

**NEW PARADIGM  
LOVING ACADEMY**

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**Financial Report  
with Supplemental Information  
June 30, 2015**

# NEW PARADIGM LOVING ACADEMY

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# Wilkerson & Associate P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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LARRY WILKERSON, C.P.A.  
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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
New Paradigm Loving Academy

### Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of New Paradigm Loving Academy, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the 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 evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of New Paradigm Loving Academy as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles accepted in the United States of America.

**Members: A.I.C.P.A. and M.I.C.P.A.**

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Government Auditing 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 September 29, 2015, on our consideration of New Paradigm Loving 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 or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering New Paradigm Loving Academy's internal control over financial reporting and compliance.

*Wilkinson & Associate PC*

September 29, 2015

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

To the Board of Directors of  
New Paradigm Loving Academy

We have audited the financial statements of New Paradigm Loving Academy as of and for the year ended June 30, 2015, and have issued our report thereon dated September 29, 2015. 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.

Internal Control Over Financial Reporting

New Paradigm Loving Academy is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered New Paradigm Loving Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of New Paradigm Loving Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of New Paradigm Loving Academy's internal control over financial reporting.

*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 misstatements on a timely basis. *A material weakness* is a deficiency, or 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Members: A.I.C.P.A. and M.I.C.P.A.**

To the Board of Directors of  
New Paradigm Loving Academy

Compliance and Other Matters

As part of obtaining reasonable assurance about whether New Paradigm Loving Academy's financial statements are free of 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*.

This report is intended for the information and use of the Board of Directors, management and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

*Wilkerson & Associate PC*

September 29, 2015

This section of New Paradigm Loving Academy's annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2015. Please read it in conjunction with the Academy's basic financial statements, which immediately follow this section.

### **Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand New Paradigm Loving Academy financially as a whole. The Academy-wide financial statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the Academy's operations in more detail than the Academy-wide financial statements by providing information about the Academy's General Fund.

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

### **Basic Financial Statements**

Academy-wide Financial Statements      Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for General Fund

Other Supplemental Information

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

The statement of net assets and statement of activities report the governmental activities for the Academy, which encompass all of the Academy's services, including instruction, support services, community services and food service.

Unrestricted State Aid (foundation allowance revenue) and state and federal grants finance most of these activities.

These statements are prepared 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 Academy's net assets, the difference between assets and liabilities, as reported in the statement of net assets, are one way to measure the Academy's financial position. Over time, increases or decreases in the Academy's net assets are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, since the Academy's goal is to provide services to students and not generate profits, other non-financial factors, such as the education provided and the safety of the Academy should also be considered in order to assess the overall health of the Academy. The following table provides a summary of the Academy's net assets as of June 30, 2015 and 2014.

**TABLE I**

	<b>Governmental Activities</b>	
	<b>June 30</b>	
	<b>2015</b>	<b>2014</b>
<b>Current and other assets</b>	<b>\$ 852,648</b>	<b>\$553,355</b>
<b>Capital assets</b>	<b>50,918</b>	<b>62,447</b>
<b>Total assets</b>	<b>903,566</b>	<b>615,802</b>
<b>Liabilities</b>		
<b>Current liabilities</b>	<b>368,043</b>	<b>246,629</b>
<b>Long-term liabilities</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>	<b>368,043</b>	<b>246,629</b>
<b>Net Position</b>		
<b>Invested in capital assets – Net of related debt</b>	<b>50,918</b>	<b>62,447</b>
<b>Unrestricted</b>	<b>484,605</b>	<b>306,726</b>
<b>Total net position</b>	<b>\$ 535,523</b>	<b>\$ 369,173</b>



The Academy's net assets were \$531,314 on June 30, 2015. Capital assets, net of related debt, totaling \$50,918 compares the original cost (less depreciation) of the Academy's capital assets. Restricted net assets are reported separately to show legal constraints for debt covenants and enabling legislation that limit the Academy's ability to use those net assets for day-to-day operations, which the Academy has none.

