



# THE CLAIRMOUNT GROUP, PLC

Certified Public Accountants

## **Detroit Prep**

(A Michigan Public School Academy)

**Financial Statements**

**For the Year Ended**

**June 30, 2017**



**Table of Contents**

---

**Page(s)**

Independent Auditor's Report..... 1-2

Management's Discussion and Analysis ..... 3-10

**Basic Financial Statements**

Academy-Wide Financial Statements:

Statement of Net Position .....11

Statement of Activities .....12

**Fund Financial Statements:**

Governmental Funds:

Combined Balance Sheet .....13

Reconciliation of the Balance Sheet of Governmental Funds to the  
Net Position of Governmental Activities .....14

Statement of Revenue, Expenditures and Changes  
in Fund Balances .....15

Reconciliation of the Statement of  
Revenue, Expenditures, and Changes in Fund balances  
of Governmental Funds to the Statement of Activities .....16

**Notes to Financial Statements** ..... 17-23

**Required Supplemental Information**

Budgetary Comparison Schedule – General Fund.....24

**Other Required Information**

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 ..... 25-26



THE CLAIRMOUNT GROUP, PLC  
Certified Public Accountants

## **Independent Auditor's Report**

To Board of Directors  
Detroit Prep

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

We have audited the accompanying financial statements of the governmental activities, the major fund (General Fund), and the aggregate remaining fund information of Detroit Prep as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Detroit Prep'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. 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 (General Fund), and the aggregate remaining fund information of Detroit Prep as of June 30, 2017, and the respective changes in financial position 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 the management's discussion and analysis and budgetary comparison information on page 24 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 the 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 Detroit Prep's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2017, on our consideration of Detroit Prep'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 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 Prep's internal control over financial reporting and compliance.

*The Clairmount Group, PLC*

The Clairmount Group, PLC  
October 2, 2017  
Detroit, MI 48226

## Detroit Prep Management's Discussion and Analysis

---

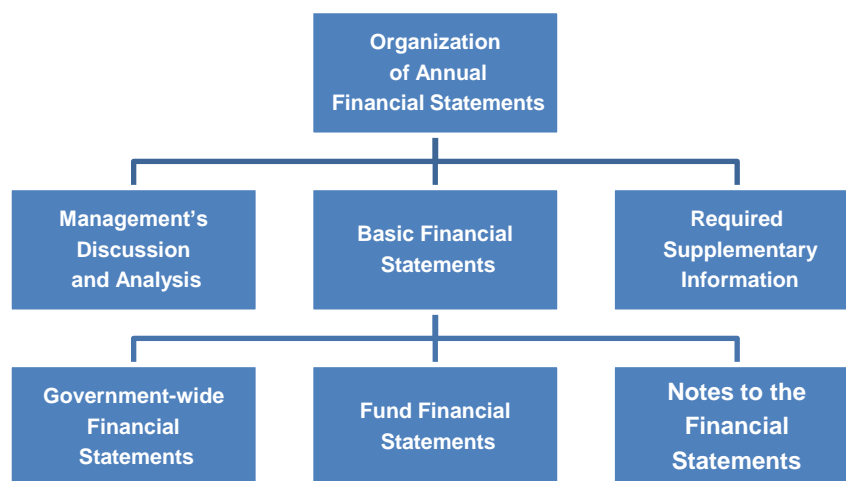
The discussion and analysis of Detroit Preparatory Academy's financial performance provides an overall review of the Academy's financial activities for the fiscal year ending June 30, 2017. The intent of this discussion and analysis is to provide in general terms, a look at the Academy's performance as well as their past and current position. Readers should also review the transmittal letter, notes to financial statements, and the financial statements to enhance their understanding of the Academy's financial performance.

This reporting model was adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – Management Discussion and Analysis (MD&A) – for the State and Local Governments issued in June of 2000. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

### Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and the required supplemental information. The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy's budget for the year. The basic financial statements include two kinds of statements that present different views of the Academy. **Figure A-1** shows how the various parts of this annual report are arranged and related to one another.

Figure A-1 Detroit Preparatory Academy



## Detroit Prep Management's Discussion and Analysis

---

### Government-Wide Financial Statements

The government-wide financial statements are full accrual basis statements and provide information about the Academy's overall financial status. They are used to help determine whether or not the Academy is financially better or worse as a result of the year's activities. The *Statement of Net Position* reports all of the Academy's assets and liabilities, both short and long term, regardless if they are "currently available" or not. Capital assets and long-term obligations of the Academy are reported in this statement. All of the current year's revenues and expenses are accounted for in the *Statement of Activities* regardless of when cash is received or paid.

