



Detroit Achievement Academy
Audited Financial Statements

June 30, 2018

Prepared by Taylor & Morgan, P.C.

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DETROIT ACHIEVEMENT ACADEMY
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INDEPENDENT AUDITORS' REPORT

October 31, 2018

Board of Trustees
Detroit Achievement Academy

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Detroit Achievement Academy as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 of 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Detroit Achievement Academy as of June 30, 2018 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 pages 3-6 and 21 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

The introductory section titled management's discussion and analysis has 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 it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2018 on our consideration of the Detroit Achievement 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 the Detroit Achievement Academy's internal control over financial reporting and compliance.

Sincerely,

Taylor & Morgan, P.C.

Taylor & Morgan, P.C.
Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS
(MD & A)

DETROIT ACHIEVEMENT ACADEMY MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Detroit Achievement Academy's (the Academy) annual financial report presents our discussion and analysis of the school's financial performance during the fiscal year that ended on June 30, 2018. Please read it in conjunction with the school's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- Government-wide revenues were at \$2,460,911 while expenditures were \$2,430,894.
- At June 30, 2018, the Academy's assets exceeded its liabilities by \$592,062.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of a series of financial statements that show information for the Academy as a whole, its funds, and its fiduciary responsibilities. The Statement of Net Position and the Statement of Activities provide information about the activities of the Academy as a whole and presents a longer-term view of the Academy's finances. Our fund financial statements are included later in the financial report. For our governmental activities, these statements tell how we financed our services in the short-term as well as what remains for future spending. Fund statements may give you some insights into the Academy's overall financial health. Fund financial statements also report operations in more detail than the government-wide financial statements by providing information about the most significant fund, the general fund.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are reported in compliance with GASB 34. These statements present information on the Academy's finances in a manner similar to private sector businesses. One of the most important questions asked about the Academy is, "Is the Academy as a whole better off or worse off financially as a result of the year's activities?" The Statement of Net Position and Statement of Activities 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. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position shows assets and liabilities, with the difference between the two reported as net position. All capital assets, long-term liabilities, and general government functions are shown in the Statement of Net Position.

The Statement of Activities shows revenues, expenses, and the change in net position for the Academy as a whole. Revenues and expenses attributable to specific functions are segregated from general revenues, to display the extent to which program revenues support each function.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Total assets, liabilities and net position for the year ended June 30, 2018, were as follows:

	<u>Net Position 2018</u>	<u>Net Position 2017</u>
Current Assets	\$ 439,392	\$ 361,488
Capital Assets (Net)	<u>2,302,071</u>	<u>1,122,510</u>
Total Assets	2,741,463	1,483,998
Current Liabilities	1,443,668	128,042
Non-Current Long-Term	<u>705,733</u>	<u>793,911</u>
Total Liabilities	2,149,401	921,953
Net Position		
Net Invested in Capital Asset	364,367	282,411
Unrestricted	<u>227,695</u>	<u>279,634</u>
Total Net Position	<u><u>\$ 592,062</u></u>	<u><u>\$ 562,045</u></u>

The Academy's revenues and expenses were as follows:

	<u>2018</u>	<u>2017</u>
Revenues:		
Program revenues:		
Federal and state Categorical grants	<u>\$ 362,917</u>	<u>\$ 334,009</u>
Total Program Revenues	362,917	334,009
General revenues:		
State aid - unrestricted	1,525,250	1,189,565
Other	<u>572,744</u>	<u>630,549</u>
Total general revenues	<u>2,097,994</u>	<u>1,820,114</u>
Total revenues	2,460,911	2,154,123
Expenses:		
Instruction	875,274	802,270
Support services	1,291,967	819,496
Food Service	123,822	184,716
Interest on long-term debt	47,507	47,226
Depreciation Expense	<u>92,324</u>	<u>65,811</u>
Total expenses	<u>2,430,894</u>	<u>1,919,519</u>
Change in net position	<u>\$ 30,017</u>	<u>\$ 234,604</u>

ANALYSIS OF OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS

During the year ended June 30, 2018, the Academy's revenue of \$2,460,911 exceeded its expenses of \$2,430,894 by \$30,017, ending the year with a net position balance of \$592,062. Per pupil funding and student enrollment are the primary factors in determining the revenue and expenses for the Academy. The student count for the year ended June 30, 2018 was 205 students, an increase of 46 from the prior year. The Academy's per-pupil state aid allowance was approximately \$7,631.