The \$484,605 in unrestricted net assets represents the accumulated results of the current year's operations. The unrestricted net asset balance is used to provide working capital and cash flow requirements as well as providing 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 (Table 2), which shows the changes in Net Position for fiscal year 2015 and 2014.

TABLE 2

	Governmental Activities	
	June 30, 2015	June 30, 2014
<b>Revenue</b>		
Program revenue:		
Operating grants and contributions	\$ 218,880	\$ 176,226
General revenue:		
State foundation allowance	1,665,994	1,705,936
Total revenue	<u>1,884,874</u>	<u>1,882,162</u>
<b>Functions/Program Expenses</b>		
Instruction	654,828	824,850
Support services	1,049,366	1,078,753
Community services	2,801	29,734
Depreciation (unallocated)	11,529	11,529
Total functions/program expenses	<u>1,718,524</u>	<u>1,944,866</u>
<b>Increase (Decrease) in Net Position</b>	166,350	-62,704
Net Position - Beginning of year	369,173	431,877
Net Position - End of year	<u>\$ 535,523</u>	<u>\$ 369,173</u>

### **Reporting the Academy's Most Significant Funds—Fund Financial Statements**

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

### **General Fund Budgetary Highlights**

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

All amendments to the 2014–2015 budgets were approved by the New Paradigm Loving School Board of Directors.

### **Capital Assets and Debt Administration**

#### **Capital Assets**

On June 30, 2015 the Academy had \$50,918 (after accumulated depreciation) invested in capital assets made up of equipment.

	2015	2014
Lease Holder Improvements and Equipment	<u>\$85,011</u>	<u>\$85,011</u>
Total capital assets	85,011	85,011
Less accumulated depreciation	<u>\$34,093</u>	<u>\$22,564</u>
Net capital assets	<u><u>\$50,918</u></u>	<u><u>\$62,447</u></u>

**Economic Factors and Next Year's Budget**

One of the most important factors affecting the budget is our student count. The state foundation allowance is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2016 fiscal year is 75 percent of October 2015 and 25 percent of the February 2016 student counts. The original 2016 budget was adopted in June 2015 based on the estimate of 200 students to be enrolled in September 2015. Based on early enrollment data at the start of the 2015–2016 school year, we anticipate that the fall student count will be close to our estimates. Once the final student count and related per pupil funding is validated, state law requires the Academy to amend the budget if actual Academy resources are not sufficient to fund original appropriations.

Since the Academy's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to academies. The State periodically holds a revenue–estimating conference to estimate revenues. If the State estimates that funds are not sufficient to fund the appropriation, the legislature must revise the appropriation and prorating of state aid will occur. The impact on the Academy of a possible State projected revenue shortfall is not known.

**NEW PARADIGM LOVING ACADEMY**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2015**

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and investments	\$ 356,816
Due from Other Governmental Units	432,324
Accounts Receivable Other	63,509
Capital assets, net of accumulated depreciation	<u>50,918</u>
Total assets	\$ 903,566
<b>Liabilities</b>	
Accounts payable	119,836
Accrued liabilities	125,906
Deferred Revenue	<u>122,302</u>
Total liabilities	368,043
<b>Net Position</b>	
Invested in capital assets, net of related debt	50,918
Unrestricted	<u>484,605</u>
Total Net Position	<u><u>\$ 535,523</u></u>

