

# **Detroit Leadership Academy**

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**Financial Report  
with Supplemental Information  
June 30, 2016**

# **Detroit Leadership Academy**

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## Independent Auditor's Report

To the Board of Directors  
Detroit Leadership Academy

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

We have audited the accompanying financial statements of the governmental activities, the major fund, and the remaining fund information of Detroit Leadership Academy (the "Academy") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Detroit Leadership Academy's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the remaining fund information of Detroit Leadership Academy as of June 30, 2016 and the respective changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors  
Detroit Leadership Academy

***Emphasis of Matter***

As discussed in Note 1 to the basic financial statements, the Academy has a contract with Central Michigan University as the authorizer, which expires on June 30, 2017. The Academy is currently working with Central Michigan University to renew the charter. Additionally, the Academy is designated as a priority school by the State School Reform Office. Our opinion is not modified with respect to this matter.

***Required Supplemental Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the major fund budgetary comparison schedule 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, which 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 supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2016 on our consideration of Detroit Leadership Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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 Detroit Leadership Academy's internal control over financial reporting and compliance.

*Plantz & Morax, PLLC*

October 21, 2016

# **Detroit Leadership Academy**

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## **Management's Discussion and Analysis**

This section of Detroit Leadership Academy's (the "Academy") annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2016. Please read it in conjunction with the Academy's 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 Detroit Leadership Academy financially as a whole. The Academy-wide financial statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the Academy's operations in more detail than the Academy-wide financial statements by providing information about the Academy's most significant fund - the General Fund - with the other fund presented in one column as the nonmajor School Lunch Fund.

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

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps 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 year's revenue and expenses are taken into account regardless of when cash is received or paid. These two statements report the Academy's net position - the difference between assets and liabilities, as reported in the statement of net position - as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net position - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenue and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the Academy. The statement of net position and the statement of activities report the governmental activities for the Academy, which encompass all of the Academy's services, including instruction, support services, community services, and food services. Unrestricted state aid (foundation allowance revenue) and state and federal grants finance most of these activities.

# Detroit Leadership Academy

## Management's Discussion and Analysis (Continued)

### The Academy as a Whole

Recall that the statement of net position provides the perspective of the Academy as a whole. Table I provides a summary of the Academy's net position as of June 30, 2016 and 2015:

Table I	Governmental Activities	
	June 30, 2016	June 30, 2015
	(in thousands)	
<b>Assets</b>		
Current and other assets	\$ 884.9	\$ 1,285.7
Capital assets - Net	133.9	227.1
Total assets	1,018.8	1,512.8
<b>Liabilities - Current liabilities</b>	669.0	1,241.4
<b>Net Position</b>		
Net investment in capital assets	133.9	227.1
Restricted - Food service	0.3	18.9
Unrestricted	215.6	25.4
Total net position	<u>\$ 349.8</u>	<u>\$ 271.4</u>

The above analysis focuses on the net position (see Table I). The change in net position (see Table 2) of the Academy's governmental activities is discussed below. The Academy's net position was approximately \$349,800 at June 30, 2016. The portion of net position identified as invested in capital assets represents the original cost of the capital assets less depreciation. The portion of net position identified as restricted represents the School Lunch Fund fund balance. The remaining amount of net position of approximately \$215,600 was unrestricted.

The \$215,600 in unrestricted net position of governmental activities represents the results of the first four years of operation. The unrestricted net position balance enables the Academy to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the Academy as a whole are reported in the statement of activities (see Table 2), which shows the changes in net position for fiscal years 2016 and 2015 for comparison purposes.