The two government-wide statements report the Academy's net position and how they have changed. Net position – the difference between the Academy's assets and liabilities – is one way to measure the Academy's financial health or position.

- Over time, increases or decreases in the Academy's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the Academy's overall health, you need to consider additional non-financial factors such as the quality of the education provided and the condition of the Academy's facilities.

In the government-wide statements, the Academy's activities are classified as governmental activities. This includes most of the Academy's basic services, such as regular and special education, operations and maintenance, and administration. State aid finances these services.

### Fund Financial Statements

The fund financial statements focus on individual parts of the Academy, reporting the Academy's operations in more detail than the government-wide statements. For the most part, the fund financial statements are comparable to prior year financial statements. The fund level statements are reported on a *modified accrual basis*. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

Governmental activities – The Academy's basic services are included in the general fund, such as regular and special education and administration. State foundation aid finances most of these activities.

The Academy has two kinds of funds:

Governmental funds – Most of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that 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. Because this information does not encompass the additional long-term focus of the Academy-wide statements we provide additional information with the governmental funds statement that explains the relationship.

Fiduciary funds – The Academy is the fiduciary for assets that belong to others, such as the student activities funds. The Academy is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and used by those to whom the assets belong. We exclude these activities from the academy-wide financial statements because the Academy cannot use these assets to finance its operations.

**Detroit Prep  
Management's Discussion and Analysis**

---

**FINANCIAL ANALYSIS  
OF THE ACADEMY AS A WHOLE**

The Academy's combined net position was \$115,417 on June 30, 2017. **Figure A-2** shows a breakdown of the unrestricted net position of \$115,417 for June 30, 2017.

**Figure A-2  
Statement of Net Position**

|   | June 30,<br>2017         |
|---|--------------------------|
| Assets                                    |                          |
| Current Assets                            | \$ 92,201                |
| Capital assets net of depreciation        | <u>46,193</u>            |
| <br>Total assets                          | <br>138,394              |
| <br>Liabilities                           |                          |
| Current Liabilities                       | 22,977                   |
| Net Position                              | <u>115,417</u>           |
| <b>Total Liabilities and Net Position</b> | <b><u>\$ 138,394</u></b> |

A large portion of the Academy's net position reflect investments in capital assets (equipment, and furniture). The Academy uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

The Statement of Activities presented later in the government-wide financial statements provides greater detail on the Academy's annual activity. The cost of the Academy's governmental activities for the year was \$623,836. These activities are paid for with state pupil foundation aid, grants, charges for services, contributions, investment earnings and other miscellaneous revenues.

**Figure A-3**

***Summary of the Statement of Activities***

|                                      | <u>2017</u>              |
|--------------------------------------|--------------------------|
| Revenues                             |                          |
| Program Revenues:                    |                          |
| Federal and state Categorical grants | <u>\$ 63,867</u>         |
| Total Program revenues               | 63,867                   |
| General revenues:                    |                          |
| State aid - unrestricted             | 326,278                  |
| other                                | <u>349,108</u>           |
| Total general revenues               | 675,386                  |
| Total revenues                       | 739,253                  |
| Expenses:                            |                          |
| Instruction                          | 264,427                  |
| Support services                     | 312,720                  |
| Food Service                         | 45,906                   |
| Depreciation Expense                 | <u>783</u>               |
| Total expenses                       | <u>623,836</u>           |
| Increase in Net Position             | <u><u>\$ 115,417</u></u> |

The financial statements provide the following insight about the result of this year's operations. The financial condition of the governmental funds increased \$115,417.