FUND FINANCIAL STATEMENTS

Governmental funds account for the same functions as are reported as governmental activities in the government-wide financial statements. Governmental fund reporting focuses on how money flows in and out of funds and the balances left at year end that are available for spending. They are reported using the accounting method called "modified accrual" accounting, which measures cash and all other financial assets that can be readily converted to cash. This information is essential for preparation of and compliance with annual budgets. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliations following

the government statements. The notes to the financial statements provide additional information that is essential to a complete understanding of the data provided in the financial statements.

BUDGET VARIATIONS

Budgeted revenue exceeded actual revenue by \$5,168, and actual expenses exceeded budgeted expenses by \$1,070,879, this includes capital outlay of \$1,066,565. Budgeted other financing sources and uses were exceeded by actual amounts by \$1,030,340. This resulted in budgeted fund balance decreasing by (\$45,707).

CAPITAL ASSETS

The Academy had \$2,302,071 invested in capital assets, net of depreciation, at June 30, 2018. Please refer to the notes to the basic financial statements for further information.

OUTSTANDING DEBT AT YEAR END

At June 30, 2018, the Academy had \$705,733 in long-term debt owed to IFF. Please refer to the notes to the basic financial statements for more information. On June 8, 2018 The Academy borrowed \$1,187,500 from IFF. Interest only payments are to be made each month with the total principal plus interest maturing on December 31, 2018.

REQUESTS FOR INFORMATION

Our financial report is designed to provide our parents, teachers, students, investors and creditors with an overview of the Academy's finances. If you have any questions about this report or need any clarification of information please contact the Detroit Achievement Academy offices, located at:

Ms. Kyle Smitley
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BASIC FINANCIAL STATEMENTS

DETROIT ACHIEVEMENT ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities
Assets	
Cash, Cash Equivalents & Investments	\$ 57,736
Due from Other Governmental Units	331,639
Deposits	3,750
Prepaid Expenses	4,730
Accounts Receivable	41,537
Capital Assets	
Buildings & Improvements	2,270,185
Equipment & Furniture	217,088
Vehicles	24,000
Less: Accumulated Depreciation	(209,202)
Net Capital Assets	2,302,071
Total Assets	2,741,463
Liabilities	
Accounts Payable	182,119
Accrued Expenses	19,580
Short Term Note Payable	9,998
Long-term Liabilities:	
Due within one year	1,231,971
Due in more than one year:	705,733
Total Liabilities	2,149,401
Net Position	
Net Investment In Capital Assets	364,367
Unrestricted	227,695
Total Net Position	\$ 592,062

See accompanying notes to basic financial statements

DETROIT ACHIEVEMENT ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Functions/Programs				
Governmental Activities				
Instruction				
Basic Programs	\$ 741,846	\$ -	\$ 27,212	\$ (714,634)
Added Needs	207,287	-	88,999	(118,288)
Support Services	1,301,199	-	125,072	(1,176,127)
Food Service	123,822	-	121,634	(2,188)
Interest on Long-Term Debt	47,507	-	-	(47,507)
Unallocated Depreciation	9,232	-	-	(9,232)
Total Governmental Activities	\$ 2,430,894	\$ -	\$ 362,917	(2,067,977)
General Purpose Revenues				
State School Aid - Unrestricted				1,525,250
Miscellaneous				572,744
				Total General Revenue
				2,097,994
				Change in Net Position
				30,017
				Net Position - July 1
				562,045
				Net Position - June 30
				\$ 592,062

See accompanying notes to basic financial statements

DETROIT ACHIEVEMENT ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	General Fund	Non-major Governmental Funds	Total Governmental Funds
Assets			
Cash, Cash Equivalents & Investments	\$ 57,736	\$ -	\$ 57,736
Deposits	3,750	-	3,750
Prepaid Expenses	4,730	-	4,730
Accounts Receivable	28,270	13,267	41,537
Due from Other Funds	1,782	-	1,782
Due from Other Governmental Units	331,311	328	331,639
	\$ 427,579	\$ 13,595	\$ 441,174
Liabilities & Fund Balance			
Liabilities			
Accounts Payable	\$ 170,306	\$ 11,813	\$ 182,119
Due To Other Funds	-	1,782	1,782
Accrued Expenses	19,580	-	19,580
Short Term Note Payable	9,998	-	9,998
	199,884	13,595	213,479
Fund Balance			
Non-Spendable	8,480	-	8,480
Unassigned	219,215	-	219,215
	227,695	-	227,695
	\$ 427,579	\$ 13,595	\$ 441,174

