

**NEW PARADIGM  
LOVING ACADEMY**

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

# NEW PARADIGM LOVING ACADEMY

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# Wilkerson & Associate P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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

## 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, 2014, 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, 2014, 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 October 25, 2014, 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.

*Wilkerson & Associate PC*

October 25, 2014

# Wilkerson & Associate P.C.

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## 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, 2014, and have issued our report thereon dated October 25, 2014. 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*

October 25, 2014

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, 2014. 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, 2014.

TABLE 1	Government June 30, 2014
<b>ASSETS</b>	
Current and other assets	\$553,355
Capital assets	62,447
Total assets	615,802
<b>Liabilities</b>	
Current liabilities	246,629
Long-term liabilities	—
Total liabilities	246,629
<b>Net Assets</b>	
Invested in capital assets-Net of related debt	62,447
Unrestricted	306,726
Total net assets	<b>\$369,173</b>

The Academy's net assets were \$369,173 on June 30, 2014. Capital assets, net of related debt, totaling \$62,447 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 \$306,726 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 2014.

TABLE 2	Government June 30, 2014
<b>Revenue</b>	
Program revenue:	
Operating grants and contributions	\$176,226
General revenue:	
State foundation allowance	1,705,936
Total revenue	<u>1,882,162</u>
<b>Functions/Program Expenses</b>	
Instruction	824,850
Support services	1,078,753
Community services	29,734
Depreciation (unallocated)	11,529
Total functions/program expenses	<u>1,944,866</u>
<b>Increase in Net Position</b>	
Net Position - Beginning of year	<u>431,877</u>
Net Position - End of year	<u><u>\$369,173</u></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 2013–2014 budgets were approved by the New Paradigm Loving School Board of Directors.

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

#### **Capital Assets**

On June 30, 2014 the Academy had \$62,447 (after accumulated depreciation) invested in capital assets made up of equipment.

	2014
Lease Holder Improvements and Equipment	<u>\$85,011</u>
Total capital assets	85,011
Less accumulated depreciation	<u>\$22,564</u>
Net capital assets	<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 2015 fiscal year is 90 percent of the February 2014 and 10 percent of October 2014 student counts. The original 2015 budget was adopted in June 2014 based on the estimate of 200 students to be enrolled in September 2014. Based on early enrollment data at the start of the 2014–2015 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, 2014**

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and investments	\$ 241,283
Other receivables	
State	308,114
Federal	1,698
Other	2,260
Capital assets, net of accumulated depreciation	<u>62,447</u>
Total assets	\$ 615,802
<b>Liabilities</b>	
Accounts payable	49,307
Accrued liabilities	<u>197,322</u>
Total liabilities	246,629
<b>Net Position</b>	
Invested in capital assets, net of related debt	62,447
Unrestricted	<u>306,726</u>
Total Net Position	<u><u>\$ 369,173</u></u>

See accompanying notes to financial statements

**NEW PARADIGM LOVING ACADEMY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014**

<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	\$ 824,850	\$ -	\$ 123,990	\$ (700,860)
Supporting services				
Pupil support services	168,338	-	-	(168,338)
General administration services	300,403	-	-	(300,403)
School administration services	157,270	-	-	(157,270)
Business services	37,309	-	-	(37,309)
Operations and maintenance	379,789	-	-	(379,789)
Transportation	35,644	-	-	(35,644)
Community services	29,734	-	-	(29,734)
Depreciation	11,529	-	-	(11,529)
	<u>\$ 1,944,866</u>	<u>\$ -</u>	<u>\$ 123,990</u>	
Total governmental activities				(1,820,876)
General revenues				
				1,705,936
State aid - formula grants				1,705,936
Other revenue				<u>52,236</u>
				1,758,172
				<u>1,758,172</u>
				(62,704)
				<u>431,877</u>
				<u>\$ 369,173</u>

See accompanying notes to financial statements

**NEW PARADIGM LOVING ACADEMY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2014**

**ASSETS**

	<b>General Fund</b>
Cash and investments	\$ 241,283
Due from other governmental units	309,812
Accounts receivable	2,260
Total assets	\$ 553,355

**LIABILITIES AND FUND BALANCES**

<b>Liabilities</b>	
Accounts payable	\$ 49,307
Accrued liabilities	197,322
Total liabilities	246,629
<b>Fund Balances</b>	
<b>Unrestricted fund balance:</b>	
Assigned fund balance	-
Unassigned fund balance	306,726
Total fund balances	306,726
Total liabilities and fund balances	\$ 553,355

See accompanying notes to financial statements

**NEW PARADIGM LOVING ACADEMY  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2014**

<b>Total Fund Balances - Governmental Funds</b>	<b>\$</b>	<b>306,726</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>(22,564)</b></u>	<b>62,447</b>

<b>Total Net Position - Governmental Activities</b>	<b>\$</b>	<b><u>369,173</u></b>
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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, 2014**