See accompanying notes to financial statements

**NEW PARADIGM LOVING ACADEMY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expenses) Revenues and Changes in Net Position</u>
<b>Governmental Activities</b>				
Instruction	\$ 654,828	\$ -	\$ 159,302	\$ (495,526.06)
Supporting services				
Pupil support services	29,199	-	-	(29,199)
Instructional Staff support services	157,151	-	-	(157,151)
General administration services	235,211	-	-	(235,211)
School administration services	129,675	-	-	(129,675)
Business services	26,519	-	-	(26,519)
Operations and maintenance	383,073	-	-	(383,073)
Transportation	44,887	-	-	(44,887)
Central	43,652	-	-	(43,652)
Community services	2,801	-	-	(2,801)
Depreciation	11,529	-	-	(11,529)
	<u>11,529</u>	<u>-</u>	<u>-</u>	<u>(11,529)</u>
Total governmental activities	<u>\$ 1,718,525</u>	<u>\$ -</u>	<u>\$ 159,302</u>	(1,559,223)
General revenues				
State aid - formula grants				1,665,994
Other revenue				<u>59,578</u>
Total general revenues				<u>1,725,572</u>
<b>Change in Net Position</b>				166,350
<b>Net Position - Beginning of year</b>				<u>369,173</u>
<b>Net Position - End of year</b>				<u>\$ 535,523</u>

See accompanying notes to financial statements

**NEW PARADIGM LOVING ACADEMY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2015**

**ASSETS**

	<b>General Fund</b>
Cash and investments	\$ 356,816
Due from other governmental units	432,324
Accounts receivable	63,509
Total assets	\$ 852,648

**LIABILITIES AND FUND BALANCES**

<b>Liabilities</b>	
Accounts payable	\$ 119,836
Accrued liabilities	248,208
Total liabilities	368,043
<b>Fund Balances</b>	
<b>Unrestricted fund balance:</b>	
Assigned fund balance	-
Unassigned fund balance	484,605
Total fund balances	484,605
Total liabilities and fund balances	\$ 852,648

See accompanying notes to financial statements

**NEW PARADIGM LOVING ACADEMY  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2015**

<b>Total Fund Balances - Governmental Funds</b>	<b>\$</b>	<b>484,605</b>
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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, not reported as assets in governmental funds

Cost of capital assets	<b>\$ 85,011</b>	
Accumulated depreciation	<u><b>(34,093)</b></u>	<b>50,918</b>

<b>Total Net Position - Governmental Activities</b>	<b>\$</b>	<u><u><b>535,523</b></u></u>
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See accompanying notes to financial statements

**NEW PARADIGM LOVING ACADEMY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2015**

	<b>General Fund</b>
<b>Revenues</b>	
Local sources	\$ 59,578
State sources	1,665,994
Federal sources	159,302
Total revenues	1,884,875
<b>Expenditures</b>	
Current	
Instructional services	466,351
Added Needs	188,477
Supporting services:	
Pupil support services	29,199
Instructional support services	157,151
General administration services	235,211
School administration services	129,675
Business services	26,519
Operations and maintenance	383,073
Transportation	44,887
Central	43,652
Community services	2,801
Total expenditures	1,706,996
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	177,878
<b>Fund Balances - Beginning of year</b>	306,726
<b>Fund Balances - End of year</b>	\$ 484,604

See accompanying notes to financial statements



**NEW PARADIGM LOVING ACADEMY  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015**

**Total Net Change in Fund Balances - Governmental Funds** \$ 177,878

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period:

Depreciation expense	(11,529)	
Capital outlays (equipment and furniture expenditures)	<u>-</u>	(11,529)

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Prior period adjustment		<u>-</u>
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<b>Change in Net Assets of Governmental Activities</b>		<u><u>\$ 166,350</u></u>
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See accompanying notes to financial statements

**NEW PARADIGM LOVING ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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

The accounting policies of New Paradigm Loving Academy (the “Academy”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

**A. Reporting Entity**

New Paradigm Loving Academy is a public school academy that provides instructional and support services to elementary school students from kindergarten through the eighth grade. The 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 entered into a five-year contract with Detroit Public Schools to charter a public school academy in August 2011. The Academy’s contract with Detroit Public Schools is effective through July 31, 2016. 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 three percent of State aid as an administrative fee. The total administrative fee paid for the year ended June 30, 2015 to the Detroit Public Schools was approximately \$46,751.78.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational and financial relationships that determine which of the governmental organizations are a part of the Academy’s reporting entity, and which organizations are legally separate, component units of the Academy. Based on application of the criteria, the entity does not contain component units.