See accompanying notes to basic financial statements

DETROIT ACHIEVEMENT ACADEMY
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2018

Total Governmental Fund Balances	\$	227,695
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Amounts reported for governmental activities in the Statement of Net Position are different because:

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

Cost of Capital Assets	\$	2,511,273	
Accumulated Depreciation		<u>(209,202)</u>	2,302,071

Long-Term Liabilities, including installment loans Payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-Term Liabilities at year end consist of:

Installment Loans	\$	<u>1,937,704</u>	<u>(1,937,704)</u>
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Total Net Position - Governmental Activities	\$	<u><u>592,062</u></u>
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See accompanying notes to basic financial statements

DETROIT ACHIEVEMENT ACADEMY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	Non-Major Funds	Total Governmental Funds
Revenues			
Local Sources	\$ 572,744	\$ -	\$ 572,744
State Sources	1,650,322	2,334	1,652,656
Federal Sources	116,211	119,300	235,511
Total Revenues	2,339,277	121,634	2,460,911
Expenditures			
Instruction			
Basic Programs	873,307	-	873,307
Added Needs	207,287	-	207,287
Total Instruction	1,080,594	-	1,080,594
Support Services			
Pupil Services	115,239	-	115,239
Instructional Staff	9,860	-	9,860
General Administration	222,246	-	222,246
School Administration	434,438	-	434,438
Business Services	32,390	-	32,390
Operation and Maintenance	198,758	-	198,758
Central Services	30,872	-	30,872
Transportation	50,709	-	50,709
Other Supporting Services	7,960	123,822	131,782
Total Support Services	1,102,472	123,822	1,226,294
Capital Outlay	1,066,565	-	1,066,565
Total Expenditures	3,249,631	123,822	3,373,453
Excess/(Deficiency) of Revenues over/(under) Expenditures	(910,354)	(2,188)	(912,542)
Other Financing Sources/(Uses)			
Operating Transfers In	-	2,188	2,188
Operating Transfers Out	(2,188)	-	(2,188)
Proceeds from Loan	1,187,500	-	1,187,500
Other Uses	(189,495)	-	(189,495)
Principal Payments	(85,851)	-	(85,851)
Loan Interest	(47,507)	-	(47,507)
Total Other Financing Sources/(Uses)	862,459	2,188	864,647
Net Changes in Fund Balance	(47,895)	-	(47,895)
Fund Balance - July 1	275,591	-	275,591
Fund Balance - June 30	\$ 227,695	\$ -	\$ 227,695

See accompanying notes to basic financial statements

DETROIT ACHIEVEMENT ACADEMY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Total Net Change in Fund Balances - Governmental Funds \$ (47,895)

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, the cost of those assets is allocated over their
estimated useful lives as depreciation expense. This is the amount by which
depreciation exceeded capital outlay in the current period.

Capitalized Assets	\$ 1,271,885	
Depreciation Expense	<u>(92,324)</u>	1,179,561

Proceeds from loans is an Other Financing Source in the Governmental
Funds, but not in the Statement of Activities (where it is Long-Term Debt). (1,187,500)

Repayment of note principal is an expenditure in the Governmental Funds,
but the repayment reduces Long-Term Liabilities in the Statement of Net
Position. This is the amount of repayments reported as expenditures in the
Governmental Funds. 85,851

Change in Net Position of Governmental Activities \$ 30,017

See accompanying notes to basic financial statements

NOTES TO FINANCIAL STATEMENTS

DETROIT ACHIEVEMENT ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

Detroit Achievement Academy was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, and began operation in July 2014.

In February 2013, the Academy entered into a contract with Grand Valley State University to charter a public school academy. 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 three percent of state aid as administrative fees. Total administrative fees paid for the year ended June 30, 2018 were approximately \$49,959.

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The Academy receives funding from local, state, and federal government sources and must comply with the accompanying requirements of these funding source entities. However, the Academy is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to determine its budget, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters.

Basic Financial Statements – Government-wide Statements

The Academy's basic financial statements include both government-wide (reporting the Academy as a whole) and fund financial statements (reporting the Academy's major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Position, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net position is reported in two parts: invested in capital assets net of related debt and unrestricted net position. The Academy first utilizes restricted resources to finance qualifying activities.

DETROIT ACHIEVEMENT ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1 - Summary of Significant Accounting Policies (continued)

Basic Financial Statements – Government-wide Statements (continued)

The government-wide Statement of Activities reports both the gross and net cost of each of the Academy's functions. General government revenues (certain intergovernmental revenues, fines, permits and charges, etc.) also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (state and federal sources, interest income, etc.).

