



Detroit Achievement Academy
Audited Financial Statements

June 30, 2020

Prepared by Taylor & Morgan, P.C.

DETROIT ACHIEVEMENT ACADEMY
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INDEPENDENT AUDITORS' REPORT

October 6, 2020

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, 2020 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.

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, 2020 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 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.

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, 2020. Please read it in conjunction with the school's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- Government-wide revenues were at \$4,021,815 while expenditures were \$3,890,732.
- At June 30, 2020, the Academy's assets exceeded its liabilities by \$741,840.

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, 2020, were as follows:

Figure A-2
Statement of Net Position

	Net Position 2020	Net Position 2019
Current Assets	\$ 878,804	\$ 672,843
Capital Assets (Net)	1,566,846	1,114,284
Total Assets	<u>2,445,650</u>	<u>1,787,127</u>
Current Liabilities	689,529	489,851
Non-Current Long-Term	1,014,281	686,519
Total Liabilities	<u>1,703,810</u>	<u>1,176,370</u>
Net Position		
Net Invested in Capital Assets	502,646	380,843
Unrestricted	239,194	229,914
Total Net Position	<u><u>\$ 741,840</u></u>	<u><u>\$ 610,757</u></u>

The Academy's revenues and expenses were as follows:

**Figure A-3
Changes in Detroit Achievement Academy's Net Position**

	<u>2020</u>	<u>2019</u>
Revenues:		
Program revenues:		
Federal and state categorical grants	<u>\$ 585,863</u>	<u>\$ 642,566</u>
Total program revenues	585,863	642,566
General revenues:		
State aid - unrestricted	3,114,927	2,179,165
Other	<u>321,025</u>	<u>358,116</u>
Total general revenues	<u>3,435,952</u>	<u>2,537,281</u>
Total revenues	4,021,815	3,179,847
Expenses:		
Instruction	1,613,972	1,482,583
Support services	2,044,093	1,417,013
Food service	166,433	163,137
Interest on long-term debt	53,256	58,557
Depreciation expense	<u>12,978</u>	<u>12,153</u>
Total expenses	<u>3,890,732</u>	<u>3,133,443</u>
Change in net position	<u>\$ 131,083</u>	<u>\$ 46,404</u>

ANALYSIS OF OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS

During the year ended June 30, 2020, the Academy's revenue of \$4,021,815 exceeded its expenses of \$3,890,732 by \$131,083, ending the year with a net position balance of \$741,840. 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, 2020 was 383 students, an increase of 104 from the prior year. The Academy's per-pupil state aid allowance was approximately \$8,111.

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

Actual revenue exceeded budgeted revenue by \$69,797, and actual expenses exceeded budgeted expenses by \$42,074; this includes actual capital outlay of \$377,681. Budgeted other financing sources and uses exceeded actual amounts by \$28,759.

CAPITAL ASSETS

The Academy had \$1,566,846 invested in capital assets, net of depreciation, at June 30, 2020. Please refer to the notes to the basic financial statements for further information.

OUTSTANDING DEBT AT YEAR END

At June 30, 2020, the Academy had \$686,519 in long-term debt owed to IFF and \$377,681 owed to the Detroit Achievement Academy Foundation. Please refer to the notes to the basic financial statements for more information.

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
Detroit Achievement Academy
7000 Outer Dr. W
Detroit, MI 48235
(313)468-9518

BASIC FINANCIAL STATEMENTS

DETROIT ACHIEVEMENT ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2020

	Governmental Activities
Assets	
Cash and Cash Equivalents	\$ 178,793
Due from Other Governmental Units	676,120
Deposits	5,004
Accounts Receivable	18,887
Capital Assets	
Buildings & Improvements	1,517,726
Equipment & Furniture	446,051
Vehicles	24,000
Less: Accumulated Depreciation	(420,931)
Net Capital Assets	1,566,846
Total Assets	2,445,650
Liabilities	
Accounts Payable	105,410
Accrued Expenses	41,885
Deferred Revenue	140,247
Short Term Note Payable	352,068
Long-term Liabilities:	
Due within one year	49,919
Due in more than one year:	1,014,281
Total Liabilities	1,703,810
Net Position	
Net Investment In Capital Assets	502,646
Unrestricted	239,194
Total Net Position	\$ 741,840

