

**LIFE SKILLS CENTER
OF PONTIAC**

**Financial Report
June 30, 2018**

LIFE SKILLS CENTER of PONTIAC

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INDEPENDENT AUDITOR'S REPORT

Board of Directors of
Life Skills Center of Pontiac

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 Life Skills Center of Pontiac, as of and for the year ended June 30, 2018, 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 Life Skills Center of Pontiac as of June 30, 2018, 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 8, 2018, on our consideration of Life Skills Center of Pontiac'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 Life Skills Center of Pontiac's internal control over financial reporting and compliance.

Wilkerson & Associate PC

September 8, 2018

Wilkerson & Associate P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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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
Life Skills Center of Pontiac

We have audited the financial statements of Life Skills Center of Pontiac as of and for the year ended June 30, 2018, and have issued our report thereon dated September 8, 2018. 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

Life Skills Center of Pontiac is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Life Skills Center of Pontiac'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 Life Skills Center of Pontiac's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Life Skills Center of Pontiac'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
Life Skills Center of Pontiac

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Life Skills Center of Pontiac'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 8, 2018

Management's Discussion and Analysis

As management of the Life Skills Center of Pontiac (the "Academy"), a public school academy, we offer readers of our financial statements this narrative overview and analysis of the financial activities of the Academy for the fiscal year ending June 30, 2018. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole. Readers should also review the basic financial statements and the notes to the financial statements to enhance their understanding of the Academy's financial performance.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Academy's basic financial statements. These basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Charter-Wide Financial Statements

The charter-wide financials statements are designed to provide readers with a broad overview of the Academy's finances, in a manner similar to private-sector business.

The statement of net position presents information on all of the Academy's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Academy is improving or deteriorating.

The statement of activities presents information showing how the Academy's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flow changes in future fiscal periods (e.g., items purchased but not paid for).

The governmental activities of the Academy include instruction, pupil and staff support services, general and school administration, business services and central support services, operations and maintenance services and community services. The charter-wide financial statements can be found on pages 7 and 8 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Academy, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Academy for the current year are governmental funds.

Governmental Funds

Governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available to the end of the fiscal year. Such information may be useful in evaluating the Academy's near-term financing requirements. The Academy maintains one governmental fund, the general fund, which is considered a major fund. Information is presented in the Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances.

Charter-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Academy, for the most recent year, assets exceeded liabilities by **\$238,155**, which may indicate stable financial health, as well as effective financial management and the Academy reported an overall net position of **\$291,049**.

Statement of Net Position

The Statement of Net Position answers the question of how the Academy did financially during the fiscal year ended June 30, 2018. This statement includes all assets and liabilities, both financial and capital and short-term and long-term, using the accrual basis of accounting and an economic resources focus that is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the Academy's Net Position for the fiscal years 2018 and 2017:

TABLE 1 STATEMENT OF NET POSITION

	<u>2018</u>	<u>2017</u>
Current Assets	\$ 375,354	\$ 420,086
Capital Assets (net of accumulate depreciation)	<u>52,894</u>	<u>86,341</u>
Total Assets	428,248	506,427
Current Liabilities	<u>137,199</u>	<u>95,772</u>
Net Postion:		
Invested in Capital Assets	52,894	86,341
Unrestricted	<u>238,155</u>	<u>324,313</u>
Total Net Postion	<u>\$ 291,049</u>	<u>\$ 410,654</u>

Statement of Activities

Table 2 shows the change in net position from 2017 to 2018, as well as a summary of program revenues and expenses:

TABLE 2 CHANGE IN NET POSITION

	<u>2018</u>	<u>2017</u>
Revenues		
Program Revenues		
Operating Grants and Contributions	\$ 153,524	\$ 256,842
General Revenues		
State Aid - formula grants	983,837	1,092,626
ISD Tax Revenue Payment (local)	51,430	49,393
Other Revenue (local)	17,738	26,664
Total Revenues	<u>1,206,530</u>	<u>1,425,525</u>
Expenses		
Instruction	394,748	535,055
Support Services	887,570	1,005,597
Community Services	10,370	26,904
Depreciation	33,447	30,306
Prior Year Adjustment (credit)	-	(36)
Total Expenses	<u>1,326,135</u>	<u>1,597,826</u>
Change in Net Position	<u>\$ (119,605)</u>	<u>\$ (172,301)</u>

The Academy experienced a decrease in its net position over last year, primarily due to a decrease in state aid revenue driven by a decrease in overall student enrollment, as well as an increase in depreciation expenses related to capital investments. However, the Academy continues to maintain a strong and stable net position as an overall ratio of total assets to total liabilities, which approximates 3 to 1.