# Detroit Prep Management's Discussion and Analysis

---

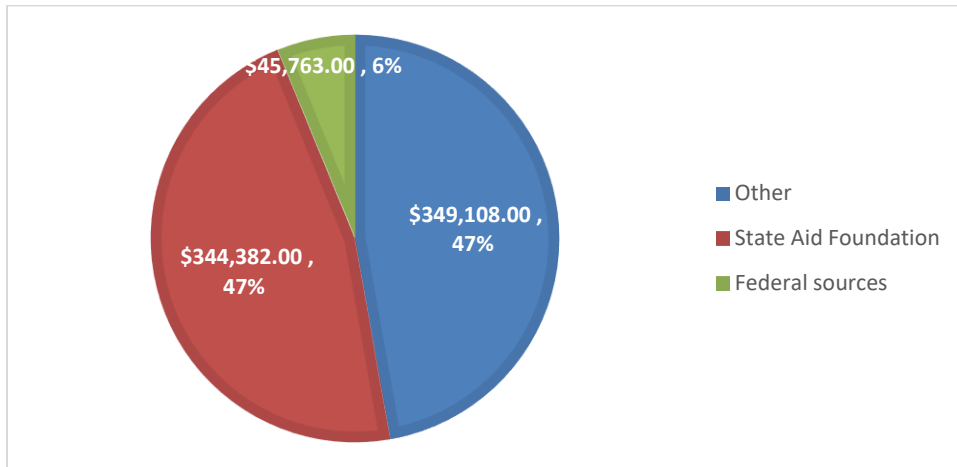
## Revenues

The major portion 47% of the Academy's governmental revenues are received from State sources. This means that the financial stability of the Academy rests primarily with the economic health of the State of Michigan. The Academy also receives money from Federal sources, but this is targeted for specific programs and services. Other sources include local and miscellaneous revenue, this accounted for approximately 47% of the total revenue received for the 16-17 school year.

**Figure A-4** depicts the breakdown of the sources of revenue for the Academy.

**Figure A-4**

**Governmental Revenue by Funding Source**



## Detroit Prep Management's Discussion and Analysis

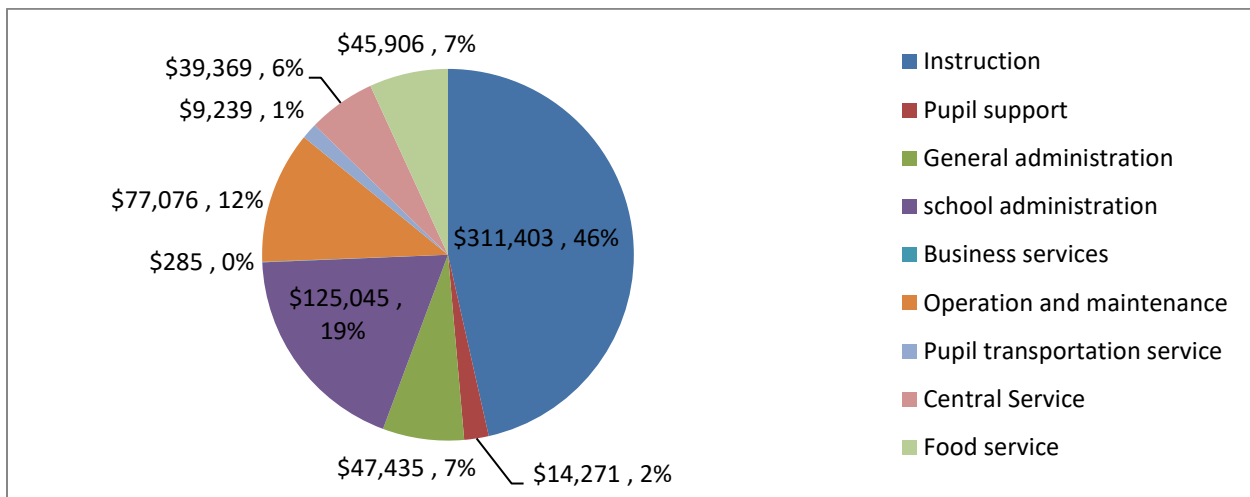
---

### Expenditures

As **Figure A-5** depicts, 48% of the Academy's resources are spent on instruction and pupil instructional support services. Another 26% is spent on Support Services (i.e. administrative and business services) necessary to efficiently operate the Academy, while 12% is spent for maintenance and operations which includes utilities and custodial services, 6% is spent on Central and Other Services.

Expenditures by Category

**Figure A-5**



### Financial Analysis of the Academy's Funds

As the Academy completed its first year, its governmental fund (general) reported a fund balance of \$69,224. The Academy's general fund balance was 9% of total revenues.

### General Fund Budgetary Highlights

The Academy's budgets are prepared according to the Uniform Budget Act of the State of Michigan and are initially adopted prior to July 1 of each year, before student enrollment counts are known. Therefore, it is expected that there will be changes between the initial budget and subsequent budgets, as actual enrollments and resultant staffing requirements become known. Currently, the only budgeted funds are for the General Fund and Food Service. During the fiscal year ended June 30, 2017 the Academy amended the budget of this fund once.

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

---

### **General Fund**

The General Fund had revenues and other financing sources of \$715,990 and total expenditures of \$624,123. The General Fund balance was \$69,224 at June 30, 2017.