See accompanying notes to basic financial statements

DETROIT ACHIEVEMENT ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Functions/Programs				
Governmental Activities				
Instruction				
Basic Programs	\$ 1,366,338	\$ -	\$ 76,217	\$ (1,290,121)
Added Needs	247,634	-	188,797	(58,837)
Support Services	2,044,093	-	156,098	(1,887,995)
Food Service	166,433	-	164,751	(1,682)
Interest on Long-Term Debt	53,256	-	-	(53,256)
Unallocated Depreciation	12,978	-	-	(12,978)
Total Governmental Activities	\$ 3,890,732	\$ -	\$ 585,863	(3,304,869)
General Purpose Revenues				
State School Aid - Unrestricted				3,114,927
Miscellaneous				321,025
			Total General Revenue	3,435,952
			Change in Net Position	131,083
			Net Position - July 1	610,757
			Net Position - June 30	\$ 741,840

See accompanying notes to basic financial statements

DETROIT ACHIEVEMENT ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2020

	General Fund	Non-major Governmental Fund	Total Governmental Funds
Assets			
Cash and Cash Equivalents	\$ 178,793	\$ -	\$ 178,793
Due from Other Governmental Units	676,120	-	676,120
Deposits	5,004	-	5,004
Accounts Receivable	18,887	-	18,887
Total Assets	\$ 878,804	\$ -	\$ 878,804
Liabilities & Fund Balance			
Liabilities			
Accounts Payable	\$ 105,410	\$ -	\$ 105,410
Accrued Expenses	41,885	-	41,885
Deferred Revenue	140,247	-	140,247
Short Term Note Payable	352,068	-	352,068
Total Liabilities	639,610	-	639,610
Fund Balance			
Non-Spendable	5,004	-	5,004
Unassigned	234,190	-	234,190
Total Fund Balance	239,194	-	239,194
Total Liabilities & Fund Balance	\$ 878,804	\$ -	\$ 878,804

See accompanying notes to basic financial statements

DETROIT ACHIEVEMENT ACADEMY
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2020

Total Governmental Fund Balances	\$	239,194
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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	\$	1,987,777	
Accumulated Depreciation		<u>(420,931)</u>	1,566,846

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>1,064,200</u>	<u>(1,064,200)</u>
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Total Net Position - Governmental Activities	\$	<u><u>741,840</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, 2020

	General Fund	Non-major Governmental Fund	Total Governmental Funds
Revenues			
Local Sources	\$ 272,215	\$ -	\$ 272,215
State Sources	3,319,835	6,218	3,326,053
Federal Sources	265,014	158,533	423,547
Total Revenues	3,857,064	164,751	4,021,815
Expenditures			
Instruction			
Basic Programs	1,467,174	-	1,467,174
Added Needs	247,634	-	247,634
Total Instruction	1,714,808	-	1,714,808
Support Services			
Pupil Services	168,627	-	168,627
Instructional Staff	29,751	-	29,751
General Administration	386,539	-	386,539
School Administration	707,250	-	707,250
Business Services	70,270	-	70,270
Operation and Maintenance	550,250	-	550,250
Central Services	22,196	-	22,196
Transportation	85,455	-	85,455
Athletics	1,470	-	1,470
Other Supporting Services	7,307	166,433	173,740
Community Services	2,000	-	2,000
Principal Retirement	46,922	-	46,922
Interest and Fiscal Charges	53,256	-	53,256
Total Support Services	2,131,293	166,433	2,297,726
Capital Outlay	377,681	-	377,681
Total Expenditures	4,223,782	166,433	4,390,215
Excess/(Deficiency) of Revenues over/(under) Expenditures	(366,718)	(1,682)	(368,400)
Other Financing Sources/(Uses)			
Loan Proceeds	377,681	-	377,681
Operating Transfers in/(out)	(1,682)	1,682	-
Total Other Financing Sources/(Uses)	375,999	1,682	377,681
Net Changes in Fund Balance	9,281	-	9,281
Fund Balance - July 1	229,913	-	229,913
Fund Balance - June 30	\$ 239,194	\$ -	\$ 239,194