Financial Analysis of the Academy's Funds

As noted earlier, the Academy uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

In particular, unreserved fund balance is a useful measure of the Academy's net resources available for spending at the end of the fiscal year. As of the year ended June 30, 2018, the Academy's governmental funds reported a combined unrestricted fund balance of **\$238,155**. This represents **20%** of total revenues received for fiscal year ending 2018, which equals a ratio of 20% often considered an indication of an extremely healthy financial position. Fund balance at June 30, 2018 as a ratio of state revenues, which was **24%**, also far exceeds the state of Michigan's 5% threshold, the early warning indicator of potential financial distress. A high ratio of fund balance to total revenues for each of the past several years indicates a consistently financially strong and stable position for the Academy (when compared to earlier years under different management), as well as effective monitoring of expenses relative to revenues, coupled with careful management of resources.

Capital Assets and Debt Administration

By the end of the 2018 fiscal year, the Academy had invested **\$172,387** in total capital assets. Capital assets consist mainly of computer and technology-related equipment. Net book value after accounting for accumulated depreciation equaled \$52,894.

TABLE 3 CAPITAL ASSETS

	<u>Accumulated Costs</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value June 30, 2018</u>	<u>Net Book Value June 30, 2017</u>
Furniture, Fixtures & Equipment	\$ 1,036	\$ 328	\$ 708	\$ 439
Computer Equipment	171,351	119,165	\$ 52,186	85,902
	<u>\$ 172,387</u>	<u>\$ 119,493</u>	<u>\$ 52,894</u>	<u>\$ 86,341</u>

Long Term Debt

As of June 30, 2018 the Academy had no long-term debt.

Short-Term Obligations

As of June 30, 2018, the Academy had short-term obligations of \$49,320 related to its 2018 State Aid Note cash flow loan, which was fully retired as of August 21, 2018.

Current Financial Issues

Currently, the Academy faces the same issues that all public schools in Michigan do:

- 1) per pupil state aid foundation funding which until only as of 2017, had remained below 2007 levels each of the previous 9 straight years;
- 2) population shifts including a steady stream of families and their children still leaving certain areas of Michigan for better economic and employment opportunities in other places, and
- 3) uncertainty as to whether or not economic conditions, which have been recently improving, will continue on the same positive course.

Despite these challenges, the Academy ended the 2018 fiscal year with a stable financial foundation.

Requests for Information

This financial report is designed to provide a general overview of the Academy's finances for all those with an interest in the Academy's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Life Skills Center of Pontiac
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LIFE SKILLS CENTER OF PONTIAC
STATEMENT OF NET POSITION
JUNE 30, 2018

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 128,099
Other receivables	
Accounts Receivable	3,544
Local	-
State	180,829
Federal	41,469
Prepaid Expenditures	21,413
Capital assets, net of accumulated depreciation	<u>52,894</u>
Total assets	428,248
Liabilities	
Accounts payable	54,238
Note payable	49,320
Management company payable	26,450
Accrued authorizer fees	5,425
Accrued interest	<u>1,766</u>
Total liabilities	137,199
Net Position	
Invested in capital assets, net of related debt	52,894
Unrestricted	<u>238,155</u>
Total net position	<u><u>\$ 291,049</u></u>

See accompanying notes to the financial statements.

**LIFE SKILLS CENTER OF PONTIAC
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED
JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets
Governmental Activities				
Instruction	\$ 394,748	\$ -	\$ 100,432	\$ (294,316)
Supporting services				
Pupil support services	97,723	-	41,469	(56,254)
Instructional support services	108,177	-	11,623	(96,554)
General administration services	124,893	-	-	(124,893)
School administration services	83,023	-	-	(83,023)
Business services	88,963	-		(88,963)
Operations and maintenance	262,305	-	-	(262,305)
Central services	122,486	-	-	(122,486)
Community services	10,370	-	-	(10,370)
Depreciation Expense	33,447	-	-	(33,447)
Total governmental activities	\$ 1,326,135	\$ -	\$ 153,524	\$ (1,172,611)
General revenues				
State aid - formula grants				983,837
Other				
Local sources				17,738
ISD county millage payments				51,430
Total general revenues				1,053,006
Change in Net Position				(119,605)
Net Position - July 1, 2017				410,654
Net Position - June 30, 2018				\$ 291,049

See accompanying notes to the financial statements.

