The government-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

In the Government-Wide Statement of Net Position, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net position is reported in two parts: invested in capital assets net of related debt and unrestricted net position. The Academy first utilizes restricted resources to finance qualifying activities.

LIGHT OF THE WORLD ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 1 - Summary of Significant Accounting Policies (continued)

Basic Financial Statements – Government-wide Statements (continued)

The Government-Wide Statement of Activities reports both the gross and net cost of each of the Academy's functions. General government revenues (certain intergovernmental revenues, fines, permits and charges, etc.) also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (state and federal sources, interest income, etc.).

The Academy does not allocate indirect costs among the functional categories.

Basic Financial Statements - Fund Financial Statements

The accounts of the Academy are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon 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 one generic fund type in one broad fund category as follows:

Governmental Funds

Governmental funds are those funds 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 governmental funds.

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.

Basis of Accounting/Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified

LIGHT OF THE WORLD ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 1 - Summary of Significant Accounting Policies (continued)

Basis of Accounting/Measurement Focus/ Modified Accrual (continued)

accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt are recognized when due.

Those revenues susceptible to accrual are state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

Cash Equivalents and Investments – Cash and cash equivalents include amounts in demand deposits, sweep accounts, and certificate of deposits with original maturities less than three months. The Academy reports its investments in accordance with Governmental Accounting Standards Board (GASB) *Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and *No. 40, Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at 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. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), or National Credit Union Administration (NCUA), respectively; and in commercial paper rated at the time of purchase within the three highest classifications established by no 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, mutual funds composed of investments outlined above, and investment pools, as authorized by the surplus funds investment pool act, Act. No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by an academy.

Inventories - Items purchased for future use are recorded as inventory and charged to expenditure accounts when requisitioned for use. Inventory amounts were not material as of June 30, 2020.

Capital Assets - The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The Academy's policy is to capitalize assets with a cost that equals or exceeds \$1,000.

Depreciation on all assets is computed on the straight-line basis over the estimated useful lives as follows:

| | |
|-------------------------|---------------|
| Buildings and additions | 10 – 50 years |
| Furniture and equipment | 5 – 15 years |
| Computers and software | 3 – 10 years |

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

LIGHT OF THE WORLD ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 1 - Summary of Significant Accounting Policies (continued)

Economic Dependency – The Academy receives approximately 92% of its operating revenue from the State of Michigan.

Upcoming Accounting and Reporting Changes - Governmental Accounting Standards Board Statement No. 87, *Leases* increases the usefulness of the Academy's financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. A lessee will be required to recognize a lease liability and an intangible right-to-use- a lease asset, and a lessor will be required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the Academy's leasing activities. The requirements of the statement are effective for the fiscal year ending June 30, 2022. Management has not yet determined the potential effects of the new standard on the financial statements, if any.

Note 2 - Budget and Budgetary Accounting

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General, Special Revenue, and Debt Retirement Funds and an informational study of Capital Project Funds of academies prior to the expenditure of monies in a fiscal year.

The Board of Directors adopts appropriations utilizing the modified accrual basis of accounting for all governmental funds. The appropriation level adopted by the Board is the level of control authorized by the Act. The Act requires expenditures to be budgeted on a functional basis. The Academy is not considered to be in violation of the Act if reasonable procedures are in use by the Academy to detect violations.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Academy's Educational Service Provider ("ESP") submits to the Board of Directors a proposed budget by July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. The ESP is authorized to transfer budgeted amounts between functions within any fund with the approval of the Board of Directors; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Directors.
3. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting principles.
4. Budgeted amounts are as originally adopted, or as amended by the Board of Directors throughout the year. Individual amendments were not material in relation to the original appropriations, which were amended.
5. Appropriations lapse at year-end and, therefore, cancel all encumbrances. These appropriations are reestablished at the beginning of the following year.

LIGHT OF THE WORLD ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 2 - Budget and Budgetary Accounting (continued)

A schedule comparing actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Directors) for the General Fund is presented as required supplementary information.

Budgetary information

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. In the body of the financial statements, the Academy's actual and budgeted expenditures for the period have been shown as adopted by function on a modified accrual basis.

