



**Financial Statements**  
Year Ended June 30, 2018

# Wellspring Preparatory High School

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Financial Statements  
Year Ended June 30, 2018

# Wellspring Preparatory High School

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## Independent Auditor's Report

Board of Directors  
Wellspring Preparatory High School  
Grand Rapids, Michigan

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Wellspring Preparatory High School (the School) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School'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 School'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 School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Wellspring Preparatory High School as of June 30, 2018, and the respective changes in financial position thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and budgetary comparison information on pages 6-9 and 20-21, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on this information, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The Statement of Revenues for the year ended June 30, 2018 - General Fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Statement of Revenues for the year ended June 30, 2018 - General Fund is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Statement of Revenues for the year ended June 30, 2018 - General Fund is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2018 on our consideration of Wellspring Preparatory High School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

BDO USA, LLP

September 27, 2018

## Management's Discussion and Analysis

This section of the annual financial report for Wellspring Preparatory High School (the School) provides an overview of the School's financial activities as of and for the fiscal year ended June 30, 2018. It should be read in conjunction with the 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 the School financially as a whole. The School-wide financial statements provide information about the activities of the whole School, presenting both an aggregate view of the School'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 School's operations in more detail than the School-wide financial statements by providing information about the School's most significant fund, the General Fund, with the other fund presented as the School Service Fund.

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

#### Basic Financial Statements

School-Wide Financial Statements

Fund Financial Statements

Notes to Financial Statements

Budgetary Information for the Governmental Funds  
(Required Supplementary Information)

Statement of Revenues for the Year Ended June 30, 2018 - General Fund  
(Additional Information)

### *Reporting the School as a Whole - School-Wide Financial Statements*

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

The School's net position, the difference between assets and liabilities, as reported in the statement of net position, is one way to measure the School's financial position. The relationship between revenues and expenses is the School's operating results. The School's goal is to provide services to our students, not to generate profits as private-sector companies do. One must consider nonfinancial factors, such as the quality of the education provided and the safety of the School, to assess the overall health of the School.

## Management’s Discussion and Analysis (continued)

The statement of net position and the statement of activities report the activities of the School, all of which are classified as governmental. These activities encompass all the School’s services, including instruction, support services, and food services. State aid (based on student count) and state and federal grants finance most of these activities. The School has entered into a services agreement (the Agreement) with PrepNet, LLC (PrepNet), which requires PrepNet to provide administration, strategic planning, and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the consideration received under the Agreement, PrepNet also provides the facility in which the School operates. Under the terms of the Agreement, PrepNet receives as remuneration for its services an amount equal to the total revenue received by the School from all revenue sources.

### *Reporting the School’s Fund Financial Statements*

The School’s fund financial statements provide detailed information about the most significant funds - not the School as a whole. Some funds are required to be established by state law. However, the School establishes other funds to help it control and manage money for particular purposes or as required by state law (the School Service Fund is an example). The governmental funds of the School use the following accounting approach:

**Governmental Funds** - All of the School’s services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at period-end that are available for spending. They are reported using an accounting method called modified accrual accounting. Only those revenues that are “measurable” and “currently available” are reported. Liabilities are recognized when incurred. The governmental fund statements provide a short-term view of the operations of the School 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 School’s programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in reconciliations presented as part of the statements.

### *The School as a Whole*

As described above, the reference to “the School as a whole” relates to financial statements on pages 11 and 12. Recall that the statement of net position provides the perspective of the School as a whole. The table below provides a summary of the School’s net position as of June 30:

	2018	2017
<b>Assets</b>		
Current assets	\$ 699,090	\$ 666,228
Capital assets - net of accumulated depreciation	-	-
<b>Total assets</b>	<b>699,090</b>	<b>666,228</b>
<b>Liabilities - current</b>	<b>696,586</b>	<b>664,228</b>
<b>Net Position</b>		
Unrestricted	439	2,000
Restricted for food service	2,065	-
<b>Total Net Position</b>	<b>\$ 2,504</b>	<b>\$ 2,000</b>