**LIFE SKILLS CENTER OF PONTIAC
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018**

ASSETS

	General Fund	Total Governmental Funds
Cash and cash equivalents	\$ 128,099	\$ 128,099
Accounts receivable	3,544	3,544
Due from other governmental units	222,298	222,298
Prepaid Expenditures	21,413	21,413
	<hr/>	<hr/>
Total assets	<u>\$ 375,354</u>	<u>\$ 375,354</u>

LIABILITIES AND FUND BALANCES

Liabilities

Accounts payable	\$ 54,238	\$ 54,238
Note payable	49,320	49,320
Management company payable	26,450	26,450
Accrued authorizer fees	5,425	5,425
Accrued interest	1,766	1,766
	<hr/>	<hr/>
Total liabilities	<u>137,199</u>	<u>137,199</u>

Fund Balances

Unrestricted fund balance:

Non-spendable	21,413	21,413
Unassigned fund balance	216,742	216,742
	<hr/>	<hr/>
Total fund balances	<u>238,155</u>	<u>238,155</u>
	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 375,354</u>	<u>\$ 375,354</u>

See accompanying notes to the financial statements.

**LIFE SKILLS CENTER OF PONTIAC
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018**

Total Fund Balances - Governmental Funds	\$ 238,155
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Deferred revenue	<u>-</u>
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Amounts reported for governmental activities in the statement of net assets are different because:

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

Cost of capital assets	172,387	
Accumulated depreciation	<u>(119,493)</u>	<u>52,894</u>

Total Net Position - Governmental Activities	<u><u>\$ 291,049</u></u>
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See accompanying notes to the financial statements.

**LIFE SKILLS CENTER OF PONTIAC
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED
JUNE 30, 2018**

	General Fund	Total Governmental Funds
Revenues		
Local sources	\$ 69,168	\$ 69,168
State sources	983,837	983,837
Federal sources	153,524	153,524
Total revenues	1,206,530	1,206,530
Expenditures		
Current		
Instructional services	394,748	394,748
Supporting services:		
Pupil support services	97,723	97,723
Instructional support services	108,177	108,177
General administration services	124,893	124,893
School administration services	83,023	83,023
Business services	88,963	88,963
Operations and maintenance	262,305	262,305
Central support services	122,486	122,486
Community services	10,370	10,370
Total expenditures	1,292,688	1,292,688
Excess (Deficiency) of Revenues Over Expenditures	(86,158)	(86,158)
Other Financing Sources (Uses)		
Operating transfers - in	-	-
Operating transfers - out	-	-
Total other financing sources (uses)	-	-
Net Change in Fund Balances	(86,158)	(86,158)
Fund Balances - July 1, 2017	324,313	324,313
Fund Balances - June 30, 2018	\$ 238,155	\$ 238,155

See accompanying notes to the financial statements.

**LIFE SKILLS CENTER OF PONTIAC
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, 2018**

Total Net Change in Fund Balances - Governmental Funds	\$ (86,158)
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Prior year deferred revenue	-
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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	(33,447)	
Capital outlays (site improvements, equipment and furniture expenditures)	-	(33,447)

Current year deferred revenue	-
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Change in Net Positions of Governmental Activities	<u><u>\$ (119,605)</u></u>
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See accompanying notes to the financial statements.

LIFE SKILLS CENTER of PONTIAC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Life Skills Center of Pontiac (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

The Academy is part of the Michigan Public School System under Act No. 362 of the Public Acts of 1993 and is subject the leadership and general supervision of the State Board of Education. Bay Mills Community College is the authorizing body of the Academy. The contract with Bay Mills Community College expires June 30, 2020. The Academy’s school board is approved by the authorizing body and is authorized to manage the property and affairs of the Academy. The Academy does not include any other component unit within its financial statements as defined in Governmental Accounting Standards Board Statement Nos. 14 and 39.

The contract with Bay Mills Community College (BMCC) 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. BMCC 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 BMCC three percent of the state school aid payments received by the Academy as administrative fees. The total administrative fees for the year ended June 30, 2018 paid to BMCC approximated \$29,515.

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.

LIFE SKILLS CENTER of PONTIAC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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 non-fiduciary 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.

LIFE SKILLS CENTER of PONTIAC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

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

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.