# Detroit Leadership Academy

## Management's Discussion and Analysis (Continued)

Table 2

	Governmental Activities	
	Year Ended	
	June 30, 2016	June 30, 2015
	(in thousands)	
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 9.2	\$ 20.9
Operating grants and contributions	1,971.4	1,693.9
General revenue:		
State foundation allowance	3,984.1	3,492.5
Private contributions not restricted to specific purposes	100.0	306.2
Total revenue	<u>6,064.7</u>	<u>5,513.5</u>
<b>Functions/Program Expenses</b>		
Instruction	1,800.2	2,011.6
Support services	3,661.4	3,095.4
Food services	376.9	370.4
Community services	54.6	9.1
Depreciation (unallocated)	93.2	106.8
Total functions/program expenses	<u>5,986.3</u>	<u>5,593.3</u>
<b>Change in Net Position</b>	78.4	(79.8)
<b>Net Position</b> - Beginning of year	<u>271.4</u>	<u>351.2</u>
<b>Net Position</b> - End of year	<u><u>\$ 349.8</u></u>	<u><u>\$ 271.4</u></u>

As reported in the statement of activities, the cost of all of our governmental activities this year was approximately \$6.0 million. Certain activities were partially funded by other governments and organizations that subsidized certain programs with grants and contributions of approximately \$2.0 million. We paid for the remaining "public benefit" portion of our governmental activities with approximately \$4.0 million in state foundation allowance and with our other revenue of approximately \$109,000.

The Academy experienced an increase in net position of approximately \$78,400. The primary reasons for the change in net position were the strategic decision by management and the board to increase the General Fund fund balance due to increased student enrollment and the depreciation of the Academy's capital assets.

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

# Detroit Leadership Academy

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## Management's Discussion and Analysis (Continued)

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

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

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

### **The Academy's Funds**

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

As the Academy completed this year, the governmental funds reported a combined fund balance of approximately \$215,900. The primary reasons for the decrease are as follows:

In the General Fund, our principal operating fund, the fund balance increased to approximately \$215,600. The change is primarily due to increased enrollment. General Fund fund balance is available to fund costs related to allowable school operating purposes.

In the Special Revenue Fund, the School Lunch Fund, the fund balance decreased to approximately \$300. The primary reason for this decrease is due to a commitment to provide a healthy breakfast and lunch to the entire student population at no cost, and adjusting to the order versus service demand early in the school year.

# **Detroit Leadership Academy**

## **Management's Discussion and Analysis (Continued)**

### **General Fund Budgetary Highlights**

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements. There were significant revisions made to the 2015-2016 General Fund original budget-based revenue and expenditures from higher than budgeted enrollment.

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

#### ***Capital Assets***

As of June 30, 2015, the Academy had approximately \$133,900 invested in capital assets, primarily related to furniture and equipment.

#### ***Debt***

At the end of this year, the Academy had no long-term debt outstanding.

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

The Academy's board and administration consider many factors when setting the Academy's 2017 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 blended count for the 2017 fiscal year is 10 percent of the February 2016 student count and 90 percent of the October 2016 student count. The 2017 budget was adopted in June 2016, based on an estimate of students that will be enrolled in October 2016. Approximately 70 percent of total General Fund revenue is from the foundation allowance. Under state law, the Academy cannot assess additional property tax revenue for general operations. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2017 school year, we anticipate that the fall student count will be in line with the estimates used in creating the 2017 budget. Once the final student count and related per-pupil funding are validated, state law requires the Academy to amend the budget if actual Academy resources are not sufficient to fund original appropriations.

Since the Academy's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenue to fund its appropriation to academies. The State periodically holds a revenue-estimating conference to estimate revenue. Based on the results of the most recent conference, it is uncertain whether state funds are sufficient to fund the appropriation.

# **Detroit Leadership Academy**

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## **Management's Discussion and Analysis (Continued)**

### **Contacting the Academy**

This financial report is intended to provide our taxpayers, parents, and investors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the business office.

