



**THE CLAIRMOUNT GROUP, PLC**

Certified Public Accountants

**Rutherford Winans Academy**

(A Michigan Public School Academy)

**Financial Statements**

**For the Year Ended**

**June 30, 2019**

## Table of Contents

	Page(s)
Independent Auditor's Report.....	1-2
Management's Discussion and Analysis .....	3-7
 <b>Basic Financial Statements</b>	
Academy-Wide Financial Statements:	
Statement of Net Position .....	8
Statement of Activities .....	9
 <b>Fund Financial Statements</b>	
Governmental Funds:	
Combined Balance Sheet.....	10
Reconciliation of the Balance Sheet of Governmental Funds to the Net Position of Governmental Activities .....	11
Statement of Revenue, Expenditures and Changes in Fund Balances.....	12
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	13
<b>Notes to Financial Statements</b> .....	14-19
 <b>Required Supplemental Information</b>	
Budgetary Comparison Schedule – General Fund.....	20
 <b>Other Required Information</b>	
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.....	21-22



## Independent Auditor's Report

To the Board of Directors  
Rutherford Winans Academy

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

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Rutherford Winans Academy as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Rutherford Winans Academy's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Rutherford Winans Academy as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2019, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rutherford Winans Academy's internal control over financial reporting and compliance.

The Clairmount Group  
October 13, 2019  
Detroit, MI 48226

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

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### Using this Annual Report

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

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

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

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

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

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

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

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

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

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

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

**The Academy as a Whole**

As discussed above, the statement of net position provides information of the Academy as a whole. Table 1 provides a summary of the Academy's net position as of June 30, 2019 :

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

<u>Assets</u>	<u>2019</u>	<u>2018</u>
Current and other assets	\$ 458,702	\$ 635,963
Capital Assets - net of accumulated depreciation	35,451	47,611
<b>Total Assets</b>	<u>494,153</u>	<u>683,574</u>
<u>Liabilities</u>		
Current Liabilities	307,382	273,807
<u>Net Position</u>		
Invested in capital assets	35,451	47,611
Unrestricted	151,320	362,156
<b>Total Net position</b>	<u>186,771</u>	<u>409,767</u>
<b>Total Liabilities and Net position</b>	<u>\$ 494,153</u>	<u>\$ 683,574</u>

**Net Position-** The Academy's financial position decreased from the prior period by \$222,996. The decrease in net position is primarily due to decline in student enrollment, excessive building repairs and increase in utility expenses.

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

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The above analysis focuses on the net position (see Table 1). The change in net position (see Table 2) of the Academy's governmental activities is discussed below. The Academy's net position was \$186,771 at June 30, 2019. Capital assets, recorded at historical cost, net of depreciation totaled \$35,451. The unrestricted net assets balance enables the Academy to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the general fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Academy as a whole are reported in the statement of activities (see Table 2), which shows the change in net assets for fiscal year ended June 30, 2019.

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

<u>Revenues</u>	<u>2019</u>	<u>2018</u>
<b>Program Revenues:</b>		
Operating grants and contributions	\$ 449,468	\$ 465,206
<b>General Revenues:</b>		
State foundation allowance	1,450,390	1,599,713
Other	23,419	39,326
<b>Total Revenues</b>	<u>1,923,277</u>	<u>2,104,245</u>
<b>Function/Program Expenses:</b>		
Instruction	870,087	1,053,308
Support services	1,245,622	1,265,285
Community services	9,626	7,700
Depreciation	20,938	20,938
<b>Total Expenses</b>	<u>2,146,273</u>	<u>2,347,231</u>
<b>Decrease in Net Position</b>	<u>\$ (222,996)</u>	<u>\$ (242,986)</u>

**Decrease in Net Position**

As reported in the statement of activities, the cost of our governmental activities this year was \$2,146,273. Certain activities were partially funded from those who benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions of \$449,468. We paid for the remaining "public benefit" portion of our governmental activities with \$1,473,809 in state foundation allowance and with our other revenues.

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

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

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### **The General Fund**

The General Fund had revenues of \$1,923,277 and total expenditures of \$2,134,113. The General Fund balance was \$151,320. As we noted earlier, the Academy uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Academy is being accountable for the resources the state and others provide to it and may provide insight into the Academy's overall financial health.

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

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

There were revisions made to the 2018-2019 General Fund original budgets. Budgeted revenues decreased to represent actual amounts received in State Aid. Overall the budgeted expenditures decrease in student enrollment.

### **Capital Assets**

As of June 30, 2019, the Academy had \$36,451 invested in net capital assets, in furniture and equipment.