Actual revenue sources for the General Fund were \$715,990. This is more than the original budget estimate of \$455,000. The actual expenditures for the general fund were \$624,123. This is more than the original budget estimate of \$403,000. Actual operating transfers to the food service fund were \$22,643.

- Actual Revenues over expenditures were \$69,224, compared to the final budgeted amount of \$52,000.
- The General Fund balance at June 30, 2017 was \$69,224.

### **Capital Asset and Debt Administration**

At the end of fiscal year 2017, the Academy had \$46,976 invested in furniture and equipment. Of this amount, \$783 had been depreciated; net book value totaled \$46,193.

#### **Capital Assets at Year-End**

##### **(Net of Depreciation)**

|                                |                  |
|--------------------------------|------------------|
|                                | June 30,<br>2017 |
| Furniture and Equipment        | \$ 46,976        |
| Less: Accumulated Depreciation | (783)            |
| Total Capital Assets           | <u>\$ 46,193</u> |

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

---

### **Economic Factors Affecting Next Year's Budgets**

The Academy's administration considered many factors when setting the Academy's 2017 fiscal year's

Budget. One of the most important factors affecting the budget is the Academy's student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. Currently the foundation allowance is \$7,511 for fiscal year 2016-2017. The blended count for the 2016-2017 fiscal year is 10 percent and 90 percent of February 2016 and September 2016 student count, respectively. This type of funding is based on parameters set by the Michigan Department of Education that Schools must meet to receive performance based funding. The 2018 budget was adopted in June, 2017, based on estimated number of students that will be enrolled in September of 2017. Approximately 47% of the total general fund revenue is from the foundation allowance. As a result, the Academy funding is heavily dependent on the state's ability to fund local school operations, thus the Academy is looking for an increase in student enrollment for the 2017-2018 fiscal year of approximately 10 percent through the advertisement of the Academy. The Academy is also looking to receive more grants and private revenues. This will allow the Academy to place more funds in the classroom and enhance its financial position.

### **REQUESTS FOR INFORMATION**

This financial report is designed to give an overview of the financial conditions of Detroit Preparatory Academy. If you should desire additional financial information, it can be obtained by contacting the following person:

Attn: Ms. Kyle Smitley  
Detroit Preparatory Academy  
2411 Iroquois  
Detroit, MI 48214  
(313) 468-9518

**Detroit Prep**  
**Statement of Net Position – Governmental Activities**  
**June 30, 2017**

---

| <b>Assets</b>                       |                   |
|-------------------------------------|-------------------|
| Cash and investments                | \$ 14,910         |
| Due from governmental units         | 73,540            |
| Deposits                            | <u>3,751</u>      |
| Total current assets                | 92,201            |
| Capital assets -net of depreciation | <u>46,193</u>     |
| Total Assets                        | <u>\$ 138,394</u> |
| <b>Liabilities</b>                  |                   |
| Accounts payable                    | \$ 22,977         |
| Total Liabilities                   | <u>22,977</u>     |
| <b>Net Position</b>                 |                   |
| Unrestricted                        | <u>115,417</u>    |
| Total Net Position                  | 115,417           |
| Total Liabilities and net position  | <u>\$ 138,394</u> |

*See Accompanying Notes to the Financial Statements*

**Detroit Prep  
Statement of Activities  
For the Year Ended June 30, 2017**

---

| <u>Functions/Programs</u>                     | <u>Expenses</u>   | <u>Program Revenues</u>     |   | <u>Activities</u>                                       |
|---|-------------------|-----------------------------|---|---|
|   |                   | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Net (Expense) Revenues and Changes in Net Assets</u> |
| Primary government-Governmental Activities:   |                   |                             |   |   |
| Instruction                                   | \$ 264,427        | \$ -                        | \$ 21,104                                 | \$ (243,323)  |
| Support services                              | 312,720           | -                           | 19,500                                    | (293,220)   |
| Food service                                  | 45,906            | -                           | 23,263                                    | (22,643)  |
| Depreciation expense                          | 783               | -                           | -   | (783)   |
| Total Governmental Activities                 | <u>\$ 623,836</u> | <u>\$ -</u>                 | <u>\$ 63,867</u>                          | \$ (559,969)  |
|   |                   |                             |   |   |
| General Revenues:                             |                   |                             |   |   |
|   |                   |                             |   | 326,278   |
| State aid not restricted to specific purposes |                   |                             |   | 349,108   |
| Local revenue                                 |                   |                             |   | <u>675,386</u>  |
| Total general revenue                         |                   |                             |   |   |
| <b>CHANGE IN NET POSITION</b>                 |                   |                             |   | 115,417   |
| <b>NET POSITION</b> , beginning of year       |                   |                             |   | <u>-</u>  |
| <b>NET POSITION</b> , end of year             |                   |                             |   | <u>\$ 115,417</u>                                       |