# Detroit Leadership Academy

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## Statement of Net Position June 30, 2016

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash (Note 3)	\$ 12,682
Due from other governmental units	872,243
Capital assets - Net (Note 5)	<u>133,870</u>
Total assets	1,018,795
<b>Liabilities</b>	
Accounts payable	515,475
State aid anticipation note (Note 6)	137,457
Unearned revenue (Note 4)	<u>16,078</u>
Total liabilities	<u>669,010</u>
<b>Net Position</b>	
Net investment in capital assets	133,870
Restricted - Food service	301
Unrestricted	<u>215,614</u>
Total net position	<u><u>\$ 349,785</u></u>

# Detroit Leadership Academy

## Statement of Activities Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenue		Governmental
		Charges for Services	Operating Grants and Contributions	Activities
				Net (Expense) Revenue and Changes in Net Position
Primary government - Governmental activities:				
Instruction	\$ 1,800,149	\$ 9,160	\$ 967,839	\$ (823,150)
Support services	3,661,380	-	596,834	(3,064,546)
Food services	376,947	-	358,414	(18,533)
Community services	54,601	-	48,392	(6,209)
Depreciation expense (unallocated)	93,269	-	-	(93,269)
Total primary government	<u>\$ 5,986,346</u>	<u>\$ 9,160</u>	<u>\$ 1,971,479</u>	(4,005,707)
General revenue:				
State aid not restricted to specific purposes				3,984,119
Private contributions not restricted to specific purposes				100,000
Total general revenue				<u>4,084,119</u>
<b>Change in Net Position</b>				78,412
<b>Net Position - Beginning of year</b>				<u>271,373</u>
<b>Net Position - End of year</b>				<u><b>\$ 349,785</b></u>

# Detroit Leadership Academy

## Governmental Funds Balance Sheet June 30, 2016

	General Fund	Nonmajor Governmental Special Revenue Fund - School Lunch Fund	Total Governmental Funds
<b>Assets</b>			
Cash (Note 3)	\$ 12,682	\$ -	\$ 12,682
Due from other governmental units	850,525	21,718	872,243
Due from other funds (Note 7)	21,417	-	21,417
Total assets	<u>\$ 884,624</u>	<u>\$ 21,718</u>	<u>\$ 906,342</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 515,475	\$ -	\$ 515,475
State aid anticipation note (Note 6)	137,457	-	137,457
Due to other funds (Note 7)	-	21,417	21,417
Unearned revenue (Note 4)	16,078	-	16,078
Total liabilities	669,010	21,417	690,427
<b>Fund Balances</b>			
Restricted - Food Service	-	301	301
Unassigned	215,614	-	215,614
Total fund balances	215,614	301	215,915
Total liabilities and fund balances	<u>\$ 884,624</u>	<u>\$ 21,718</u>	<u>\$ 906,342</u>

# Detroit Leadership Academy

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## Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position June 30, 2016

**Fund Balance Reported in Governmental Funds** \$ 215,915

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

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

Cost of capital assets	\$ 715,230	
Accumulated depreciation	<u>(581,360)</u>	<u>133,870</u>

**Net Position of Governmental Activities** **\$ 349,785**

# Detroit Leadership Academy

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2016

	General Fund	Nonmajor Governmental Special Revenue Fund - School Lunch Fund	Total Governmental Funds
<b>Revenue</b>			
Local sources	\$ 109,160	\$ -	\$ 109,160
State sources	4,587,463	11,524	4,598,987
Federal sources	1,009,721	346,890	1,356,611
Total revenue	5,706,344	358,414	6,064,758
<b>Expenditures</b>			
Current:			
Instruction	1,786,735	-	1,786,735
Support services	3,658,991	-	3,658,991
Food services	-	376,947	376,947
Community services	54,601	-	54,601
Capital outlay	15,803	-	15,803
Total expenditures	5,516,130	376,947	5,893,077
<b>Net Change in Fund Balances</b>	190,214	(18,533)	171,681
<b>Fund Balances - Beginning of year</b>	25,400	18,834	44,234
<b>Fund Balances - End of year</b>	<b>\$ 215,614</b>	<b>\$ 301</b>	<b>\$ 215,915</b>

# Detroit Leadership Academy

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## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2016**

**Net Change in Fund Balances - Total Governmental Funds** \$ 171,681

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

Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation -

Depreciation expense \$ (93,269)

**Change in Net Position of Governmental Activities** \$ 78,412

# **Detroit Leadership Academy**

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## **Notes to Financial Statements June 30, 2016**

### **Note 1 - Nature of Business and Significant Accounting Policies**

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

#### **Reporting Entity**

The Academy was formed as a charter school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994.