Excess of expenditures over appropriations in budgeted funds

During the year, the Academy incurred expenditures in the General Fund which were in excess of the amounts appropriated, as follows:

| <u>Budget Item</u> | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|------------------------|---------------|---------------|-----------------|
| General Administration | \$ 323,189 | \$ 330,791 | \$ 7,605 |
| Business Services | \$ 79,310 | \$ 84,294 | \$ 4,984 |
| Central Service | \$ 25,934 | \$ 27,893 | \$ 1,959 |

Note 3 - Cash and Investments

Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Academy's policy provides that to the extent practicable, investments are matched with anticipated cash flows. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities and are invested primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools.

Concentration of Credit Risk

This is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer. Cumulatively, portfolios of the Academy may not be invested in any given financial institution in excess of 5% of such institution's total assets. Additionally, no more than 5% of the total Academy portfolio may be placed with any single financial institution with the exception of repurchase agreements. U.S. government securities and 2a7-like investment pools are excluded from these restrictions.

Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits this exposure by mandating that the Academy's investments in commercial paper and corporate bonds be limited to those with a prime rating or better issued by nationally recognized statistical rating organizations (NRSROs).

LIGHT OF THE WORLD ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 3 - Cash and Investments (continued)

Custodial Credit Risk for Deposits

This is the risk that in the event of a bank failure, the Academy's deposits may not be returned or the Academy will not be able to recover collateral securities, if any, in the possession of an outside party. At June 30, 2020, the Academy had \$84,198 in deposit balances uninsured and uncollateralized.

Custodial Credit Risk for Investments

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. This risk is minimized by the Academy through limiting investments to those of a prime or better rating and pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors.

Foreign Currency Risk

This is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Academy is not authorized to invest in investments that would be subject to this type of risk.

Note 4 - Capital Assets

Changes in capital assets for the year ended June 30, 2019 were as follows:

| | <u>06/30/19</u> | <u>Additions</u> | <u>Disposals</u> | <u>06/30/20</u> |
|--------------------------------|-------------------|--------------------|------------------|-------------------|
| Building | \$ 351,681 | \$ 5,333 | \$ - | \$ 357,014 |
| Furniture | 47,998 | 7,175 | - | 55,173 |
| Technology | 68,632 | 27,526 | - | 96,158 |
| Vehicles | 6,250 | - | - | 6,250 |
| Less: Accumulated Depreciation | (67,569) | (52,865) | - | (120,434) |
| Net Capital Assets | <u>\$ 406,992</u> | <u>\$ (12,831)</u> | <u>\$ -</u> | <u>\$ 394,160</u> |

Depreciation expense for the year ended June 30, 2020 was \$52,865. Depreciation expense was not charged to activities as the District considers its assets to impact multiple activities and allocation is not practical.

Note 5 – Defined Benefit Pension Plan

The Academy does not participate in the Michigan Public School Employees' Retirement System (MPSERS). Therefore, no pension plan or other post-employment benefit disclosures are deemed necessary.

Note 6 - Fund Balance

Non-spendable, Restricted, Committed, Assigned and Unassigned

The Board of Directors adopts a budget each year that includes the appropriation of fund balance. Non-spendable fund balance represents assets that are not available in spendable form and are not expected to be converted to cash. The Academy had \$8,741 in non-spendable fund balance as of June 30, 2020.

Restricted fund balances are reported separately to show legal constraints from debt covenants and legislation that limits the Academy's ability to use that fund balance for day-to-day operations. The Academy had no amounts restricted at June 30, 2020. Committed fund balance represents constrained amounts imposed by board resolution. The Academy had no amounts committed at June 30, 2020.

LIGHT OF THE WORLD ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 6 - Fund Balance (continued)

Assigned fund balance represents amounts intended to be used for specific purposes expressed by the Board of Directors, Finance Committee, or the official authorized by the governing body. Residual amounts in governmental funds other than the General Fund are also assigned. The Academy had no amounts assigned at June 30, 2020.

Unassigned fund balance is reported only in the General Fund and represents the remaining spendable fund balance after restrictions and assignments have been made.

The Academy applies restricted resources first for applicable expenditures. Assigned fund equity is applied when expenditures are incurred for the assigned purpose, followed by unassigned fund equity for budgeted expenditures.