**NEW PARADIGM LOVING ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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

**B. District-Wide and Fund Financial Statements**

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational and capital requirements of a particular function.

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

**District-Wide Statements**

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

**NEW PARADIGM LOVING ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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

**C. Measurement Focus, Basis of Accounting and Financial Statement  
Presentation (Continued)**

The effect of the interfund activity has been substantially eliminated from the government-wide financial statements.

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

**Fund-Based 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 government considers revenue 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 required under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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 government.

**NEW PARADIGM LOVING ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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

**C. Measurement Focus, Basis of Accounting and Financial Statement  
Presentation (Continued)**

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law.

The Academy also receives revenue from the State to administer certain categorical educational programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received which are not expected to be expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

The Academy reports the following major governmental fund:

***General Fund***

The General Fund is used to record the general operation 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.

**NEW PARADIGM LOVING ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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

**D. Assets, Liabilities, and Net Position or Equity**

**Deposits, Cash Equivalents, and Investments**

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of twelve months or less when acquired.

The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Academy evaluates each financial institution it deposits Academy funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk are used as depositories.

The Academy is authorized by Michigan Compiled Laws, Section 129.91 to invest surplus monies in federally insured United States banks, credit unions, and savings and loan associations that have offices in Michigan. The Academy is also authorized to invest in bonds and notes, certain commercial paper, U.S. Government repurchase agreements, bankers' acceptances and mutual funds and investment pools that are composed of authorized investment vehicles.

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Pooled investment income from the General Fund and various Debt Service Funds is allocated to each fund based upon the balance of the principal invested.

**Capital Assets**

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased

**NEW PARADIGM LOVING ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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

**D. Assets, Liabilities, and Net Position or Equity (Continued)**

**Capital Assets (Continued)**

or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. 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 any infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20 – 50 years
Buses and other vehicles	5 – 10 years
Furniture and other equipment	5 – 20 years

**MPSERS Liability**

The Academy contracted with the New Paradigm for Education, Inc. – Management Company to provide all staffing personnel during the year under audit. Consequently, all staffing cost is treated as purchased services in these financial statements.

The Academy has no obligation to fund the Michigan Public School Employees Retirement System for the year ended June 30, 2015.

**Deferred Revenue**

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

**NEW PARADIGM LOVING ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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

**D. Assets, Liabilities, and Net Position or Equity (Continued)**

**Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of Net Position. In the fund financial statements, governmental fund types recognize bond proceeds, premiums and discounts, as well as issuance costs, during the current period.

**Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriations or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Comparative Data**

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

District-wide financial statements (statement of Net Position and statement of activities) prepared using full accrual accounting for all of the Academy's activities have been provided.



**NEW PARADIGM LOVING ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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

**D. Assets, Liabilities, and Net Position or Equity (Continued)**

Capital assets of \$50,918 (net of depreciation of \$34,093) are currently recorded in the governmental activities column of the statement of Net Position.

The fund financial statements focus on major funds rather than fund types.

**Estimates**

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

**Budgetary Data**

The Academy is legally subject to the budgetary control requirements of the State of Michigan P.A. 621 of 1978 (the Uniform Budgetary Act). The following is a summary of the requirements of the Act:

1. Budgets must be adopted for the General Fund and Special Revenue Funds.
2. The budgets must be balanced.
3. The budgets must be amended when necessary.
4. Public hearings must be held before budget adoptions.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures must be authorized by a budget before being incurred.