	<u>2019</u>	<u>2018</u>
Furniture and equipment	\$ 119,915	\$ 111,137
Less: Accumulated depreciation	(84,464)	(63,526)
Total capital assets	<u>\$ 35,451</u>	<u>\$ 47,611</u>

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

The Academy's administration considered many factors when setting the Academy's 2020 fiscal year's budget. One of the most important factors affecting the budget is the Academy's student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. Currently the foundation allowance is \$7,871 for fiscal year 2018-2019. The blended count for the 2019-2020 fiscal year is 10 percent and 90 percent of February 2019 and October 2019 student count, respectively. This type of funding is based on parameters set by the Michigan Department of Education that schools must meet to receive performance based funding. The 2020 budget was adopted in June, 2019, based on estimated number of students that will be enrolled in September, 2019. Approximately 85 percent of the total general fund revenue is from the foundation allowance. As a result, the Academy funding is heavily dependent on the state's ability to fund local school operations, thus the Academy is focused on increasing enrollment. The Academy is also looking to receive more grants and private revenues. This will allow the Academy to place more funds in the classroom and enhance its financial position.



## **Request of Information**

The financial report is designed to give an overview of the financial conditions of Rutherford Winans Academy. If you should desire additional financial information, it can be obtained by contacting the following person:

Stephanie Little  
School Business Manager  
Rutherford Winans Academy  
16411 Curtis  
Detroit, MI 48235  
(313) 852-1154

**Rutherford Winans Academy**  
**Statement of Net Position**  
**June 30, 2019**

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<b>Assets</b>	
<b>Current Assets</b>	
Cash and investments	\$ 93,796
Due from governmental units	354,906
Other receivables	10,000
Total current assets	<u>458,702</u>
<b>Capital Assets - Net of Accumulated Depreciation</b>	<u>35,451</u>
Total assets	<u>\$ 494,153</u>
<b>Liabilities and Net Position</b>	
<b>Liabilities</b>	
Accounts payable	\$ 137,591
Accrued wages	73,836
Note payable	44,586
Other accrued liabilities	<u>51,369</u>
Total liabilities	307,382
<b>Net Position</b>	
Invested in capital assets - net of related debt	35,451
Unassigned	<u>151,320</u>
Total net position	<u>186,771</u>
Total liabilities and net position	<u>\$ 494,153</u>

*See accompanying notes to the financial statements.*

**Rutherford Winans Academy  
Statement of Activities  
For the Year Ended June 30, 2019**

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<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenues and Changes in Net Assets</u>
Primary government-Governmental Activities:				
Instruction	\$ 870,087	\$ -	\$ 419,597	\$ (450,490)
Support Services				
Pupil support	31,326	-	-	(31,326)
Instructional	176,729	-	18,387	(158,342)
General administration	274,541	-	-	(274,541)
School administration	213,551	-	-	(213,551)
Business support services	74,251	-	-	(74,251)
Operation and maintenance	365,402	-	-	(365,402)
Pupil transportation and services	55,252	-	-	(55,252)
Central services	46,290	-	11,484	(34,806)
Athletics	8,280	-	-	(8,280)
Total support services	1,245,622	-	29,871	(1,215,751)
Community Services	9,626	-	-	(9,626)
Depreciation unallocated	20,938	-	-	(20,938)
Total Governmental Activities	<u>\$ 2,146,273</u>	<u>\$ -</u>	<u>\$ 449,468</u>	\$ (1,696,805)
General Revenues:				
State aid not restricted to specific purposes				1,450,390
Other Income				23,419
Total general revenues				<u>1,473,809</u>
Change in net position				(222,996)
Net Position, July 1, 2018				<u>409,767</u>
Net Position, June 30, 2019				<u>\$ 186,771</u>

**See accompanying notes to the financial statements.**

**Rutherford Winans Academy**  
**Balance Sheet – Governmental Funds**  
**June 30, 2019**

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	<u>Governmental Funds</u>
	<u>General</u>
	<u>Fund</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 93,796
Due from other governmental units	354,906
Other receivables	10,000
<b>Total assets</b>	<u>458,702</u>
<b>Liabilities</b>	
Accounts payable	137,591
Note payable	44,586
Accrued wages	73,836
Other accrued liabilities	51,369
<b>Total liabilities</b>	<u>307,382</u>
<b>Fund Balances</b>	
Unassigned	151,320
Total fund balance	<u>151,320</u>
Total liabilities and fund balances	<u>\$ 458,702</u>

*See accompanying notes to the financial statements.*

**Rutherford Winans Academy  
 Reconciliation of the Governmental  
 Fund Balance to Statement of Net Position of Governmental Activities  
 Year Ended June 30, 2019**

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**Fund Balance** - Total governmental funds \$ 151,320

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

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

Cost of capital assets	119,915	
Accumulated depreciation	<u>(84,464)</u>	
		<u>35,451</u>

**Total Net Position** - Governmental activities \$ 186,771

*See accompanying notes to the financial statements.*

**Rutherford Winans Academy  
 Governmental Funds  
 Statement of Revenue, Expenditures and Changes in Fund Balance  
 For the Year Ended June 30, 2019**