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, 2020

Total Net Change in Fund Balances - Governmental Funds	\$	9,281
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p> <p>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.</p>		
Capitalized Assets	\$ 582,342	
Depreciation Expense	<u>(129,781)</u>	452,561
<p>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).</p>		
		(377,681)
<p>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.</p>		
		<u>46,922</u>
Change in Net Position of Governmental Activities	\$	<u><u>131,083</u></u>

See accompanying notes to basic financial statements

NOTES TO FINANCIAL STATEMENTS

DETROIT ACHIEVEMENT ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

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, 2020 were approximately \$90,384.

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include 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.

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.

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.

DETROIT ACHIEVEMENT ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 1 - Summary of Significant Accounting Policies (continued)

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 two generic fund types 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 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 Cash Equivalents– Cash and cash equivalents include amounts in demand deposits, sweep accounts, and certificate of deposits with original maturities of three months or less. The Academy reports its investments in accordance with Governmental Accounting Standards Board (GASB) *Statement No. 31, Accounting and*

DETROIT ACHIEVEMENT ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 1 - Summary of Significant Accounting Policies (continued)

Cash and Investments-(continued)

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.

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.

Economic Dependency – The Academy receives approximately 83% of its operating revenue from the State of Michigan.

Upcoming Accounting and Reporting Changes

Governmental Accounting Standards Board Statement No. 87, *Leases* increases the usefulness of the Academy's financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational

DETROIT ACHIEVEMENT ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 1 - Summary of Significant Accounting Policies (continued)

Upcoming Accounting and Reporting Changes-(continued)

principle that leases are financings of the right to use an underlying asset. A lessee will be required to recognize a lease liability and an intangible right-to-use- a lease asset, and a lessor will be required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the Academy's leasing activities. The requirements of the statement are effective for the fiscal year ending June 30, 2022. Management has not yet determined the potential effects of the new standard on the financial statements, if any.

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.

DETROIT ACHIEVEMENT ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 2 - Budget and Budgetary Accounting (continued)

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.

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>
Basic Programs	\$ 1,452,765	\$ 1,467,174	\$ (14,409)
Pupil Services	123,544	168,627	(45,083)
Instructional Staff	-	29,751	(29,751)
School Administration	669,988	707,250	(37,262)
Business Services	70,139	70,270	(131)
Central Services	-	22,196	(22,196)
Other Supporting Services	-	7,307	(7,307)
Community Services	-	2,000	(2,000)
Capital Outlay	-	377,681	(377,681)
Other Financing Uses	99,927	101,860	(1,933)

The final amended budget showed revenues greater than expenditures by \$10,317. Actual revenues exceeded expenditures by \$9,281, a negative variance of \$1,036.

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.

DETROIT ACHIEVEMENT ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 3 - Cash and Investments (continued)

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, 2020, the Academy had no deposit balances uninsured and or uncollateralized.

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, 2020 were as follows:

	<u>Balance July 1, 2019</u>	<u>Additions</u>	<u>Disposals & Adjustments</u>	<u>Balance June 30, 2020</u>
Land, Buildings & Additions	\$ 1,140,045	\$ 377,681	\$ -	\$ 1,517,726
Furniture, Equip & Other	265,389	204,662	-	470,051
Subtotal	1,405,434	582,343	-	1,987,777
Accumulated Depreciation:				
Land Buildings & Additions	168,818	44,901	-	213,719
Furniture, Equipment & Other	122,332	84,880	-	207,212
Subtotal	291,150	129,781	-	420,931
Net Capital Assets	<u>\$ 1,114,284</u>	<u>\$ 452,562</u>	<u>\$ -</u>	<u>\$ 1,566,846</u>

Depreciation expense for the year ended June 30, 2020 was \$129,781.

DETROIT ACHIEVEMENT ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 5 – Defined Benefit Pension Plan

The Academy does not participate in the Michigan Public School Employees' Retirement System (MPSERS). Therefore, no pension plan or other post-employment benefit 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 \$5,004 in non-spendable fund balance as of June 30, 2020.