## Management's Discussion and Analysis (continued)

The unrestricted net position of governmental activities represents the accumulated results of its operations from the School's inception. These assets can be used to finance current operations without constraints, such as legislative or legal requirements. The results of the current period operations for the School as a whole are reported in the statement of activities, which shows the change in net position. The results of operations for the School as a whole are reported in the summarized statement of activities (below) which shows the changes in net position for the fiscal years ended June 30:

	2018	2017
<b>Revenues</b>		
State aid unrestricted	\$ 3,469,017	\$ 3,389,581
Operating grants	576,988	578,583
Charges for services	9,219	10,801
Total revenues	4,055,224	3,978,965
<b>Expenses - contracted service fee</b>		
Instruction	1,700,762	1,715,781
Support services	2,270,427	2,186,257
Food service	83,531	75,915
Total expenses	4,054,720	3,977,953
<b>Change in Net Position</b>	<b>\$ 504</b>	<b>\$ 1,012</b>

As reported in the statement of activities, the cost of governmental activities for the year ended June 30, 2018 was \$4,054,720. These activities were primarily funded by the School's state aid (based on student count) and governments and organizations that subsidized certain programs with grants.

The School experienced an increase in net position of \$504 in 2018. Under the terms of the Agreement with PrepNet, PrepNet provides a spending account to the Board of Directors for discretionary expenditures. The primary reason for the change in net position is the timing of these discretionary expenditures.

A reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities appears on page 14.

### *Fund Financial Statements*

As we noted earlier, the School uses funds to help it control and manage money for particular purposes or as required by state law. Looking at funds helps the reader to consider whether the School is being accountable for the resources that the state and others provide to it and may provide more insight into the School's overall financial health.

The School's instruction and support services activities are reported in the General Fund. The School Service Fund represents food service activities. The School's combined fund balance was \$2,504 at June 30, 2018.

## Management's Discussion and Analysis (continued)

A reconciliation of the balance sheet of governmental funds to the statement of net position appears on page 13.

### *General Fund Budgetary Highlights*

Over the course of the period, the School revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School's original and final budget amounts compared with amounts actually paid and received is provided in the required supplementary information of these financial statements.

Budgeted revenues for the General Fund were increased by \$260,759 from the original budget. Revenues were changed to reflect an increase in contribution from PrepNet. Budgeted expenditures for the General Fund were increased by \$256,027. This change was to reflect the change in anticipated funding. The variances between the final budget and actual amounts were insignificant.

### *Capital Assets*

At June 30, 2018, the School had \$0 invested in capital assets as they were fully depreciated. Capital assets are substantially provided as part of the Agreement with PrepNet.

### *General Economic Factors and Next Year's Budgets*

Our officials and administration consider many factors when setting the School's 2018-19 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The 2019 budget was adopted in May 2018. Approximately 83% of total General Fund revenue is from the foundation allowance. As a result, School funding is heavily dependent on the state's ability to fund local school operations. Based on early enrollment data at the start of the 2019 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2019 budget. Once the final student count and related per pupil funding are validated, state law requires the School to amend the budget if actual School resources are not sufficient to fund original appropriations.

Because the School'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 public school academies. The state periodically holds a revenue-estimating conference to estimate revenues. If the state estimates funds are not sufficient to fund the appropriation, the legislature must revise the appropriation or proration of state aid will occur. Based on information currently available, no significant changes are expected to occur in the nature of the funding or operations of the School in 2019.

### *Contacting the School's Financial Management*

The financial report is designed to provide users of the report with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report, contact the Chief Financial Officer of PrepNet, LLC, at 3755 36<sup>th</sup> Street SE, Suite 250, Grand Rapids, Michigan 49512.