**NEW PARADIGM LOVING ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**D. Assets, Liabilities, and Net Position or Equity (Continued)**

**Budgetary Data (Continued)**

The following segments of the budget were over expended by the amounts stated below. In all cases adequate fund balance was available to cover these expenditures:

<u>General Fund</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Transportation	40,150	44,887	4,737
Community Services	1,750	2,801	1,051

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

The Academy formally adopted a General Fund budget by function for the fiscal year ended June 30, 2015. Expenditures at this level in excess of amounts budgeted are a violation of Michigan law. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. No encumbrances were outstanding in the General Fund at June 30, 2015. During the current year, the budget was amended in a legally permissible manner.

The combined statement of revenues, expenditures and changes in fund balances – all governmental fund types is presented in conformity with generally accepted accounting principles. The combined statement of revenues, expenditures and changes in fund balances – budget and actual is presented on the same basis of accounting used in preparing the adopted budget.

**NEW PARADIGM LOVING ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 3 - DEPOSITS AND INVESTMENTS**

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

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

**Custodial Credit Risk of Bank Deposits** – Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy evaluates its depositories and only those with an acceptable risk level are used for the Academy's deposits. The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

At year end, the Academy's deposits and investments were reported in the basic financial statements as cash and cash equivalents of \$356,816.

The deposits of the Academy were reflected in the accounts of the financial institution at \$359,790 of which, \$250,000 is covered by federal depository insurance.

**NEW PARADIGM LOVING ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 4 - CAPITAL ASSETS**

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

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Balance June 30, 2015</u>
Assets being depreciated:				
Furniture and fixtures	\$ 57,524	\$ -	\$ -	\$ 57,524
Leasehold improvements	27,487	-	-	27,487
Subtotal	85,011	-	-	85,011
Accumulated depreciation:				
Furniture and fixtures	19,815	9,474		29,289
Leasehold improvements	2,749	2,055		4,804
Subtotal	22,564	11,529	-	34,093
Net capital assets being depreciated	62,447	11,529	-	50,918
Net capital assets	<u>\$ 62,447</u>	<u>\$ 11,529</u>	<u>\$ -</u>	<u>\$ 50,918</u>

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

**NOTE 5 - RISK MANAGEMENT**

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

**NEW PARADIGM LOVING ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 6 - MANAGEMENT AGREEMENT**

The Academy has entered into a management agreement with The New Paradigm for Education, Inc. (the “Management Company”), a non-profit corporation. The Management Company is responsible for all management, operation, administration, and education of the Academy. All Academy personnel are provided by the Management Company. The total management fee expensed by New Paradigm Loving Academy for the year ended June 30, 2015 approximated \$166,598.45.

**NOTE 7 - OPERATING LEASE**

The Academy entered an operating lease agreement with the School District of the City of Detroit, effective August 1, 2011 through July 31, 2016. The Academy is responsible for insurance, repairs and maintenance for its building. The academy incurred rent expense in connection with this lease of \$130,548.45 for the year ended June 30, 2015.

**NOTE 8 - SUBSEQUENT EVENTS**

Subsequent events have been evaluated through September 29, 2015, which is the date the financial statements were available to be issued. As of July 1, 2015, the Academy merged its operations with New Paradigm Glazer Academy. New Paradigm Glazer Academy is also authorized by Detroit Public Schools and is managed by New Paradigm Inc.