*See Accompanying Notes to the Financial Statements*

**Detroit Prep  
Governmental Fund  
Balance Sheet  
June 30, 2017**

---

|  | General<br>Fund  | Nonmajor<br>Fund<br>Food Service | Total<br>Governmental<br>Funds |
|--|------------------|----------------------------------|--------------------------------|
| <b>Assets</b>                              |                  |                                  |                                |
| Cash and cash equivalents                  | \$ 14,910        | \$ -                             | \$ 14,910                      |
| Due from other governmental units          | 65,643           | 7,897                            | 73,540                         |
| Deposits                                   | 3,751            | -                                | 3,751                          |
| Due from other funds                       | -                | 11,771                           | 11,771                         |
| <b>Total assets</b>                        | <u>\$ 84,304</u> | <u>\$ 19,668</u>                 | <u>\$ 103,972</u>              |
| <b>Liabilities</b>                         |                  |                                  |                                |
| Accounts payable                           | \$ 3,309         | \$ 19,668                        | \$ 22,977                      |
| Due to other funds                         | 11,771           | -                                | 11,771                         |
| <b>Total liabilities</b>                   | <u>15,080</u>    | <u>19,668</u>                    | <u>34,748</u>                  |
| <b>Fund Balances</b>                       |                  |                                  |                                |
| Unrestricted                               | \$ 69,224        | \$ -                             | \$ 69,224                      |
| <b>Total fund balance</b>                  | <u>69,224</u>    | <u>-</u>                         | <u>69,224</u>                  |
| <b>Total liabilities and fund balances</b> | <u>\$ 84,304</u> | <u>\$ 19,668</u>                 | <u>\$ 103,972</u>              |

*See Accompanying Notes to the Financial Statements*

**Detroit Prep  
Governmental Funds Reconciliation of the Balance Sheet  
Of Governmental Funds to the Statement of Net Position  
Year Ended June 30, 2017**

---

|  |                   |
|--|-------------------|
| <b>Fund Balance Reported in Governmental Funds</b>   | \$ 69,224         |
| Amounts reported for governmental activities in the<br>statement of net position are different because:                      |                   |
| Capital assets used in governmental activities are not financial resources<br>and are not reported in the governmental funds | <u>46,193</u>     |
| <b>Total Net Position - Governmental activities</b>  | <u>\$ 115,417</u> |

*See Accompanying Notes to the Financial Statements*



**Detroit Prep  
Governmental Funds  
Statement of Revenue, Expenditures, and Changes in Fund Balances  
Year Ended June 30, 2017**

|   | General<br>Fund  | Other Nonmajor<br>Governmental Fund<br>Food Service | Total<br>Governmental<br>Funds |
|---|------------------|---|--------------------------------|
| <b>Revenues</b>                                   |                  |   |                                |
| Local sources                                     | \$ 349,108       | \$ -  | \$ 349,108                     |
| State sources                                     | 344,382          |   | 344,382                        |
| Federal sources                                   | 22,500           | 23,263  | 45,763                         |
| Total revenues                                    | <u>715,990</u>   | <u>23,263</u>                                       | <u>739,253</u>                 |
| <b>Expenditures</b>                               |                  |   |                                |
| Current   |                  |   |                                |
| Instruction services                              |                  |   |                                |
| Basic programs                                    | 272,383          | -   | 272,383                        |
| Added needs                                       | 39,020           | -   | 39,020                         |
| Total Instruction                                 | <u>311,403</u>   | <u>-</u>  | <u>311,403</u>                 |
| Support services                                  |                  |   |                                |
| Pupil support                                     | 14,271           | -   | 14,271                         |
| General administration                            | 47,435           | -   | 47,435                         |
| School administration                             | 125,045          | -   | 125,045                        |
| Business services                                 | 285              | -   | 285                            |
| Operation and maintenance                         | 77,076           | -   | 77,076                         |
| Pupil transportation service                      | 9,239            | -   | 9,239                          |
| Central services                                  | 39,369           | -   | 39,369                         |
| Total support services                            | <u>312,720</u>   | <u>-</u>  | <u>312,720</u>                 |
| Food service                                      | <u>-</u>         | <u>45,906</u>                                       | <u>45,906</u>                  |
| Total expenditures                                | <u>624,123</u>   | <u>45,906</u>                                       | <u>670,029</u>                 |
| <b>Excess (Deficiency) of Revenue Over(Under)</b> |                  |   |                                |
| <b>Expenditures</b>                               | 91,867           | (22,643)  | 69,224                         |
| <b>Other Financing Sources(Uses)</b>              |                  |   |                                |
| Operating transfer in                             | -                | 22,643  | 22,643                         |
| Operating transfer out                            | (22,643)         | -   | (22,643)                       |
| Total other financing sources(uses)               | <u>(22,643)</u>  | <u>22,643</u>                                       | <u>-</u>                       |
| <b>Net Change in Fund Balance</b>                 | 69,224           | -   | 69,224                         |
| <b>Fund Balances - Beginning of year</b>          | <u>-</u>         | <u>-</u>  | <u>-</u>                       |
| <b>Fund Balances - End of year</b>                | <u>\$ 69,224</u> | <u>\$ -</u>   | <u>\$ 69,224</u>               |