	<b>General Fund</b>
<b>Revenues</b>	
Local sources	\$ 52,236
State sources	1,705,936
Federal sources	123,990
	1,882,162
<b>Expenditures</b>	
Current	
Instructional services	833,430
Supporting services:	
Pupil support services	169,738
General administration services	<b>300,403</b>
School administration services	<b>157,270</b>
Business services	<b>37,309</b>
Operations and maintenance	<b>393,401</b>
Transportation	<b>35,644</b>
Community services	<b>29,734</b>
	1,956,929
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(74,767)
<b>Other Financing Sources (Uses)</b>	
Operating transfers	-
Prior period adjustment	24,712
	24,712
<b>Net Change in Fund Balances</b>	(50,055)
<b>Fund Balances - Beginning of year</b>	<b>356,781</b>
<b>Fund Balances - End of year</b>	\$ 306,726

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, 2014**

**Total Net Change in Fund Balances - Governmental Funds** \$ (50,055)

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>23,592</u>	12,063

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Prior period adjustment		<u>(24,712)</u>
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<b>Change in Net Assets of Governmental Activities</b>		<u><u>\$ (62,704)</u></u>
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See accompanying notes to financial statements

**NEW PARADIGM LOVING ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**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, 2014 to the Detroit Public Schools was approximately \$47,411.

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, 2014**

**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, 2014**

**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, 2014**

**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, 2014**

**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, 2014**

**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, 2014.

**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, 2014**

**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, 2014**

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

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

Capital assets of \$62,447 (net of depreciation of \$22,564) 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, 2014**

**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>
Pupil support services	306,319	310,475	4,156
General administration services	283,837	300,403	16,566
School administration services	147,773	157,270	9,497
Business services	36,805	37,309	504
Operations and maintenance	386,623	393,401	6,778

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

The Academy formally adopted General Fund, and Special Revenue Funds (Food Services) budgets by function for the fiscal year ended June 30, 2014. 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 and Special Revenue Funds at June 30, 2014. 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, 2014**

**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 \$241,283.

The deposits of the Academy were reflected in the accounts of the financial institution at \$241,283 all of which is covered by federal depository insurance.

**NEW PARADIGM LOVING ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 4 - CAPITAL ASSETS**

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

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Balance June 30, 2014</u>
Assets being depreciated:				
Furniture and fixtures	\$ 47,544	\$ 9,980	\$ -	\$ 57,524
Leasehold improvements	13,875	13,612	-	27,487
Subtotal	61,419	23,592	-	85,011
Accumulated depreciation:				
Furniture and fixtures	10,341	9,474		19,815
Leasehold improvements	694	2,055		2,749
Subtotal	11,035	11,529	-	22,564
Net capital assets being depreciated	50,384	12,063	-	62,447
Net capital assets	<u>\$ 50,384</u>	<u>\$ 12,063</u>	<u>\$ -</u>	<u>\$ 62,447</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, 2014**

**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, 2014 approximated \$218,589.

**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 \$170,594 for the year ended June 30, 2014.

**NOTE 8 - SUBSEQUENT EVENTS**

Subsequent events have been evaluated through October 25, 2014, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

**REQUIRED SUPPLEMENTAL INFORMATION**

**NEW PARADIGM LOVING ACADEMY  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Over/(Under)
	Original	Final		Final to Actual
<b>Revenues</b>				
Local revenues	\$ 40,209	\$ 71,360	\$ 52,236	\$ (19,124)
State program revenues	2,233,000	1,695,120	1,705,936	10,816
Federal program revenues	134,588	191,337	123,990	(67,347)
Total revenues	<u>2,407,797</u>	<u>1,957,817</u>	<u>1,882,162</u>	(75,655)
<b>Expenditures</b>				
Current				
Instructional services	631,017	593,932	571,742	(22,190)
Supporting services				
Pupil support services	190,515	306,319	310,475	4,156
Instructional staff services	102,967	121,563	120,951	(612)
General administration services	364,314	283,837	300,403	16,566
School administration services	210,785	147,773	157,270	9,497
Business services	71,964	36,805	37,309	504
Operations and maintenance	263,216	386,623	393,401	6,778
Transportation	57,539	40,150	35,644	(4,506)
Central	58,567	32,753	29,734	(3,019)
Community services	20,879	1,750	-	(1,750)
Total expenditures	<u>1,971,763</u>	<u>1,951,505</u>	<u>1,956,929</u>	5,424
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	436,034	6,312	(74,767)	(81,078)
<b>Other Financing Sources (Uses)</b>				
Prior period adjustment	-	-	24,712	24,712
Total other financing sources (uses)	-	-	24,712	24,712
<b>Net Change in Fund Balances</b>	436,034	6,312	(50,056)	(56,366)
<b>Fund Balance - Beginning of year</b>	<u>356,781</u>	<u>356,781</u>	<u>356,781</u>	-
<b>Fund Balance - End of year</b>	<u>\$ 792,815</u>	<u>\$ 363,093</u>	<u>\$ 306,726</u>	<u>\$ (56,366)</u>

See accompanying notes to financial statements