On May 1, 2010, the Academy entered into a five-year contract with Central Michigan University to charter a public school academy. On July 1, 2015, an agreement was reached for a charter extension with Central Michigan University. The charter was extended for a period not to exceed two years and will expire on June 30, 2017. The Academy has two successive options to apply to extend the term of the agreement for an additional five years each from and after the expiration of the original term or the first extension term, as applicable. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. The Central Michigan University board of trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Central Michigan University board of trustees 3.0 percent of state aid foundation allowance as administrative fees. Administrative fees for the year ended June 30, 2016 totaled approximately \$120,000.

The Michigan State School Reform Office designated the Academy as a priority school in 2014. Regardless of academic progress, the Academy maintains priority status for a period of four years and may be released from priority status by meeting exit criteria in 2018. If the Academy fails to meet the exit criteria at the conclusion of the four-year period, the Academy may be subjected to additional accountability actions.

The accompanying basic 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 or financial relationships with the Academy. Based on application of the criteria, the entity does not contain component units.

# Detroit Leadership Academy

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## Notes to Financial Statements June 30, 2016

### **Note 1 - Nature of Business and Significant Accounting Policies (Continued)**

#### **Academy-wide and Fund Financial Statements**

The academy-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. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by 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 are 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 or capital requirements of a particular function. Intergovernmental payments and other items not properly included among program revenue are reported instead as general revenue.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

**Academy-wide Financial Statements** - The Academy-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.

As a general rule, the effect of interfund activity has been eliminated from the Academy-wide financial statements.

When an expense is incurred for the purpose for which both restricted and unrestricted net position or fund balance are available, the Academy's policy is to first apply restricted resources. When an expense is incurred for the purpose for which amounts in any of the unrestricted fund balance classifications could be used, it is the Academy's policy to spend funds in this order: committed, assigned, and unassigned.

# Detroit Leadership Academy

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## Notes to Financial Statements June 30, 2016

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating 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 Financial Statements** - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Revenue not meeting this definition is classified as a deferred inflow of resources. For this purpose, the Academy considers revenue to be available if its collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

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

The Academy reports the following major governmental fund:

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

Additionally, the Academy reports the following fund type:

**Special Revenue Fund** - The Special Revenue Fund is used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The Academy's Special Revenue Fund includes the School Lunch Fund. Revenue sources for the School Lunch Fund include grants received from state and federal sources. Any operating deficit generated by these activities is the responsibility of the General Fund.

#### **Assets, Liabilities, and Net Position or Equity**

**Cash** - Cash includes cash on hand and demand deposits.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds."

Receivables are shown net of an allowance for uncollectible amounts. The Academy considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

# Detroit Leadership Academy

## Notes to Financial Statements June 30, 2016

### Note I - Nature of Business and Significant Accounting Policies (Continued)

**Prepaid Costs and Other Assets** - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both Academy-wide and fund financial statements.

**Capital Assets** - Capital assets, which include leasehold improvements, furniture and fixtures, computer equipment, and buses, are reported in the applicable governmental column in the Academy-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. 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 infrastructure-type assets.