**REQUIRED SUPPLEMENTAL INFORMATION**

**NEW PARADIGM LOVING ACADEMY  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Over/(Under)
	Original	Final		Final to Actual
<b>Revenues</b>				
Local revenues	\$ 10,490	\$ 13,790	\$ 59,578	\$ 45,788
State program revenues	1,702,585	1,659,166	1,665,994	6,828
Federal program revenues	263,584	318,986	159,302	(159,684)
Total revenues	1,976,659	1,991,942	1,884,875	(107,067)
<b>Expenditures</b>				
Current				
Instructional services	497,752	471,354	466,351	(5,003)
Added Needs	189,027	231,073	188,477	(42,596)
Supporting services				
Pupil support services	49,664	49,884	29,199	(20,685)
Instructional staff services	162,421	190,594	157,151	(33,443)
General administration services	270,097	270,096	235,211	(34,885)
School administration services	138,486	137,595	129,675	(7,920)
Business services	37,635	27,714	26,519	(1,195)
Operations and maintenance	410,075	389,104	383,073	(6,031)
Transportation	40,150	40,150	44,887	4,737
Central	50,538	50,538	43,652	(6,886)
Community services	1,750	1,750	2,801	1,051
Total expenditures	1,847,595	1,859,852	1,706,996	(152,856)
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	129,064	132,090	177,878	45,789
<b>Other Financing Sources (Uses)</b>				
Prior period adjustment	-	-	-	-
Total other financing sources (uses)	-	-	-	-
<b>Net Change in Fund Balances</b>	129,064	132,090	177,878	45,789
<b>Fund Balance - Beginning of year</b>	306,726	306,726	306,726	-
<b>Fund Balance - End of year</b>	\$ 435,790	\$ 438,816	\$ 484,605	\$ 45,789

See accompanying notes to financial statements

# NEW PARADIGM LOVING ACADEMY

## REPORT TO THE BOARD OF DIRECTORS

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JUNE 30, 2015



# Wilkerson & Associate, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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645 GRISWOLD, SUITE 1812  
DETROIT, MICHIGAN 48226  
313-967-0134 FAX 313-967-0138

LARRY WILKERSON, C.P.A.  
THOMAS E. WILKERSON, C.P.A.

To the Board of Directors  
New Paradigm Loving Academy

We have recently completed our audit of the basic financial statements of New Paradigm Loving Academy (the "Academy") as of and for the year ended June 30, 2015. In addition to our audit report, we are providing the following required audit communication, recommendations, and informational items which impact the Academy:

	<u>Page(s)</u>
<b>Results of the Audit</b>	2-5
<b>Recommendations</b>	6
<b>Informational Items</b>	6-8

We are grateful for the opportunity to be of service to New Paradigm Loving Academy. Should you have any questions regarding the comments in this report, please do not hesitate to call.

*Wilkerson & Associate PC*

September 29, 2015

**Members: A.I.C.P.A. and M.A.C.P.A.**

To the Board of Directors  
New Paradigm Loving Academy  
September 29, 2015

## **Results of the Audit**

We have audited the financial statements of New Paradigm Loving Academy (the “Academy”) as of and for the year ended June 30, 2015 and have issued our report thereon dated September 29, 2015. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated March 2, 2015 our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all materials respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Academy. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Our audit of the Academy’s financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of the Academy’s compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated September 29, 2015 regarding 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.

To the Board of Directors  
New Paradigm Loving Academy  
September 29, 2015

We are also obligated to communicate certain matters related to our audit to those responsible for the governance of the Academy, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* require disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters during the preliminary audit phase.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Academy are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2015.

We noted no transactions entered into by the Academy during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are in integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates included in this year's financial statements.

To the Board of Directors  
New Paradigm Loving Academy  
September 29, 2015

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statements disclosures are particularly sensitive because of their significance to financial statements users. There were no particularly sensitive disclosures included in the financial statements.

***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no such misstatements identified.

***Disagreements with Management***

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statement or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated September 29, 2015.

***Management Consultants with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Academy's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

To the Board of Directors  
New Paradigm Loving Academy  
September 29, 2015

***Other Audit Findings or Issues***

In the normal course of our professional association with the Academy, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Academy, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the Academy's auditors.

**Other Information in Documents Containing Audited Financial Statements**

Our responsibility for other information in documents containing the Academy's financial statements and report does not extend beyond the financial statements. We do not have an obligation to determine whether or not such information is properly stated. However, we read the management's discussion and analysis and budgetary comparison schedule and nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information or manner of its presentation in the financial statements.