Note 7 - Contingencies and Commitments

The Academy has received federal and state grants for specific purposes. These grants are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.

Note 8 - Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions. The Academy purchases commercial insurance coverage to cover potential claims, and management believes this coverage is sufficient to protect the Academy from any significant adverse financial impact.

Note 9 – Long-Term Debt

In August 2019, the Academy entered into a long-term lease contract for computer equipment valued at \$26,147. Management has determined that this will be treated as a Capital Lease. The lease requires annual payments of \$9,422 due over 3 years. Management has determined that a 4% annual interest rate is appropriate.

The following is a summary of the long-term obligations for the Academy during the year ended June 30, 2020:

Loan and Lease Information

| | <u>Interest Rate</u> | <u>Maturity Date</u> | <u>Other</u> |
|-----------------|-----------------------------|-----------------------------|--|
| Loan 1 | 6.50% | May, 2021 | Payable monthly at \$3,568 principal and interest. Secured by Academy Building |
| Loan 2 | 6.50% | May, 2021 | Payable monthly at \$1,583 principal plus interest. Secured by Academy Building |
| Capital Lease 1 | 4.00% | September, 2021 | Payable monthly at \$1,561 principal and interest. |
| Capital Lease 2 | 4.00% | June, 2022 | Payable annually at \$9,422 principal and interest. |

Loan and Lease Activity

| | <u>Balance</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance</u> |
|-------------------------------|----------------------------|-------------------------|----------------------------|-----------------------------|
| | <u>July 1, 2019</u> | | <u>and Payments</u> | <u>June 30, 2020</u> |
| Loan 1 – Bank Michigan | \$ 435,445 | \$ - | \$ (14,580) | \$ 420,865 |
| Loan 2 – Bank Michigan | 131,364 | - | (19,011) | 112,353 |
| Capital Lease 1 – Wells Fargo | 40,242 | - | (17,440) | 22,802 |
| Capital Lease 2 – Wells Fargo | - | 26,147 | (8,376) | 17,771 |
| | <u>\$ 607,051</u> | <u>\$ 26,147</u> | <u>\$ (59,407)</u> | <u>\$ 573,791</u> |

LIGHT OF THE WORLD ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 9 – Long-Term Debt (continued)

Future principal payments on long-term debt are as follows:

| | | <u>Principal</u> | | <u>Interest</u> | | <u>Total</u> |
|------|----|------------------|----|-----------------|----|--------------|
| 2021 | \$ | 560,080 | \$ | 32,378 | \$ | 592,458 |
| 2022 | | 13,711 | | 393 | | 14,104 |
| | \$ | 573,791 | \$ | 32,771 | \$ | 606,562 |

Note 10 – Due from Other Governmental Units

Amounts due from other governmental units consists of the following:

| | | |
|-----------------|----|---------|
| State sources | \$ | 313,947 |
| Federal sources | | 821 |
| Total | \$ | 314,768 |

Note 11 - Subsequent Events

Subsequent to year end, the Academy was issued a State Aid Anticipation Loan of \$200,000 dated September 8, 2020. This loan has an interest rate of 6.25% and matures on August 25, 2021. Eleven monthly payments in the amount of \$18,816 beginning on October 25, 2020 are required, with the final payment due on August 25, 2021.

On July 1, 2020, the Academy entered into a 24-month contractual agreement with CS Partners, LLC. The Academy has agreed to pay 10% of State Aid in exchange for management services as an Educational Service Provider.

Subsequent to year end, the Academy began the process of securing refinancing for the outstanding mortgages with Bank Michigan. The Academy expects this process to be completed before the balloon payments are due in May 2021.

In March of 2020, many Michigan businesses and all school districts were closed by order of the Governor in response to the global coronavirus pandemic. The mandated closures resulted in a state revenue shortfall which necessitated a reduction in state aid of \$175 per pupil that was deducted from the August 2020 state aid payment. New revenue sources were made available to schools subsequent to fiscal year end, including Public Act 123 of 2020 which provides approximately \$12.32 per pupil, and Public Act 146 of 2020 which provides \$350 per pupil. The new revenue streams approved after June 30, 2020 are restrictive in nature and will be recognized in the fiscal year ended June 30, 2021 in accordance with reporting criteria established by the Governmental Accounting Standards Board.