## Basic Financial Statements

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# Wellspring Preparatory High School

## Statement of Net Position

<i>June 30, 2018</i>	Governmental Activities
<b>Assets</b>	
<b>Current Assets</b>	
Cash	\$ 2,361
Due from governmental revenue sources	696,729
<b>Total current assets</b>	<b>699,090</b>
<b>Noncurrent Assets</b>	
Capital assets	25,768
Less accumulated depreciation	(25,768)
<b>Total capital assets - net of accumulated depreciation</b>	<b>-</b>
<b>Total Assets</b>	<b>699,090</b>
<b>Liabilities</b>	
Accounts payable	1,922
Unearned revenue	19,487
Contracted service fee payable	675,177
<b>Total Liabilities</b>	<b>696,586</b>
<b>Net Position</b>	
Unrestricted	439
Restricted for food service	2,065
<b>Total Net Position</b>	<b>\$ 2,504</b>

*See accompanying notes to financial statements.*

# Wellspring Preparatory High School

## Statement of Activities

<i>Year ended June 30, 2018</i>	Expenses	Program Revenues		Total	Governmental Activities Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants		
<b>Functions/Programs</b>					
Governmental activities -					
contracted service fee:					
Instruction	\$ 1,700,762	\$ -	\$ 500,611		\$ (1,200,151)
Support services	2,270,427	-	-		(2,270,427)
Food service	83,531	9,219	76,377		2,065
<b>Total Governmental Activities</b>	<b>\$ 4,054,720</b>	<b>\$ 9,219</b>	<b>\$ 576,988</b>		<b>(3,468,513)</b>
General purpose revenues:					
					3,469,017
Change in net position					
					504
Net Position, beginning of year					
					2,000
Net Position, end of year					
					\$ 2,504

*See accompanying notes to financial statements.*

# Wellspring Preparatory High School

## Balance Sheet - Governmental Funds

<i>June 30, 2018</i>	General Fund	School Service Fund	Total Governmental Funds
<b>Assets</b>			
Cash	\$ 2,361	\$ -	\$ 2,361
Due from governmental revenue sources	693,633	3,096	696,729
<b>Total Assets</b>	<b>\$ 695,994</b>	<b>\$ 3,096</b>	<b>\$ 699,090</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 1,922	\$ -	\$ 1,922
Unearned revenue	18,586	901	19,487
Contracted service fee payable	648,895	130	649,025
<b>Total Liabilities</b>	<b>669,403</b>	<b>1,031</b>	<b>670,434</b>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue	26,152	-	26,152
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>695,555</b>	<b>1,031</b>	<b>696,586</b>
<b>Fund Balances</b>			
Committed	439	-	439
Restricted for food service	-	2,065	2,065
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 695,994</b>	<b>\$ 3,096</b>	<b>\$ 699,090</b>
<b>Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position</b>			
Total governmental fund balance			\$ 2,504
Capital assets used in governmental activities are not financial resources and are not reported in the funds:			
Capital assets cost		\$ 25,768	
Accumulated depreciation		<u>(25,768)</u>	
			-
Due from governmental revenue sources - not available to pay current period expenditures therefore deferred in the funds			<u>(26,152)</u>
Due to PrepNet - not due and payable in the current period and not reported in the funds			<u>26,152</u>
<b>Net Position of Governmental Activities</b>			<b>\$ 2,504</b>

*See accompanying notes to financial statements.*

# Wellspring Preparatory High School

## Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

<i>Year ended June 30, 2018</i>	General Fund	School Service Fund	Total Governmental Funds
<b>Revenues</b>			
State aid unrestricted	\$ 3,469,017	\$ -	\$ 3,469,017
Other state sources	152,507	3,079	155,586
Federal sources	161,176	73,298	234,474
Private sources	70,463	9,219	79,682
Local sources	90,313	-	90,313
<b>Total revenues</b>	<b>3,943,476</b>	<b>85,596</b>	<b>4,029,072</b>
<b>Expenditures - contracted service fee</b>			
Instruction	1,700,762	-	1,700,762
Support services	2,244,275	-	2,244,275
Food service	-	83,531	83,531
<b>Total expenditures</b>	<b>3,945,037</b>	<b>83,531</b>	<b>4,028,568</b>
Net change in fund balances	(1,561)	2,065	504
<b>Fund Balances, beginning of year</b>	<b>2,000</b>	<b>-</b>	<b>2,000</b>
<b>Fund Balances, end of year</b>	<b>\$ 439</b>	<b>\$ 2,065</b>	<b>\$ 2,504</b>

### Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Net change in fund balance - total governmental funds	\$ 504
Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds	26,152
Contracted service fee recognized consistent with revenue policy	(26,152)
<b>Change in Net Position of Governmental Activities</b>	<b>\$ 504</b>

*See accompanying notes to financial statements.*

# Wellspring Preparatory High School

## Notes to Financial Statements

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### 1. Nature of Operations

Wellspring Preparatory High School (the School) is a Michigan Public School Academy, which provides education based on rigorous teaching methods, parental involvement, student responsibility and basic moral values. The School provides education, at no cost to the parent, to students in ninth through twelfth grade. Enrollment is open to all appropriately aged children without regard to gender, ethnic background, disability and/or religious affiliation. The School operates under a charter approved by Bay Mills Community College, which is responsible for oversight of the School's operations. The charter expires June 30, 2019 and is subject to renewal. Management believes the charter will be renewed in the ordinary course of business. Bay Mills Community College Board of Trustees receives 3% of both state aid and certain federal pass-through funds as an administrative fee. The total administrative fee for the year ended June 30, 2018 paid to Bay Mills Community College was \$103,639.

The School is exempt from taxation as a governmental entity pursuant to Internal Revenue Code (IRC) Section 115. The School qualifies for public charity status by meeting the requirements of IRC Sections 509(1) and 170(b)(1)(A)(ii).

The School's primary source of revenue is provided by the State of Michigan and consists of an amount per student multiplied by weighted-average student counts. The state revenue is recognized ratably over the school year and is funded through payments from October 2017 through August 2018.

The Board of Directors of the School has entered into a services agreement (the Agreement) with PrepNet, LLC (PrepNet), which requires PrepNet to provide administration, strategic planning, and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the consideration received under the Agreement, PrepNet also provides the facility in which the School operates. The Agreement will continue until the termination or expiration of the charter contract, unless at least 90 days' written notice of intent to terminate or renegotiate is given by either the School or PrepNet.

Under the terms of the Agreement, PrepNet receives as remuneration for its services an amount equal to the total revenue received by the School from all revenue sources. *Revenues - private sources - PrepNet* represent a contribution granted by PrepNet for the excess of School expenditures over public revenues available.

### 2. Summary of Significant Accounting Policies

#### *School-Wide and Fund Financial Statements*

The School-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. The effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the School'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 segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (a) charges to customers or



# Wellspring Preparatory High School

## Notes to Financial Statements

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applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues not classified as program revenues are reported instead as general purpose revenue.

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

*School-Wide Statements* - The School-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 are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

*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 School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. The contracted service fee to PrepNet is recorded consistent with the recognition of revenue.

*Fund Classification* - The financial activities of the School are organized on the basis of funds. The operation of each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

*General Fund* - The General Fund is used to account for the general educational programs and athletic programs of the School. Its revenues are derived primarily from the State of Michigan. It is considered a major fund.

*School Service Fund* - The School Service fund is used to account for the food service operation. Its revenues are derived primarily from a federal grant and student charges. It is considered a major fund.

*Capital Assets* - Capital assets, which include other equipment, are reported in the applicable governmental column in the School-wide financial statements at historical costs of more than \$5,000 and an estimated useful life in excess of one year. Other equipment is depreciated using the straight-line method over useful lives of four to ten years.

*Estimates* - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, and expenditures during the reporting period. Actual results could differ from those estimates.

# Wellspring Preparatory High School

## Notes to Financial Statements

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*Cash* - Cash as of June 30, 2018 represents bank deposits, which are covered by federal depository insurance.

*Unearned Revenue* - Unearned revenue is reported in connection with funds that have been received for services which have not been performed and, therefore, is not yet earned. As of June 30, 2018, a liability for unearned revenue was recognized for \$19,487.

*Contracted Service Fee Payable* - Contracted service fee payable as of June 30, 2018 represents a timing difference between funds received from governmental sources and amounts payable to PrepNet in accordance with the Agreement.