The Academy does not allocate indirect costs.

Basic Financial Statements - Fund Financial Statements

The accounts of the Academy are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report; into one generic fund type in one broad fund category as follows:

Governmental Funds

Governmental funds are those funds through which most academy functions typically are financed. The acquisition, use, and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund - The General Fund is used to record the general operations of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Funds – Special Revenue Funds are used to segregate the transactions of particular activities from regular revenue and expenditure accounts. The Academy maintains full control of these funds. The Academy maintains one school service fund, which is the Food Service Fund.

Basis of Accounting/Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified

DETROIT ACHIEVEMENT ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1 - Summary of Significant Accounting Policies (continued)

Basis of Accounting/Measurement Focus/ Modified Accrual (continued)

accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

Cash and Investments – Cash and cash equivalents include amounts in demand deposits, sweep accounts, and certificate of deposits with original maturities less than 180 days. The Academy reports its investments in accordance with Governmental Accounting Standards Board (GASB) *Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and *No. 40, Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), or National Credit Union Administration (NCUA), respectively; and in commercial paper rated at the time of purchase within the three highest classifications established by no less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, mutual funds composed of investments outlined above, and investment pools, as authorized by the surplus funds investment pool act, Act. No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by an academy.

Inventories - Items purchased for future use are recorded as inventory and charged to expenditure accounts when requisitioned for use. Inventory amounts were not material at June 30, 2018.

Capital Assets - The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The Academy's policy is to capitalize assets with a cost that equals or exceeds \$2,000.

Depreciation on all assets is computed on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	20 – 50 years
Buses and other vehicles	5 – 10 years
Furniture and equipment	3 – 20 years

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

DETROIT ACHIEVEMENT ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1 - Summary of Significant Accounting Policies (continued)

Economic Dependency – The Academy receives approximately 71% of its operating revenue from the State of Michigan.

Note 2 - Budget and Budgetary Accounting

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General, Special Revenue, and Debt Retirement Funds and an informational study of Capital Project Funds of academies prior to the expenditure of monies in a fiscal year.

The Board of Education adopts appropriations utilizing the modified accrual basis of accounting for all governmental funds. The appropriation level adopted by the Board is the level of control authorized by the Act. The Act requires expenditures to be budgeted on a functional basis. An Academy is not considered to be in violation of the Act if reasonable procedures are in use by the Academy to detect violations.

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 Education; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Trustees.
3. Budgets for the General 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 Education) for the General Fund is presented as required supplementary information.

Budgetary information

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. In the body of the financial statements, the Academy's actual and budgeted expenditures for the period have been shown as adopted by function on a modified accrual basis.

DETROIT ACHIEVEMENT ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 2 - Budget and Budgetary Accounting (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 appropriated, as follows:

<u>Budget Item</u>	<u>Budget Appropriation</u>	<u>Actual Expenditures</u>	<u>Variance</u>
Pupil Services	\$ 72,448	\$ 115,239	\$ (42,791)
Central Services	\$ -	\$ 30,872	\$ (30,872)
Custody and Care of Children	\$ -	\$ 7,960	\$ (7,960)
Transportation	\$ 40,579	\$ 50,709	\$ (10,130)
Capital Outlay	\$ -	\$ 1,066,565	\$ (1,066,565)
Instructional Staff	\$ -	\$ 9,860	\$ (9,860)
Operation and Maintenance	\$ 198,664	\$ 198,758	\$ (94)
Other Financing Uses	\$ 165,693	\$ 325,041	\$ (159,348)

The final amended budget had revenues equal to expenditures. Actual expenditures exceeded revenues by (\$47,895), a negative variance of \$47,895.

Note 3 - Cash and Investments

Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Academy's policy provides that to the extent practicable, investments are matched with anticipated cash flows. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities and are invested primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools.

Concentration of Credit Risk

This is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer. Cumulatively, portfolios of the Academy may not be invested in any given financial institution in excess of 5% of such institution's total assets. Additionally, no more than 5% of the total Academy portfolio may be placed with any single financial institution with the exception of repurchase agreements. U.S. government securities and 2a7-like investment pools are excluded from these restrictions.

Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits this exposure by mandating that the Academy's investments in commercial paper and corporate bonds be limited to those with a prime rating or better issued by nationally recognized statistical rating organizations (NRSROs).