Capital assets are depreciated using the straight-line method over the following useful lives:

Leasehold improvements	5 years
Furniture and fixtures	7 years
Buses	5 years
Computer equipment	3 years

**Fund Balance** - In the fund financial statements, governmental funds report the following components of fund balance:

- **Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed:** Amounts that have been formally set aside by the board of directors for use for specific purposes. Commitments are made and can be rescinded only via resolution of the board of directors.
- **Assigned:** Intent to spend resources on specific purposes expressed by the board of directors, which is authorized to make assignments

# Detroit Leadership Academy

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## Notes to Financial Statements June 30, 2016

### **Note 1 - Nature of Business and Significant Accounting Policies (Continued)**

- **Unassigned:** Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

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

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

### **Note 2 - Stewardship, Compliance, and Accountability**

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund and the School Lunch Fund.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits academics to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The Academy increased budgeted amounts during the year in response to refined enrollment and related spending projections.

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

# Detroit Leadership Academy

## Notes to Financial Statements June 30, 2016

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the Academy incurred expenditures in the General Fund, which were in excess of the amounts budgeted as follows:

	Budget	Actual
Support services - Pupil	\$ 195,241	\$ 291,041
Support services - Instructional staff	787,913	819,334
Support services - School administration	368,383	401,424
Support services - Operations and maintenance	939,552	1,037,665

The Academy budget reports capital outlay expenditures within the related function in the budgetary comparison schedule. In accordance with generally accepted accounting principles, the Academy reports capital outlay separately in the statement of revenue, expenditures, and changes in fund balances.

### Note 3 - Deposits and Investments

State statutes 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. As of June 30, 2016, the Academy does not have any investments.

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

The Academy's cash is 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 does not have a deposit policy for custodial credit risk. At year end, the Academy's deposit balance of \$12,682 was fully insured. The Academy evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# Detroit Leadership Academy

## Notes to Financial Statements June 30, 2016

### Note 4 - Unavailable/Unearned Revenue

Governmental funds report unavailable revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the Academy had no unavailable revenue and had \$16,078 of unearned revenue related to grant and categorical aid payments received prior to meeting all eligibility requirements.

### Note 5 - Capital Assets

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

<b>Governmental Activities</b>	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2016</u>
Capital assets being depreciated:				
Leasehold improvements	\$ 125,622	\$ -	\$ -	\$ 125,622
Furniture and fixtures	278,189	-	-	278,189
Buses	10,400	-	-	10,400
Computer equipment	301,019	-	-	301,019
Subtotal	715,230	-	-	715,230
Accumulated depreciation:				
Leasehold improvements	68,415	25,125	-	93,540
Furniture and fixtures	167,912	39,741	-	207,653
Buses	5,200	2,080	-	7,280
Computer equipment	246,564	26,323	-	272,887
Subtotal	488,091	93,269	-	581,360
Net capital assets	<u>\$ 227,139</u>	<u>\$ (93,269)</u>	<u>\$ -</u>	<u>\$ 133,870</u>

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

# Detroit Leadership Academy

## Notes to Financial Statements June 30, 2016

### Note 6 - State Aid Anticipation Note

On August 20, 2015, the Academy borrowed \$765,000 through the Michigan Finance Authority on a state aid anticipation note. The note bears interest at 3.20 percent and is due in monthly installments, including interest, of \$70,846 through August 22, 2016. The note was paid in full subsequent to year end.

The Academy borrowed \$395,000 through Wayne County on a state aid anticipation note bearing interest at a rate of 9.9 percent. This note is due in one monthly installment, including interest, of \$49,569 due on October 30, 2015 and nine monthly installments, including interest, of \$41,314 from November 30, 2015 through July 22, 2016. The note was paid in full in December 2015.

Subsequent to year end, the Academy borrowed \$1,628,000 through the Michigan Finance Authority on a state aid anticipation note bearing interest at a rate of 3.30 percent. This note is due in monthly installments, including interest, of \$150,817 from October 20, 2016 through August 21, 2017.