In addition to the comments and recommendations in this letter, our observations and comments regarding the Academy's internal controls, including any significant deficiencies or material weaknesses that we identified, have been reported to you in the report on internal control over financial reporting and on compliance and other matters based on and audit of financial statements performed in accordance with *Government Auditing Standards*.

This information is intended solely for the use of the board of directors and management of New Paradigm Loving Academy and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Wilkerson & Associate PC*

Larry D. Wilkerson, CPA

To the Board of Directors  
New Paradigm Loving Academy  
September 29, 2015

## Recommendations

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### NEW PARADIGM LOVING ACADEMY RECOMMENDATIONS

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As a result of auditing standards required to be implemented last year, the audit continues to require a strong emphasis be placed on the Academy's internal controls systems. The primary goal of internal controls is to provide a reasonable (as opposed to absolute) protection to the Academy and its assets and financial information. During this year's audit process, we noted no items that required management to make changes; therefore, no recommendations are made for this year.

## Informational items

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### NEW PARADIGM LOVING ACADEMY Informational Items

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#### **Budgeting Strategy Considerations for 2015-2016 and Beyond**

**Michigan's** economy continues to show signs of improvement but the rate of improvement is slow. Even with the changes in tax structure, the State has shown an inability to generate substantial additional revenue. Over the last several years, Michigan academies have struggled with the reality that the State has not been able to significantly increase funding. Based on the State's current budgetary outlook, it is apparent that there will not be any additional funds for the foreseeable future. With no other revenue source to replace it, the School Aid Fund will not be equipped to maintain funding at the current level, creating a significant funding cliff.

In the next months, we encourage the Academy to craft its plan. Key to the plan is defining how the educational programs and services will need to be adapted or redefined to cope with the funding issues while meeting the educational needs of the students. These tasks are not easy, but in the end could become opportunities to redesign how services are provided and educational objectives are met. As the Academy looks to the future, careful planning will continue to be key. The use of budget modeling will increase in importance especially as it looks to assess the impact of the best practice funding approach and a continued focus of funding based on student achievement

To the Board of Directors  
New Paradigm Loving Academy  
September 29, 2015

## NEW PARADIGM LOVING ACADEMY Informational Items

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### **New Rules Governing Management of Federal Programs**

In December 2013, the Office of Management and Budget (OMB) issued long-awaited reforms to the compliance requirements that must be followed by non-federal entities receiving federal funding. All school districts receiving federal dollars will need to understand the changes made as a result of these reforms and may be required to make some changes to their internal procedures, processes, and controls.

These reforms impact three key areas of federal grants management:

1. **Audit Requirements** – For fiscal years beginning on or after January 1, 2015 (fiscal year ending June 30, 2016 for Michigan schools), the threshold for obtaining a federal awards audit will increase from the current threshold of \$500,000 of annual federal spending to \$750,000. There will also be significant changes to the criteria for qualifying as a low-risk auditee and a reduction in the number of major programs required to be tested for some districts.

The Academy has historically been below the new \$750,000 threshold. However, from time to time, depending upon the level of federal spending, the Academy may drop below the audit requirement threshold and monitoring of federal program expenditures will be important to ensure compliance with the audit requirement.

2. **Cost Principles** – Effective December 26, 2014, the grant reforms related to cost principles go into effect. Not only were certain changes made to allowable costs under this new guidance, but there were significant changes in the area of time and effort reporting and indirect costs. The State of Michigan will have a significant impact on how these changes will be applied to Michigan schools, as they often have different requirements than the federal government in this area.

3. **Administrative Requirements** – Also effective December 26, 2014, non-federal entities receiving federal funding must adhere to new rules related to administering federal awards. Most notably, these requirements may impact the Academy’s procurement systems, including maintaining written conflict of interest policies and disclosures as well as updated grants management policies and procedures. The MDE has indicated that failure to adhere to these rules could result in the disqualification for participation in federal programs through the MDE. Please, note, these requirements are more stringent than those required under your federal program audit, which focuses on key controls versus overall process.