LIFE SKILLS CENTER of PONTIAC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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.

LIFE SKILLS CENTER of PONTIAC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

D. Assets, Liabilities, and Net Assets 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 139.91 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.

Capital Assets

Capital assets, which include equipment and furniture, 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 \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased

LIFE SKILLS CENTER of PONTIAC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

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

Capital Assets (Continued)

or constructed. Computers and other technology equipment with a useful life of 3 years or longer, regardless of cost, are also treated as capital assets. 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. Equipment and furniture is depreciated using the straight-line method over the following useful lives:

Computers and technology	3 – 7 years
Furniture and equipment	5 – 20 years

MPERS Liability

The Academy contracted with edtec central, LLC – 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, 2018.

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. There was no deferred revenue to report for the year ended June 2018.

LIFE SKILLS CENTER of PONTIAC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

D. Assets, Liabilities, and Net Assets 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 assets. The Academy had no long-term debt at year end.

Short-Term Debt

At year end, the Academy had short-term obligations totaling \$49,320 related to its State Aid Note cash flow loan, which was fully retired as of August 20, 2018.

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.

LIFE SKILLS CENTER of PONTIAC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

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

Capital assets of \$52,894 (net \$119,493 of accumulated depreciation) 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.

LIFE SKILLS CENTER of PONTIAC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

6. Expenditures must be authorized by a budget before being incurred.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The Academy formally adopted a General Fund budget by function for the fiscal year ended June 30, 2018. 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, 2018. 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.

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

LIFE SKILLS CENTER of PONTIAC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

At year end, the Academy's deposits and investments were reported in the basic financial statements as cash and cash equivalents of \$128,099.

The deposits of the Academy were reflected in the accounts of the financial institution at \$143,963 of which all was covered by federal depository insurance.

NOTE 4 - CAPITAL ASSETS

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

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Disposals & Adjustments</u>	<u>Balance June 30, 2018</u>
Assets being depreciated:				
Equipment, furniture & fixtures	\$ 502	\$ -	\$ 535	\$ 1,036
Computer/technology equipment	<u>171,885</u>	<u>-</u>	<u>(535)</u>	<u>171,351</u>
Subtotal	172,387	-	-	172,387
Accumulated depreciation:				
Equipment, furniture & fixtures	(63)	(207)	-	(270)
Technology/computer equipment	<u>(85,983)</u>	<u>(33,640)</u>	<u>400</u>	<u>(119,222)</u>
Subtotal	(86,046)	(33,847)	400	(119,492)
Net capital assets being depreciated	<u>86,341</u>	<u>(33,847)</u>	<u>400</u>	<u>52,894</u>
Net capital assets	<u>\$ 86,341</u>	<u>\$ (33,847)</u>	<u>\$ 400</u>	<u>\$ 52,894</u>

LIFE SKILLS CENTER of PONTIAC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4 - CAPITAL ASSETS (continued)

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

Governmental activities:

Specific activities	\$ -
Unallocated	<u>(33,847)</u>
Total governmental activities	<u><u>\$ (33,847)</u></u>

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.

NOTE 6 - MANAGEMENT AGREEMENT

The Academy has entered into a management agreement with edtec central, LLC (the "Management Company"), a for-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 the Academy for the year ended June 30, 2018 approximated \$141,242. The management agreement between the Academy and edtec central, LLC is extended annually.

LIFE SKILLS CENTER of PONTIAC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 - OPERATING LEASE

On June 30, 2016, the Academy renewed its operating lease agreement with G.J. & J.A. Investments, LLC, for its facilities through July 31, 2020. The Academy is responsible for utilities, taxes, insurance, and maintenance. Lease payments approximated \$100,750 for the period ended June 30, 2018.

NOTE 8- SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 8, 2018, 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.

On September 6, 2018 the Academy borrowed \$250,000 in a State Aid Note. The note bears an interest rate of 5.30% percent, maturing on August 20, 2019.