Custodial Credit Risk for Deposits

This is the risk that in the event of a bank failure, the Academy's deposits may not be returned or the Academy will not be able to recover collateral securities, if any, in the possession of an outside party. At June 30, 2018, the Academy had no deposit balances uninsured and uncollateralized.

DETROIT ACHIEVEMENT ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 3 - Cash and Investments (continued)

Custodial Credit Risk for Investments

This 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. This risk is minimized by the Academy through limiting investments to those of a prime or better rating and pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors.

Foreign Currency Risk

This is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Academy is not authorized to invest in investments that would be subject to this type of risk.

Note 4 - Capital Assets

Changes in capital assets for the year ended June 30, 2018 were as follows:

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Disposals & Adjustments</u>	<u>Balance June 30, 2018</u>
Land, Buildings & Additions	\$ 1,014,125	\$ 1,256,060	\$ -	\$ 2,270,185
Furniture, Equip & Other	225,263	15,825	-	241,088
Subtotal	1,239,388	1,271,885	-	2,511,273
Accumulated Depreciation:				
Land Buildings & Additions	75,998	54,819	-	130,817
Furniture, Equipment & Other	40,880	37,505	-	78,385
Subtotal	116,878	92,324	-	209,202
Net Capital Assets	<u>\$ 1,122,510</u>	<u>\$ 1,179,561</u>	<u>\$ -</u>	<u>\$ 2,302,071</u>

Depreciation expense for the year ended June 30, 2018 was \$92,324.

Note 5 – Defined Benefit Pension Plan

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

Note 6 - Fund Balance

Non-spendable, Restricted, Committed, Assigned and Unassigned

The Board of Trustees adopts a budget each year that includes the appropriation of fund balance. Non-spendable fund balance represents assets that are not available in spendable form and are not expected to be converted to cash. The Academy had \$8,480 in non-spendable fund balance as of June 30, 2018.

Restricted fund balances are reported separately to show legal constraints from debt covenants and legislation that limits the Academy's ability to use that fund balance for day-to-day operations. The Academy had no amounts

DETROIT ACHIEVEMENT ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 6 - Fund Balance (continued)

restricted at June 30, 2018. Committed fund balance represents constrained amounts imposed by board resolution. The Academy had no amounts committed at June 30, 2018.

Assigned fund balance represents amounts intended to be used for specific purposes expressed by the Board of Trustees, Finance Committee, or the official authorized by the governing body. Residual amounts in governmental funds other than the General Fund are also assigned. The Academy had no amounts assigned at June 30, 2018.

Unassigned fund balance is reported only in the General Fund and represents the remaining fund balance after non-spendable, restrictions, and assignments have been made.

The Academy applies restricted resources first for applicable expenditures. Assigned fund equity is applied when expenditures are incurred for the assigned purpose, followed by unassigned fund equity for budgeted expenditures.

Note 7 - Contingencies and Commitments

The Academy has received federal and state grants for specific purposes. These grants are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.

Note 8 - Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions. The Academy purchases commercial insurance coverage to cover potential claims, and management believes this coverage is sufficient to protect the Academy from any significant adverse financial impact.

Note 9 – Leases

The Academy leases its facility at 2411 Iroquois in Detroit, Michigan. The lease is in effect through December 31, 2018. Lease expense for the year ended June 30, 2018 was \$52,550. The Academy's lease agreement, beginning on July 1, 2018 has a term of six months and expires on December 31, 2018. An option to hold over is allowed through July 30, 2019.

Note 10 - Subsequent Events

Subsequent to year end, the Academy was issued a State Aid Anticipation Loan of \$570,000 dated September 6, 2018 and the proceeds of the loan were received after June 30, 2018. This loan has an interest rate of 5.30% and matures on August 20, 2019. Eleven monthly payments in the amount of \$53,289 beginning on October 22, 2018 are required, with the final payment due on August 20, 2019.

DETROIT ACHIEVEMENT ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 11 – Long-Term Debt

On December 10, 2015 the Academy borrowed \$876,033 from IFF, an Illinois nonprofit corporation. The term is for five years at an interest rate of 5.375% with monthly payments of \$7,100. The funds were used to retire the remaining balance of the land contract agreement with Greenfield Peace Lutheran Church. The remaining funds from the transaction were used to renovate the building in which the Academy operates. At June 30, 2018, \$705,733 was outstanding.

On June 8, 2018 the Academy borrowed \$1,187,500 from IFF, an Illinois nonprofit corporation. The term is for six months with monthly payments of interest only. The principal amount plus interest is due on December 31, 2018.