*See Accompanying Notes to the Financial Statements*

**Detroit Prep  
 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, 2017**

---

|   |                          |
|---|--------------------------|
| <b>Net change in fund balance - Total governmental funds</b>  | <b>\$ 69,224</b>         |
| Amounts reported for governmental activities in the statement of activities are different because:  |                          |
| Capital outlay is an expenditure in the governmental funds but not in the statement of activities , these costs are allocated over the estimated useful lives as depreciation or amortization |                          |
| Capital outlay  | 46,976                   |
| Depreciation Expense  | <u>(783)</u>             |
| <b>Change in net position of governmental activities</b>  | <b><u>\$ 115,417</u></b> |

*See Accompanying Notes to the Financial Statements*

**Detroit Prep  
Notes to Financial Statements  
June 30, 2017**

---

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

The accounting policies of Detroit Prep (the “Academy”) conform to accounting principles 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. The Academy was established on July 1, 2016 as a public school academy. The Academy is located in the metropolitan Detroit area providing education for students in grades kindergarten to eighth grade.

On July 1, 2016, the Academy entered into a seven-year contract with Grand Valley State University to charter Detroit Prep. 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. Grand Valley State University 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 Grand Valley State University 3.0 percent of state aid as administrative fees. The total administrative fees for the year ended June 30, 2017 paid were approximately \$9,789.

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

**Government-wide Financial Statements-** The government-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 revenues 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 government-wide financial statements.

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

**Detroit Prep**  
**Notes to Financial Statements (Continued)**  
**June 30, 2017**

---

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

**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 available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy 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.

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 Funds** – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Special Revenue Funds are used to segregate, for administrative purposes, the transactions of particular activities from regular revenue and expenditure accounts. The Special Revenue Funds maintained by the Academy account for food services.

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

**Cash** – Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of twelve months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** – In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.”

**Capital Assets** - Capital assets, which furniture and equipment, are reported in the applicable governmental column in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized.

Depreciation on all assets is computed on the straight-line basis over the estimated useful lives as 5-20 years for Furniture and equipment.

**Detroit Prep**  
**Notes to Financial Statements (Continued)**  
**June 30, 2017**

---

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

**Net Position** – Net position represents the difference between assets and liabilities. Net position consists of the following:

*Unrestricted net position* – Consists of all other assets that do not meet the definition of “restricted” or “Net investment in Capital Assets”.

**Fund Balance** – The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

*Non-spendable*: 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 the Academy for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Board of the Academy.

*Assigned*: Intent to spend resources on specific purposes expressed by the Board of the Academy or CEO, who is authorized by resolution approved by the Board of the Academy to make assignments

*Unassigned*: The residual classification of the General Fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

**Economic Dependency** – The Academy receives approximately 47% of its operating revenue from the State of Michigan.

**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 amounts reported in the financial statements and accompanying notes. Actual results may differ from estimates.

**Detroit Prep**  
**Notes to Financial Statements (Continued)**  
**June 30, 2017**

---

**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 all Special Revenue Funds. All annual appropriations lapse at fiscal year-end.

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 more than amounts budgeted are a violation of Michigan law. State law permits districts 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 changes in enrollment and related revenues and expenditures.