*Deferred Inflows of Resources* - Deferred inflows of resources represent an acquisition of net position that applies to a future period and is not recognized as revenue until then. In the fund financial statements, unavailable revenue is reported as a deferred inflow of resources. Unavailable revenue is reported in connection with receivables for revenue that are not considered available to liquidate liabilities of the current period. As of June 30, 2018, a deferred inflow for unavailable revenue was recognized for \$26,152.

*Net Position* - Net position represents the difference between assets plus deferred outflows and liabilities plus deferred inflows on the School-wide financial statements. Net position invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition or construction of those assets. Net position is reported as restricted when there are limitations imposed on its use either through legislation or through external restrictions imposed by creditors, grantors, laws or regulations from other governments.

*Fund Balances* - Fund balances may be classified as restricted, committed, assigned or unassigned. The term "restricted" is used to either designate a portion of fund balance as legally segregated for a specific future use or to indicate that certain assets do not represent spendable resources available for general educational programs. The term "committed" represents amounts that can only be used for the specific purpose determined by a formal resolution of the board. The term "assigned" is used to classify the fund balance intended to be used by the board but does not meet the criteria to be restricted or committed. The term "unassigned" is used for amounts that have not been restricted, committed, or otherwise assigned for future uses. At June 30, 2018, the School had \$439 in committed fund balance and \$2,065 in restricted fund balance.

*Budgetary Information* - Annual budgets are adopted on a basis utilizing GAAP and consistent with state law for the general and special revenue funds.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School to have its budget in place by July 1. The budgets can be amended by the Board of Directors of the School as considered necessary. The budgets were amended to increase budgeted revenues and expenditures for the general fund by \$260,759 and \$256,027, respectively, and to increase expenditures for the school service fund by \$4,732. During the year, the School incurred expenditures in the General Fund in excess of amounts budgeted for certain expenditure line items.

# Wellspring Preparatory High School

## Notes to Financial Statements

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### 3. Due From Governmental Revenue Sources

Receivables as of June 30, 2018 for the General Fund included \$649,246 in state aid receivable and \$36,635 in federal grants receivable, \$126 in state grants receivable, and \$7,626 in local grants receivable. Receivables as of June 30, 2018 for the School Service Fund included \$2,609 in federal receivable and \$487 in state receivable.

### 4. Risk Management

The School is exposed to various risks of loss related to general liability. Commercial insurance policies to cover certain risks of loss have been obtained. There have been no significant reductions in insurance coverage during the fiscal year 2018, and claims did not exceed coverage less retained risk deductible amounts in the past two fiscal years.

### 5. Capital Assets

Capital asset activity of the School's governmental activities was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental activities - other equipment	\$ 25,768	\$ -	\$ -	\$ 25,768
Less accumulated depreciation - other equipment	(25,768)	-	-	(25,768)
<b>Net Governmental Activities Capital Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

### 6. Contingencies

The School has received proceeds from several federal and state grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

### 7. Operating Lease

The School has entered into a sublease agreement with PrepNet for a facility to house the School. The lease terms were from July 1, 2017 through June 30, 2018. Annual rental payments required by the lease for the building were \$760,000, payable in 12 monthly installments of \$63,333. The agreement automatically renews on an annual basis. Monthly installments for the period July 1, 2018 through June 30, 2019 will be \$63,333.

### 8. Subsequent Events

Events or transactions occurring after the balance sheet date have been evaluated through September 27, 2018, the date the financial statements were available to be issued. The financial statements and the notes thereto do not reflect events or transactions after this date.