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 restricted at June 30, 2020. Committed fund balance represents constrained amounts imposed by board resolution. The Academy had no amounts committed at June 30, 2020.

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, 2020.

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.

DETROIT ACHIEVEMENT ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 9 - Subsequent Events

In March of 2020, many Michigan businesses and all school districts were closed by order of the Governor in response to the global coronavirus pandemic. The mandated closures resulted in a state revenue shortfall which necessitated a reduction in state aid of \$175 per pupil that was deducted from the August 2020 state aid payment. New revenue sources were made available to schools subsequent to fiscal year end, including Public Act 123 of 2020 which provides approximately \$12.32 per pupil, and Public Act 146 of 2020 which provides \$350 per pupil. The new revenue streams approved after June 30, 2020 are restrictive in nature and will be recognized in the fiscal year ended June 30, 2021 in accordance with reporting criteria established by the Governmental Accounting Standards Board.

In addition to PA 123 of 2020 and PA 146 of 2020, the "Return to Learn" legislation was passed subsequent to fiscal year end. The Return to Learn legislation modified the per pupil foundation allowance funding calculation which allows some flexibility in the days and attendance requirements for districts. For example, local districts may provide instruction in a virtual, face to face, or hybrid environment for the 2020-2021 school year and still meet funding requirements.

The full impact of the global pandemic is unknown. It is currently not possible to estimate the duration or severity of the potential impact of the pandemic on the district or to determine if any changes in fair values are other than temporary in nature. Accordingly, no adjustments to the financial statements have been made as a result of these events.

Note 10 – 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. This loan will be amortized again on February 1, 2021 for an additional 120 months at a rate of 5.000% with monthly payments of \$6,979. 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, 2020, \$686,519 was outstanding.

On June 30, 2020, the Academy borrowed \$377,681 from the Detroit Achievement Academy Foundation. The term is for 42 months at an interest rate of 0%. The entire balance of the loan is due as a balloon payment in December 2023.

The following is a summary of long-term debt transactions for the year ended June 30, 2020:

	<u>Notes Payable - IFF</u>	<u>DAAF</u>	<u>Total</u>
Balance July 1, 2019	\$ 733,441	\$ -	\$ 733,441
Additions	-	377,681	377,681
Less: Retirements & Payments	<u>(46,922)</u>	<u>-</u>	<u>(46,922)</u>
Balance June 30, 2020	686,519	377,681	1,064,200
Less: Current Portion	<u>(49,919)</u>	<u>-</u>	<u>(49,919)</u>
Total Due after One Year	<u>\$ 636,600</u>	<u>\$ 377,681</u>	<u>\$ 1,014,281</u>

DETROIT ACHIEVEMENT ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 10 – Long-Term Debt – (continued)

Future principal and interest requirements for the debt are as follows:

Year Ended June 30	Principal	Interest	Total
2021	\$ 49,919	\$ 34,674	\$ 84,593
2022	53,122	30,624	83,746
2023	55,840	27,905	83,745
2024	436,375	25,051	461,426
2025	61,699	22,047	83,746
Thereafter	407,245	60,326	467,571
	<u>\$ 1,064,200</u>	<u>\$ 200,627</u>	<u>\$ 1,264,827</u>

Note 11 – Leases

On November 21, 2018 the Academy executed an operating lease agreement for a facility located at 8411 Sylvester St in Detroit, Michigan. The lease is in effect through June 30, 2043. Future minimum payments under this agreement are as follows:

For the year ended June 30,	
2021	\$ 175,000
2022	175,000
2023	175,000
2024	175,000
2025	175,000
Thereafter	7,245,000
	<u>\$ 8,120,000</u>

Rent expenditures were \$175,000 for the year ended June 30, 2020.

On July 6, 2020 the Academy executed an operating lease agreement for a facility located at 19321 West Chicago, Detroit, Michigan. The lease is in effect from August 1, 2020 through July 30, 2021. The lease will automatically renew on an annual basis unless either party elects to terminate the agreement. The facility is meant serve as an auxiliary classroom space as the academy commences construction and remodeling of existing facilities.