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	<u>Governmental Funds</u> General Fund
<b>Revenues</b>	
Local sources	\$ 23,419
State sources	1,640,177
Federal sources	<u>259,681</u>
<b>Total revenues</b>	1,923,277
<b>Expenditures</b>	
Current	
Instruction services	
Basic programs	476,880
Added needs	<u>393,207</u>
Total instruction	870,087
Support services	
Pupil	31,326
Instructional	176,729
General administration	274,541
School administration	213,551
Business services	74,251
Operation and maintenance	365,402
Pupil transportation and services	55,252
Central services	46,290
Athletics	8,280
Community services	<u>9,626</u>
Total support	1,255,248
Capital outlay	8,778
<b>Total expenditures</b>	2,134,113
<b>Deficiency of Revenue Over Expenditures</b>	(210,836)
<b>Fund Balances - Beginning of year</b>	<u>362,156</u>
<b>Fund Balances - End of year</b>	<u>\$ 151,320</u>

*See accompanying notes to the financial statements.*

**Rutherford Winans Academy**  
**Reconciliation of the Statement of Revenue, Expenditures and Changes in**  
**Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2019**

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**Net Change in Fund Balance - Total governmental funds** \$ (210,836)

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

Governmental funds report capital outlay as expenditures;  
in the statement of activities, these costs are allocated over  
their estimated useful lives as depreciation or amortization: 8,778

Depreciation and amortization expense (20,938)

**Change in Net Position of Governmental Activities** \$ (222,996)

The accompanying notes are an integral part of these financial statements

*See accompanying notes to the financial statements.*

**Rutherford Winans Academy  
Notes to Financial Statements  
June 30, 2019**

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

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

**Reporting Entity**

The Academy was formed as a charter school Academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy was established on July 1, 2012 as a public-school Academy. The Academy is located in the metropolitan Detroit area providing education for approximately 178 students in grades K-5.

On July 1, 2017, the Academy entered into a five-year contract with the School District of the City of Detroit ("Detroit Public Schools") to charter a public-school academy. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. Detroit Public Schools is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Detroit Public Schools 3% of state aid as administrative fees. The total administrative fees for the year ended June 30, 2019 to the Detroit Public Schools were approximately \$43,516.

**Administrative Services** - The Academy entered into a five-year management agreement effective July 1, 2017 with Solid Rock Management Company for a fee of 12% State Aid Revenue. The Management Company is responsible for complete management, operation, administration and education of the Academy. The Academy subcontracts all employees from the management company and reimburses the management company for operating costs. The Academy incurred management fees totaling \$196,821 for the year ended June 30, 2019.

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

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

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



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

**Fund Financial Statements** – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Academy.

The Academy reports the following major governmental fund:

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

**Assets, Liabilities and Net Position**

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

**Receivables and Payables** – In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.” Accounts receivable are shown net of allowance for uncollectible amounts. Management determines the allowance based on specific review of items where collectability is questionable.

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

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

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

**Fund Equity** – In the fund financial statements, governmental funds report fund balance in the following categories:

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

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

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

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

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

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

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

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

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

The Academy did not have significant expenditure budget variances.

**Rutherford Winans Academy**  
**Notes to Financial Statements (Continued)**  
**June 30, 2019**

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**NOTE 3 – DEPOSITS AND INVESTMENTS**

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

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

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

**Custodial Credit Risk of Bank Deposits** – Custodial credit risk is the risk that in the event of a bank failure, the Academy’s deposits may not be returned to it. The Academy’s investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the Academy’s deposits. At year end, the Academy’s deposit balance was \$187,626 of which all bank deposits are insured by FDIC.

**Credit Risk** – State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Academy’s investment policy does not further limit its investment choices. At year end, the Academy had no investments.

**NOTE 4 – RECEIVABLES AND DEFERRED REVENUE**

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

	General Fund
State of Michigan	\$ 295,821
Federal	59,085
Other receivable	10,000
	<u>\$ 364,906</u>

The accounts receivable as of June 30, 2019 has been deemed collectible.

**Rutherford Winans Academy**  
**Notes to Financial Statements (Continued)**  
**June 30, 2019**

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**NOTE 5 – CAPITAL ASSETS**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
<b>Governmental Activities</b>				
Capital assets being depreciated:				
Furniture & Equipment	\$ 111,137	\$ 8,778	\$ -	\$ 119,915
Subtotal	<u>111,137</u>	<u>8,778</u>	<u>-</u>	<u>119,915</u>
Accumulated depreciation:				
Furniture & Equipment	63,526	20,938	-	84,464
Net capital assets being depreciated	<u>\$ 47,611</u>	<u>\$ (12,160)</u>	<u>\$ -</u>	<u>\$ 35,451</u>

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

**NOTE 6 – OPERATING LEASES**

The Academy entered into a 5 year operating lease agreement with the school district of the City of Detroit on July 1, 2017 that expires June 30, 2022. The Academy is responsible for insurance, repairs and maintenance of the building. The Academy incurred rent lease of \$57,425 for the period ended June 30, 2019.