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.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Academy's CEO submits to the Board of Trustees a proposed budget by July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. The CEO is authorized to transfer budgeted amounts between functions within any fund with the approval of the Board of Trustees; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Trustees.
3. Budgets for the General and Special Revenue Fund are adopted on a basis consistent with generally accepted accounting principles.
4. Budgeted amounts are as originally adopted, or as amended by the Board of Trustees throughout the year. Individual amendments were not material in relation to the original appropriations, which were amended.
5. Appropriations lapse at year-end and, therefore, cancel all encumbrances. These appropriations are reestablished at the beginning of the following year.

A schedule comparing actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Trustees) for the General Fund is presented as required supplementary information.

**Detroit Prep**  
**Notes to Financial Statements (Continued)**  
**June 30, 2017**

---

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)**

**Excess of Expenditures over Appropriations in Budgeted Funds** - During the year, the Academy did incur expenditures in the General Fund in excess of budgeted amounts as shown below.

|                            | Final Budget | Actual     | Variance   |
|----------------------------|--------------|------------|------------|
| Instruction                | \$ 193,886   | \$ 311,403 | \$ 117,517 |
| Instructional              | -            | 14,271     | 14,271     |
| General administration     | 20,000       | 47,435     | 27,435     |
| School administration      | 67,000       | 125,045    | 58,045     |
| Operations and maintenance | 75,000       | 77,076     | 2,076      |
| Pupil transportation       | 3,500        | 9,239      | 5,739      |
| Central services           | -            | 39,369     | 39,369     |

**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, banker's 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.

The Academy's cash and investments are subject to several types of risks, which are 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's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the Academy's deposits for custodial credit risk. At year end, the Academy's deposit balance was \$14,910 for bank deposits of which were insured by FDIC.

**Custodial Credit Risk of Investments** – Custodial credit risk of investments is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Academy does not have an investment policy for custodial credit risk. The Academy does not have investments with custodial risk.

**Concentration of Credit Risk** – The Academy places no limit on the amount the Academy may invest in any one issuer. The Academy does not have a policy to minimize concentration of credit risk.

**Detroit Prep**  
**Notes to Financial Statements (Continued)**  
**June 30, 2017**

---

**NOTE 4 – RECEIVABLES**

Receivables as of year-end for the Academy’s individual major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as shown below. As of June 30, 2017, there was no allowance for bad debt.

|                   |                  |
|-------------------|------------------|
| State of Michigan | \$ 62,643        |
| Federal           | <u>10,897</u>    |
|                   | <u>\$ 73,540</u> |

**NOTE 5 - CAPITAL ASSETS**

A summary of changes in the Academy’s capital assets follows:

|                          | <u>Beginning<br/>Balance</u> | <u>Additions</u> | <u>Disposals</u> | <u>Ending<br/>Balance</u> |
|--------------------------|------------------------------|------------------|------------------|---------------------------|
| Cost                     |                              |                  |                  |                           |
| Furniture and equipment  | <u>\$ -</u>                  | <u>\$ 46,976</u> | <u>\$ -</u>      | <u>\$ 46,976</u>          |
| Accumulated Depreciation |                              |                  |                  |                           |
| Furniture and equipment  | <u>-</u>                     | <u>783</u>       | <u>-</u>         | <u>783</u>                |
| Net capital assets       | <u>\$ -</u>                  | <u>\$ 46,193</u> | <u>\$ -</u>      | <u>\$ 46,193</u>          |

**NOTE 6 – INTERFUND RECEIVABLE AND PAYABLE AND TRANSFERS**

Interfund 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 fund are made. The General Fund also transfers funds to the special revenue funds to subsidize food service and other activities



**Detroit Prep**  
**Notes to Financial Statements (Continued)**  
**June 30, 2017**

---

**NOTE 7 – OPERATING LEASES**

The Academy leases space and a copier. The following is a schedule of future minimum rental payments for the years ending June 30, including amounts owed to related parties:

|      |           |
|------|-----------|
| 2018 | \$ 54,870 |
| 2019 | \$ 2,370  |

Total rent expense on these leases for 2016 was \$34,600.

**NOTE 8 – INTERFUND TRANSFERS**

Transfers were made from the general fund to the food service fund to make up for the shortage of revenues under expenditures during the year. The amount transferred was \$22,643.

**NOTE 9 – DEFINED PENSION PLAN**

The Academy did not participate in the Michigan Public School Employees' Retirement System (MPERS). Therefore, no pension plan disclosure is deemed necessary.