### Note 7 - Interfund Receivables, Payables, and Transfers

Interfund balances include \$21,417 due from the School Lunch Fund to the General Fund. These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

### Note 8 - Operating Leases

The Academy has entered into an operating lease agreement for its facility, which serves as the elementary school for grades kindergarten through five. The facility is subleased from the Academy's former management company. Rent expense in connection with its building lease was \$287,004 for the year ended June 30, 2016. The lease expires on June 30, 2017, with annual payments of \$264,000 due in equal monthly installments on the first day of each month as well as a monthly maintenance fee of \$1,917. There are no additional extensions.

The Academy has also entered into an operating lease agreement for its facility, which serves as the middle school and high school for grades six through 10. The facility is subleased from the Academy's management company. The lease expires on June 30, 2017. Rent expense in connection with its building lease was \$284,004 for the year ended June 30, 2016. The lease contains a renewal option, which the Academy has the intention of exercising. The option for the extended maturity is two successive options to extend the term of the agreement for an additional five years.

Future minimum lease payments for the leases, based on the initial maturity schedule, are \$571,004 for year ending June 30, 2017.

# **Detroit Leadership Academy**

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## **Notes to Financial Statements June 30, 2016**

### **Note 9 - Risk Management**

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. Employment-related claims for management company staff are covered by insurance policies held by the management company. The Academy has purchased commercial insurance for all other claims. There have been no claims brought against the Academy since inception.

### **Note 10 - Management Agreement**

On July 1, 2015, the Academy entered into a management agreement with a nonprofit corporation. The management company is responsible for substantially all of the management, operation, administration, education, and food services at the Academy. The Academy subcontracts all employees from the management company and reimburses the management company for services provided. At June 30, 2016, \$493,734 is owed to the management company for unreimbursed costs incurred by the Academy. The management fee is calculated based on two components: (1) an amount equal to 10 percent of the funds received from the State of Michigan pursuant to the School Aid Act of 1979 not to be less than a fixed fee portion of \$300,000 and (2) a payroll administration fee defined as 1.50 percent of gross salary and wages. The management fees and payroll administration fees charged to the Academy by the management company were approximately \$447,000 and \$31,000, respectively, for the year ended June 30, 2016. The agreement expires on June 30, 2017.

## **Required Supplemental Information**

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# Detroit Leadership Academy

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
<b>Revenue</b>				
Local sources	\$ 100,000	\$ 100,000	\$ 109,160	\$ 9,160
State sources	3,878,732	4,563,472	4,587,463	23,991
Federal sources	684,133	1,081,435	1,009,721	(71,714)
Total revenue	4,662,865	5,744,907	5,706,344	(38,563)
<b>Expenditures</b>				
Current:				
Instruction:				
Basic program	1,026,902	1,697,892	1,502,950	(194,942)
Added needs	424,620	460,640	297,199	(163,441)
Total instruction	1,451,522	2,158,532	1,800,149	(358,383)
Support services:				
Pupil	210,716	195,241	291,041	95,800
Instructional staff	742,730	787,913	819,334	31,421
General administration	561,464	707,474	711,343	3,869
School administration	348,512	368,383	401,424	33,041
Business	128,832	166,511	167,890	1,379
Operations and maintenance	962,704	939,552	1,037,665	98,113
Pupil transportation services	86,082	197,201	182,544	(14,657)
Central	75,121	72,754	50,139	(22,615)
Total support services	3,116,161	3,435,029	3,661,380	226,351
Community services	42,255	44,530	54,601	10,071
Total expenditures	4,609,938	5,638,091	5,516,130	(121,961)
<b>Excess of Revenue Over Expenditures</b>	52,927	106,816	190,214	83,398
<b>Net Change in Fund Balance</b>	52,927	106,816	190,214	83,398
<b>Fund Balance - Beginning of year</b>	25,400	25,400	25,400	-
<b>Fund Balance - End of year</b>	<b>\$ 78,327</b>	<b>\$ 132,216</b>	<b>\$ 215,614</b>	<b>\$ 83,398</b>