In addition to PA 123 of 2020 and PA 146 of 2020, the “Return to Learn” legislation was passed subsequent to fiscal year end. The Return to Learn legislation modified the per pupil foundation allowance funding calculation which allows some flexibility in the days and attendance requirements for districts. For example, local districts may provide instruction in a virtual, face to face, or hybrid environment for the 2020-2021 school year and still meet funding requirements.

The full impact of the global pandemic is unknown. It is currently not possible to estimate the duration or severity of the potential impact of the pandemic on the district or to determine if any changes in fair values are other than temporary in nature. Accordingly, no adjustments to the financial statements have been made as a result of these events.

REQUIRED SUPPLEMENTAL INFORMATION

LIGHT OF THE WORLD ACADEMY
 REQUIRED SUPPLEMENTAL INFORMATION
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2020

| | Budget | | | Variance with Final Budget Positive (Negative) |
|--|-------------------|-------------------|-------------------|---|
| | Original | Final | Actual | |
| Revenues | | | | |
| Local Sources | \$ 122,650 | \$ 123,312 | \$ 134,702 | \$ 11,390 |
| State Sources | 1,960,933 | 1,793,742 | 1,916,268 | 122,526 |
| Federal Sources | 24,479 | 39,229 | 30,233 | (8,996) |
| Total Revenues | 2,108,062 | 1,956,283 | 2,081,203 | 124,920 |
| Expenditures | | | | |
| Education | | | | |
| Instruction | | | | |
| Basic Programs | 934,530 | 899,886 | 894,410 | 5,476 |
| Added Needs | 67,320 | 130,707 | 121,722 | 8,985 |
| Supporting Services | | | | |
| Compensatory Education | 14,479 | 20,973 | 17,168 | 3,805 |
| Pupil Services | 126,400 | 122,000 | 106,571 | 15,429 |
| Board of Education | 11,500 | 11,942 | 11,942 | - |
| General Administration | 356,634 | 323,186 | 330,791 | (7,605) |
| School Administration | 160,150 | 146,422 | 140,358 | 6,064 |
| Business Services | 84,322 | 79,310 | 84,294 | (4,984) |
| Operation and Maintenance | 157,610 | 151,959 | 148,852 | 3,107 |
| Central | 30,073 | 25,934 | 27,893 | (1,959) |
| Technology | 66,537 | 72,019 | 60,470 | 11,549 |
| Debt Service | 83,410 | 83,914 | 82,626 | 1,288 |
| Total Expenditures | 2,092,965 | 2,068,252 | 2,027,097 | 41,155 |
| Other Financing Sources/(Uses) | | | | |
| Proceeds from Long-Term Note | - | 26,460 | 26,147 | (313) |
| Excess of Revenues Over/(Under) Expenditures and Other Financing Sources/(Uses) | 15,097 | (85,509) | 80,253 | 165,762 |
| Fund Balance - July 1 | 306,212 | 306,212 | 306,212 | - |
| Fund Balance - June 30 | \$ 321,309 | \$ 220,703 | \$ 386,465 | \$ 165,762 |

OTHER INFORMATION

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 Trustees
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, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Light of the World Academy as of and for the year ended June 30, 2020, 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 15, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Example School District'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 Example School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Example School District'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*.

FLINT, MI OFFICE

G-2302 STONEBRIDGE DR., BUILDING D,
FLINT, MICHIGAN 48532
OFFICE # (810) 230-8200 FAX # (810) 230-8203

CHARLOTTE, NC OFFICE

1213 W. MOREHEAD ST.
CHARLOTTE, NC 28208
OFFICE # (704) 926-7570 FAX # (704) 247-6433

TROY, MI OFFICE

3150 LIVERNOIS RD., SUITE 175
TROY, MI 48083
OFFICE # (248) 688-9399 FAX # (248) 688-9397

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.

Taylor & Morgan, P.C.

Taylor & Morgan, P.C.
Flint, Michigan
Certified Public Accountants

October 15, 2020