## Required Supplementary Information

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# Wellspring Preparatory High School

## Budgetary Comparison Schedule General Fund

<i>Year ended June 30, 2018</i>	Original Budget	Final Amended Budget	Actual	Over (Under) Final Budget
<b>Revenues</b>				
State aid unrestricted	\$ 3,460,465	\$ 3,460,465	\$ 3,469,017	\$ 8,552
Other state sources	202,471	202,471	152,507	(49,964)
Federal sources	188,500	187,725	161,176	(26,549)
Private sources	80,030	86,030	70,463	(15,567)
Local sources	94,371	94,371	90,313	(4,058)
Private sources - PrepNet	-	255,534	-	(255,534)
<b>Total revenues</b>	<b>4,025,837</b>	<b>4,286,596</b>	<b>3,943,476</b>	<b>(343,120)</b>
<b>Expenditures - contracted service fee</b>				
Instruction:				
Basic instruction	1,426,426	1,525,897	1,378,783	(147,114)
Added needs	271,892	215,718	204,328	(11,390)
Special education	101,610	125,368	117,651	(7,717)
Support services:				
Pupil services	65,791	59,035	56,027	(3,008)
Instructional staff support	140,525	149,577	135,968	(13,609)
Board of education	62,545	36,268	33,347	(2,921)
Executive administration	197,856	265,359	213,057	(52,302)
Grant procurement	8,508	15,691	9,912	(5,779)
School admin - office of the principal	394,990	370,940	366,844	(4,096)
Other school administration	103,936	142,871	178,969	36,098
Business and internal services	67,495	121,611	86,011	(35,600)
Central services	46,393	120,404	53,446	(66,958)
Pupil activities	88,786	92,680	77,211	(15,469)
Operations and maintenance	1,041,768	1,033,129	1,033,483	354
<b>Total expenditures</b>	<b>4,018,521</b>	<b>4,274,548</b>	<b>3,945,037</b>	<b>(329,511)</b>
<b>Revenues Over (Under) Expenditures</b>	<b>7,316</b>	<b>12,048</b>	<b>(1,561)</b>	<b>(13,609)</b>
<b>Other Financing Uses</b>				
Operating transfers out	(7,316)	(12,048)	-	12,048
<b>Net change in fund balance</b>	<b>-</b>	<b>-</b>	<b>(1,561)</b>	<b>(1,561)</b>
<b>Fund Balance, beginning of year</b>	<b>2,000</b>	<b>2,000</b>	<b>2,000</b>	<b>-</b>
<b>Fund Balance, end of year</b>	<b>\$ 2,000</b>	<b>\$ 2,000</b>	<b>\$ 439</b>	<b>\$ (1,561)</b>

# Wellspring Preparatory High School

## Budgetary Comparison Schedule School Service Fund

<i>Year ended June 30, 2018</i>	Original Budget	Final Amended Budget	Actual	Over (Under) Final Budget
<b>Revenues</b>				
Federal sources	\$ 57,734	\$ 57,734	\$ 73,298	\$ 15,564
Other state sources	-	-	3,079	3,079
Private sources	10,290	10,290	9,219	(1,071)
<b>Total revenues</b>	<b>68,024</b>	<b>68,024</b>	<b>85,596</b>	<b>17,572</b>
<b>Expenditures - contracted service fee</b>				
Food service	75,340	80,072	83,531	3,459
<b>Revenues Over (Under) Expenditures</b>	<b>(7,316)</b>	<b>(12,048)</b>	<b>2,065</b>	<b>14,113</b>
<b>Other Financing Source</b>				
Operating transfers in	7,316	12,048	-	(12,048)
<b>Net change in fund balance</b>	<b>-</b>	<b>-</b>	<b>2,065</b>	<b>2,065</b>
<b>Fund Balance, beginning of year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balance, end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,065</b>	<b>\$ 2,065</b>

## Additional Information

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# Wellspring Preparatory High School

## General Fund Statement of Revenues

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*Year ended June 30, 2018*

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State aid unrestricted	\$ 3,469,017
Other state sources - grants and special education	152,507
Federal sources - grants	161,176
Private sources	70,463
Local sources - special education	90,313
<b>Total</b>	<b>\$ 3,943,476</b>

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## Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Directors  
Wellspring Preparatory High School  
Grand Rapids, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Wellspring Preparatory High School (the School) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated September 27, 2018.

### Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of This Report

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

BDO USA, LLP

September 27, 2018