Note 12 – Merger of Detroit Achievement & Detroit Prep

On March 14, 2017 the Board of Trustees approved the merger of Detroit Achievement Academy and Detroit Prep. The effective date of the merger was July 1, 2017. Both are Michigan nonprofit corporations organized on a directorship basis for purposes that include operating as a public school academy. The Boards of both organizations voted to approve a statutory merger pursuant to Michigan law, whereby Detroit Prep discontinued operations and transferred its pupils, property and other assets to Detroit Achievement Academy. The effect on beginning fund equity was an increase of \$69,220 and the effect on beginning net position was an increase of \$115,412.

Note 13 – Due From Other Governmental Units

Amounts due from other governmental units consist of the following:

Federal Sources	\$ 2,233
State Sources	<u>329,406</u>
	<u>\$ 331,639</u>

Note 14 – Purchased Services

The Academy leases all employee services from Axios. Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of Axios.

REQUIRED SUPPLEMENTAL INFORMATION

DETROIT ACHIEVEMENT ACADEMY
 REQUIRED SUPPLEMENTAL INFORMATION
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2018

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Local Sources	\$ -	\$ 567,419	\$ 572,744	\$ 5,325
State Sources	1,568,615	1,660,493	1,650,322	(10,171)
Federal Sources	100,650	116,533	116,211	(322)
Total Revenues	1,669,265	2,344,445	2,339,277	(5,168)
Expenditures				
Education				
Instruction				
Basic Programs	800,000	890,296	873,307	16,989
Added Needs	90,000	233,630	207,287	26,343
Supporting Services				
Pupil Services	56,000	72,448	115,239	(42,791)
Instructional Staff	-	-	9,860	(9,860)
General Administration	136,222	260,278	222,246	38,032
School Administration	192,000	438,192	434,438	3,754
Business Services	17,324	44,665	32,390	12,275
Operation and Maintenance	135,000	198,664	198,758	(94)
Central Services	-	-	30,872	(30,872)
Other Supporting Services	-	-	7,960	(7,960)
Transportation	25,000	40,579	50,709	(10,130)
Capital Outlay	-	-	1,066,565	(1,066,565)
Total Expenditures	1,451,546	2,178,752	3,249,631	(1,070,879)
Other Financing Sources/(Uses)				
Other Financing Sources	-	-	1,187,500	1,187,500
Other Financing Uses	-	(165,693)	(325,041)	(159,348)
Total Other Financing Sources/(Uses)	-	(165,693)	862,459	1,028,152
Excess of Revenues Over/(Under) Expenditures and Other Financing Sources/(Uses)	217,719	-	(47,895)	(47,895)
Fund Balance - July 1	275,591	275,591	275,591	-
Fund Balance - June 30	\$ 493,310	\$ 275,591	\$ 227,695	\$ (47,895)

OTHER INFORMATION

INDEPENDENT AUDITORS' 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

October 31, 2018

Board of Trustees
Detroit Achievement Academy

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, each major fund, and the aggregate remaining fund information of the Detroit Achievement Academy, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Detroit Achievement Academy's basic financial statements, and have issued our report thereon dated October 31, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Detroit Achievement Academy'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 Achievement Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Detroit Achievement Academy'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 the Detroit Achievement Academy'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

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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.

Taylor & Morgan, P.C.

TAYLOR & MORGAN, P.C.
Certified Public Accountants

October 31, 2018

To the Board of Trustees of Detroit Achievement Academy

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Detroit Achievement Academy for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated July 19, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Detroit Achievement Academy are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2018. We noted no transactions entered into by the Academy during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

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Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that we had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Academy's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Academy's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Findings and Recommendations

While performing our audit, we came across the following opportunities for Detroit Achievement Academy to improve its performance:

Fund Balance Adjustment

During the course of our audit, we determined that beginning fund balance in the accounting records did not coincide with the prior year audit report. Adjusting journal entries were recommended to management, which agreed to make the adjustments. The aggregate effect of the adjustments was immaterial to the financial statements.

We recommend that balance sheet accounts be periodically reviewed to ensure their accuracy.

Budget Variances

The final amended budget had revenues equal to expenditures. Actual expenditures exceeded revenues by (\$47,895).

We recommend that the Academy continue to work on improving its budgeting process, and that a final amended budget be approved by the board each June to ensure that budgeted amounts closely reflect actual Academy activity for the school year.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Board of trustees and management of Detroit Achievement Academy and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Taylor & Morgan, P.C.

Taylor & Morgan, P.C.
Certified Public Accountants