**NOTE 10 – RISK MANAGEMENT**

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

**NOTE 11 – LEASED EMPLOYEES**

The Academy leases substantially its entire staff from HR Charter Consulting, LLC(HCC). HCC is responsible for providing personnel to the Academy and the Academy is responsible for reimbursing HCC its payment of all such compensation as approved by the Board and provided for in the budget. The Academy incurred fees of \$6,717.

**NOTE 12 – CONTINGENCIES**

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds.

**Note 13 – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through October 2, 2017, which is the date the financial statements were available to be issued. Events occurring after the date have not been evaluated to determine whether a change in the financial statements would be required.

## **Required Supplemental Information**

**Detroit Prep  
Required Supplemental Information  
Budget Comparison Schedule - General Fund  
June 30, 2017**

|   | Original<br>Budget | Final<br>Budget   | Actual           | Over (Under)<br>Final Budget |
|---|--------------------|-------------------|------------------|------------------------------|
| <b>Revenue</b>                          |                    |                   |                  |                              |
| Local sources                           | \$ -               | \$ 135,000        | \$ 349,108       | \$ 214,108                   |
| State sources                           | 425,000            | 344,383           | 344,382          | (1)                          |
| Federal sources                         | 30,000             | 22,500            | 22,500           | -                            |
|   | <u>455,000</u>     | <u>501,883</u>    | <u>715,990</u>   | <u>214,107</u>               |
| Total revenue                           |                    |                   |                  |                              |
| <b>Expenditures</b>                     |                    |                   |                  |                              |
| Current                                 |                    |                   |                  |                              |
| Instruction:                            |                    |                   |                  |                              |
| Basic programs                          | 160,000            | 165,886           | 272,383          | 106,497                      |
| Added needs                             | 25,000             | 28,000            | 39,020           | 11,020                       |
| Total instruction                       | <u>185,000</u>     | <u>193,886</u>    | <u>311,403</u>   | <u>117,517</u>               |
| Support services:                       |                    |                   |                  |                              |
| Instructional                           | 25,000             | -                 | 14,271           | 14,271                       |
| General administration                  | 30,000             | 20,000            | 47,435           | 27,435                       |
| School administration                   | 60,000             | 67,000            | 125,045          | 58,045                       |
| Business support                        | 15,000             | 6,000             | 285              | (5,715)                      |
| Operation and maintenance               | 48,000             | 75,000            | 77,076           | 2,076                        |
| Pupil transportation and services       | 30,000             | 3,500             | 9,239            | 5,739                        |
| Central services                        | 10,000             | -                 | 39,369           | 39,369                       |
| Total expenditures                      | <u>403,000</u>     | <u>365,386</u>    | <u>624,123</u>   | <u>258,737</u>               |
| <b>Other financing sources (uses)</b>   |                    |                   |                  |                              |
| Transfers in(out)                       | -                  | -                 | -                | -                            |
| Other financing sources                 | -                  | -                 | (22,643)         | (22,643)                     |
| Total other financing sources           | <u>-</u>           | <u>-</u>          | <u>(22,643)</u>  | <u>(22,643)</u>              |
| <b>Excess of Revenue Over (Under)</b>   |                    |                   |                  |                              |
| <b>Expenditures</b>                     | 52,000             | 136,497           | 91,867           | (44,630)                     |
| <b>Fund Balance - Beginning of Year</b> |                    |                   |                  |                              |
|   | <u>-</u>           | <u>-</u>          | <u>-</u>         | <u>-</u>                     |
| <b>Fund Balance - Ending of Year</b>    |                    |                   |                  |                              |
|   | <u>\$ 52,000</u>   | <u>\$ 136,497</u> | <u>\$ 91,867</u> | <u>\$ (44,630)</u>           |

## **Other Required Information**

---



THE CLAIRMOUNT GROUP, PLC  
Certified Public Accountants

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

To Board of Directors  
Detroit Prep

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, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Detroit Prep, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Detroit Prep's basic financial statements, and have issued our report thereon dated October 2, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Detroit Prep'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 Detroit Prep's internal control. Accordingly, we do not express an opinion on the effectiveness of Detroit Prep'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 a 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. A *significant deficiency* is a deficiency, or a 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 Detroit Prep'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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This section of Detroit Prep's Annual Financial Report presents discussion and analysis of the Academy's financial performance during the year ended June 30, 2017. It should be read in conjunction with the Academy's financial statements, which immediately follow this section.

*The Clairmount Group, PLC*

The Clairmount Group, PLC  
Detroit, MI 48226  
October 2, 2017