**NOTE 7 – RISK MANAGEMENT**

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

**NOTE 8 – NOTES PAYABLE**

The Academy participated in the State Aid Borrowing Program and borrowed \$250,000 at an interest rate of 5.3 percent. The borrow was utilized for working capital. Interest paid was \$7,095

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
State Aid Borrowing	<u>\$ -</u>	<u>\$ 250,000</u>	<u>\$ 205,414</u>	<u>\$ 44,586</u>

**Rutherford Winans Academy**  
**Notes to Financial Statements (Continued)**  
**June 30, 2019**

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**NOTE 9 – DEFINED PENSION PLAN**

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

**NOTE 10 – LEASED EMPLOYEES**

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

**NOTE 11 – CONTINGENCIES**

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

**NOTE 12 – SINGLE AUDIT REQUIREMENT**

Current Federal guidelines require entities with Federal Expenditures exceeding \$750,000 to have a "Single Audit" of federally funded program. The Academy expensed approximately \$259,681 of federal funds as of June 30, 2019. A Single Audit is not required.

**Note 13 – SUBSEQUENT EVENTS**

On August 19, 2019, the Academy participated in the State Aid Borrowing Program and borrowed \$250,000 at a rate of 3.65 percent.

Subsequent events have been evaluated through October 13, 2019, which is the date the financial statements were available to be issued. Events occurring after the date have not been evaluated to determine whether a change in the financial statements would be required.

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## **Required Supplemental Information**

**Rutherford Winans Academy  
Required Supplemental Information  
Budget Comparison Schedule - General Fund  
June 30, 2019**

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	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Revenue</b>				
Local sources	\$ 16,637	\$ 65,949	\$ 23,419	\$ (42,530)
State sources	1,937,907	1,627,179	1,640,177	12,998
Federal sources	241,198	270,901	259,681	(11,220)
	<u>2,195,742</u>	<u>1,964,029</u>	<u>1,923,277</u>	<u>(40,752)</u>
Total revenue				
<b>Expenditures</b>				
Current				
Instruction:				
Basic programs	679,117	480,065	476,880	(3,185)
Added needs	323,717	372,862	401,985	29,123
	<u>1,002,834</u>	<u>852,927</u>	<u>878,865</u>	<u>25,938</u>
Support services:				
Pupil services	40,100	34,600	31,326	(3,274)
Instructional services	165,705	233,524	176,729	(56,795)
General administration	287,164	270,834	274,541	3,707
School administration	217,771	203,564	213,551	9,987
Business support services	50,825	54,632	74,251	19,619
Operation and maintenance	287,289	364,208	365,402	1,194
Pupil transportation and services	43,000	61,456	55,252	(6,204)
Central services	68,500	55,075	46,290	(8,785)
Athletics	12,238	9,623	8,280	(1,343)
Community services	6,700	15,837	9,626	(6,211)
	<u>1,179,292</u>	<u>1,303,353</u>	<u>1,255,248</u>	<u>(48,105)</u>
Total support services				
Total expenditures	<u>2,182,126</u>	<u>2,156,280</u>	<u>2,134,113</u>	<u>(22,167)</u>
<b>Excess (Deficiency) of Revenue Over (Under)</b>				
<b>Expenditures</b>	13,616	(192,251)	(210,836)	(18,585)
<b>Fund Balance - July 1, 2018</b>	<u>362,156</u>	<u>362,156</u>	<u>362,156</u>	<u>-</u>
<b>Fund Balance - June 30, 2019</b>	<u>\$ 375,772</u>	<u>\$ 169,905</u>	<u>\$ 151,320</u>	<u>\$ (18,585)</u>

## **Other Required Information**

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

To Board of Directors  
Rutherford Winans Academy

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Rutherford Winans Academy, as of and for the year ended June 30, 2019 , and the related notes to the financial statements, which collectively comprise Rutherford Winans Academy's basic financial statements, and have issued our report thereon dated October 13, 2019 .

**Internal Control over Financial Reporting**

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

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.

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. There were no material weaknesses discovered.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet import enough to merit attention by those charged with governance. There were no significant deficiencies discovered.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

## **Purpose of this Report**

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

This section of Rutherford Winans Academy's Annual Financial Report presents discussion and analysis of the Academy's financial performance during the year ended June 30, 2019. It should be read in conjunction with the Academy's financial statements, which immediately follow this section.

*The Clairmount Group, PLC*

October 13, 2019  
Detroit, MI 48226