REQUIRED SUPPLEMENTAL INFORMATION

LIFE SKILLS CENTER OF PONTIAC
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED
JUNE 30, 2018

	Budgeted Amounts		Actual	Variances
	Original	Final	(GAAP Basis)	Over/(Under)
				Final
				to Actual
Revenues				
Local revenues	\$ 73,444	\$ 53,085	\$ 69,168	16,083
State program revenues	1,257,866	983,880	983,837	(43)
Federal program revenues	141,237	145,531	153,524	7,993
Total revenues	1,472,547	1,182,496	1,206,530	24,033
Expenditures				
Current				
Instructional services	438,947	394,814	394,748	(66)
Supporting services				
Pupil support services	101,700	104,217	97,723	(6,494)
Instructional staff services	96,559	129,601	108,177	(21,424)
General administration services	148,982	135,779	124,893	(10,886)
School administration services	130,220	96,371	83,023	(13,348)
Business services	96,371	90,919	88,963	(1,956)
Operations and maintenance	310,000	304,926	262,305	(42,621)
Central services	182,171	136,203	122,486	(13,717)
Community services	28,000	10,371	10,370	(1)
Total expenditures	1,532,950	1,403,201	1,292,688	(110,513)
Excess (Deficiency) of Revenues				
Over Expenditures	(60,403)	(220,705)	(86,158)	134,546
Other Financing Sources (Uses)				
Operating transfers - in	-	-	-	-
Operating transfers - out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net Change in Fund Balances	(60,403)	(220,705)	(86,158)	134,546
Fund Balances - July 1, 2017	171,467	324,313	324,313	-
Fund Balances - June 30, 2018	\$ 111,064	\$ 103,609	\$ 238,155	\$ 134,546

See accompanying note to the financial statements.

LIFE SKILLS CENTER OF PONTIAC
REPORT TO THE BOARD OF DIRECTORS

JUNE 30, 2018

Wilkerson & Associate P.C.

CERTIFIED PUBLIC ACCOUNTANTS

3 PARKLANE BLVD. SUITE 612
DEARBORN, MICHIGAN 48126
313-982-4340 FAX 313-982-4342

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

To the Board of Directors of
Life Skills Center of Pontiac

We have recently completed our audit of the basic financial statements of Life Skills Center of Pontiac (the "Academy") as of and for the year ended June 30, 2018. 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>
Results of Audit	2-5
Recommendations	6
Informational Items	6-7

We are grateful for the opportunity to be of service to Life Skills Center of Pontiac. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Wilkerson & Associate PC

September 8, 2018

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

To the Board of Directors
Life Skills Center of Pontiac
September 8, 2018

Results of the Audit

We have audited the financial statements of Life Skills Center of Pontiac (the “Academy”) as of and for the year ended June 30, 2018 and have issued our report thereon dated September 8, 2018. 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 February 28, 2018, 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 material 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 8, 2018 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
Life Skills Center of Pontiac
September 8, 2018

We are also obligated to communicate certain matters related to our audit of 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 1 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, 2018.

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 an 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
Life Skills Center of Pontiac
September 8, 2018

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statements disclosures are particularly sensitive because of their significance to financial statement 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 as of the date of the audit report.

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 consultant 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
Life Skills Center of Pontiac
September 8, 2018

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 an 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 Life Skills Center of Pontiac 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
Life Skills Center of Pontiac
September 8, 2018

Recommendations

LIFE SKILLS CENTER OF PONTIAC RECOMMENDATIONS

As a result of auditing standards required to be implemented last year, the audit continues to require a strong emphasis to be placed on the Academy's internal control 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

LIFE SKILLS CENTER OF PONTIAC

Cybersecurity and data backup best practices

The Academy's data is critically important. There are thousands of ways data can be compromised. It is vitally important that all employees and staff have proper knowledge on what is safe to click on and what is not. It is equally important that a proper data backup solution is in place in the event a Academy's information is targeted by malware or a fraudulent email attack. A School's vital information is always a moment away from being compromised. Encouraging and educating all staff to pay attention to what they click on and what they do is the first step in keeping information safe.

Having a proper data backup solution in place can mean the difference between a Academy's surviving a cyber-attack or losing valuable data and time. Every School should know the answer to two questions when looking at data backup solutions.

To the Board of Directors
Life Skills Center of Pontiac
September 8, 2018

1. Does your School understand the difference between a backup and disaster recovery?

Management often assumes that simply backing up files is “good enough”. Backing up files is something all Schools should do. However, it’s important to remember that restoring files and emails is one thing, but recovering and restoring all School’s data in the event of a disaster is another.

2. How long can my School survive a network outage?

Many Schools assume that they are properly backing up their network but often are those backups tested. Internally managed backups are more susceptible to lack of testing. Management often believes they have successful backups but in the moment of a disaster, they find out that their last successful backup was months ago. Test backups often to make sure files can be recovered when needed.