Future Minimum payments under this agreement are as follows:

For the year ended June 30,	
2021	\$ 41,250
2022	3,750
	<u>\$ 45,000</u>

DETROIT ACHIEVEMENT ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 12 – Due From Other Governmental Units

The total amounts due from other governmental units is \$676,120 and consists entirely of amounts due from the State of Michigan.

Note 13 – Purchased Services

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

Note 14 – Related Parties

The following schedule presents significant transactions between the Academy and the related parties:

<u>Related Party</u>	<u>Significant Transactions</u>
Detroit Achievement Academy Foundation	Loan to the Academy in the amount of \$377,681
Detroit Achievement Academy Foundation	Short term loan to the Academy in the amount of \$224,155
Detroit Prep QALICB	Lease expense in the amount of \$175,000

The Detroit Achievement Academy Foundation is a non-profit organization established to receive donations and contributions that could be used for the benefit of the Detroit achievement academy. The foundation does not meet the definition of a component unit but is considered a related party of the Detroit Achievement Academy. The foundation and the Academy share personnel. During the fiscal year ended June 30, 2020 the foundation loaned the Academy \$377,681 for capital outlay and \$224,155 to cover operating expenses.

The Detroit Prep QALICB is a non-profit organization established to hold the building located at 8411 Sylvester St in Detroit, Michigan. The QALICB does not meet the definition of a component unit but is considered a related party of the Detroit Achievement Academy. The QALICB and Academy share personnel. During the fiscal year ended on June 30, 2020 the Academy paid the QALICB \$175,000 in rent.

Note 15 – State Aid Anticipation Loan

The Academy was issued a State Aid Anticipation Loan through Michigan Finance Authority in the amount of \$713,000 on September 5, 2019. This loan had an interest rate of 3.65% and matured on August 20, 2020. At June 30, 2019, there was a balance of 132,190, including interest. This loan was paid in full on August 20, 2020.

The Academy was issued a State Aid Anticipation Loan through Michigan Finance Authority in the amount of \$840,000 on September 3, 2020. This loan has an interest rate of 3.45% and matures on August 20, 2021.

REQUIRED SUPPLEMENTAL INFORMATION

DETROIT ACHIEVEMENT ACADEMY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2020

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Local Sources	\$ 30,923	\$ 192,095	\$ 272,215	\$ 80,120
State Sources	3,533,759	3,338,042	3,319,835	(18,207)
Federal Sources	253,789	257,130	265,014	7,884
Total Revenues	3,818,471	3,787,267	3,857,064	69,797
Expenditures				
Education				
Instruction				
Basic Programs	1,516,846	1,452,765	1,467,174	(14,409)
Added Needs	362,007	287,110	247,634	39,476
Supporting Services				
Pupil Services	144,510	123,544	168,627	(45,083)
Instructional Staff	-	-	29,751	(29,751)
General Administration	381,308	531,298	386,539	144,759
School Administration	550,688	669,988	707,250	(37,262)
Business Services	76,511	70,139	70,270	(131)
Operation and Maintenance	511,504	857,970	550,250	307,720
Central Services	-	-	22,196	(22,196)
Other Supporting Services	-	-	7,307	(7,307)
Transportation	78,471	87,246	85,455	1,791
Athletics	-	1,470	1,470	-
Community Services	-	-	2,000	(2,000)
Capital Outlay	-	-	377,681	(377,681)
Debt Service	101,861	99,927	100,178	(251)
Total Expenditures	3,723,706	4,181,457	4,223,782	(42,325)
Other Financing Sources/(Uses)				
Loan Proceeds	-	404,507	377,681	(26,826)
Other Financing Uses	-	-	(1,682)	(1,682)
Total Other Financing Sources/(Uses)	-	404,507	375,999	(28,508)
Excess of Revenues Over/(Under) Expenditures and Other Financing Sources/(Uses)	94,765	10,317	9,281	(1,036)
Fund Balance - July 1	229,913	229,913	229,913	-
Fund Balance - June 30	\$ 324,678	\$ 240,230	\$ 239,194	\$ (1,036)

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 6, 2020

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, 2020, 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 6, 2020.

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 results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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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