

Detroit Innovation Academy

**Financial Report
with Supplemental Information
June 30, 2015**

Detroit Innovation Academy

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Independent Auditor's Report

To the Board of Directors
Detroit Innovation Academy

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the remaining fund information of the Detroit Innovation Academy (the "Academy"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Detroit Innovation Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the remaining fund information of the Detroit Innovation Academy as of June 30, 2015, and the respective changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Detroit Innovation Academy

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion & Analysis and the major fund budgetary comparison schedule on pages 37 and 23 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2015 on our consideration of the Detroit Innovation Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Detroit Innovation Academy's internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 6, 2015

Detroit Innovation Academy

Management's Discussion and Analysis

This section of Detroit Innovation Academy's (the "Academy") annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2015. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Detroit Innovation Academy financially as a whole. The academy-wide financial statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the Academy's operations in more detail than the academy-wide financial statements by providing information about the Academy's most significant fund - the General Fund - with the other fund - the School Lunch Fund - presented in one column as the nonmajor governmental special revenue fund.

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

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

Detroit Innovation Academy

Management's Discussion and Analysis (Continued)

The Academy as a Whole

Recall that the statement of net position provides the perspective of the Academy as a whole. Table I provides a summary of the Academy's net position as of June 30, 2015 and 2014:

Table I	Governmental Activities	
	June 30, 2015	June 30, 2014
	(in thousands)	(in thousands)
Assets		
Current and other assets	\$ 1,040.0	\$ 413.6
Capital assets - Net	192.9	163.6
Total assets	1,232.9	577.2
Liabilities - Current liabilities	953.0	385.9
Net Position		
Net investment in capital assets	192.9	163.6
Restricted - Food service	12.7	7.0
Unrestricted	74.3	20.7
Total net position	<u>\$ 279.9</u>	<u>\$ 191.3</u>

The above analysis focuses on the net assets (see Table I). The change in net position (see Table 2) of the Academy's governmental activities is discussed below. The Academy's net position was \$279,900 at June 30, 2015. The portion of net position identified as invested in capital assets represents the original cost of the capital assets less depreciation. The portion of net position identified as restricted represents the School Lunch Fund fund balance. The remaining amount of net position of approximately \$74,300 was unrestricted.

The \$74,300 in unrestricted net position of governmental activities represents the results of the first two years of operation. The unrestricted net position balance enables the Academy to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

Detroit Innovation Academy

Management's Discussion and Analysis (Continued)

The results of this year's operations for the Academy as a whole are reported in the statement of activities (Table 2), which shows the changes in net assets for fiscal year 2015 and 2014 for comparison purposes.

Table 2

	Governmental Activities	
	Year Ended	
	June 30, 2015	June 30, 2014
	(in thousands)	(in thousands)
Revenue		
Program revenue:		
Charges for services	\$ 8.0	\$ 11.1
Operating grants and contributions	864.3	665.4
General revenue:		
State foundation allowance	2,173.8	1,706.7
Other	0.6	95.5
Total revenue	<u>3,046.7</u>	<u>2,478.7</u>
Functions/Program Expenses		
Instruction	1,173.8	1,006.7
Support services	1,496.4	1,148.6
Food services	218.3	149.7
Community services	4.4	0.1
Depreciaton (unallocated)	65.2	45.9
Total functions/program expenses	<u>2,958.1</u>	<u>2,351.0</u>
Increase in Net Position	88.6	127.7
Net Position - Beginning of year	<u>191.3</u>	<u>63.6</u>
Net Position - End of year	<u><u>\$ 279.9</u></u>	<u><u>\$ 191.3</u></u>

As reported in the statement of activities, the cost of all of our governmental activities this year was approximately \$2.9 million. Certain activities were partially funded by other governments and organizations that subsidized certain programs with grants and contributions of approximately \$864,300. We paid for the remaining "public benefit" portion of our governmental activities with \$2.2 million in State foundation allowance, and with our other revenues.

The Academy experienced an increase in net position of \$88,600. The key reason for the change in net position was the diligent effort by management and the Board to manage the expenses of the school within the constraints of the State foundation allowance and the pupil count.

Detroit Innovation Academy

Management's Discussion and Analysis (Continued)

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

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

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

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

The Academy's Funds

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

As the Academy completed this year, the governmental funds reported a combined fund balance of \$87,000.

In the General Fund, our principal operating fund, the fund balance increased to \$74,300. The change is mainly due to expense management controls implemented to maximize the impact of the foundation allowance revenue in a fiscally responsible manner. General Fund fund balance is available to fund costs related to allowable school operating purposes.

In the special revenue fund, the School Lunch Fund, the fund balance increased to \$12,700. The primary reason for this increase is due to a commitment to provide a healthy breakfast and lunch to the entire student population at no cost, by maximizing grant revenue and managing costs.

Detroit Innovation Academy

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

There were no significant variances between the final budget and actual amounts.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2015, the Academy had \$192,900 invested in capital assets, primarily related to furniture and equipment.

Debt

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

Economic Factors and Next Year's Budgets and Rates

The Academy's Board and administration consider many factors when setting the Academy's 2016 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2016 fiscal year is 10 percent of the February 2015 student count and 90 percent of the October 2015 student count. The 2016 budget was adopted in June 2015, based on an estimate of students that will be enrolled in October 2015. Approximately 77 percent of total General Fund revenue is from the foundation allowance. Under State law, the Academy cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2016 school year, we anticipate that the fall student count will be above the estimates used in creating the 2016 budget. Once the final student count and related per pupil funding is validated, State law requires the Academy to amend the budget if actual academy resources are not sufficient to fund original appropriations.

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

Detroit Innovation Academy

Management's Discussion and Analysis (Continued)

Contacting the Academy

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

Detroit Innovation Academy

Statement of Net Position June 30, 2015

	<u>Governmental Activities</u>
Assets	
Cash (Note 3)	\$ 376,320
Due from other governmental units	656,705
Prepaid assets	7,108
Capital assets - Net (Note 5)	<u>192,863</u>
Total assets	1,232,996
Liabilities	
Accounts payable	738,144
Accrued payroll-related liabilities	120,832
State aid anticipation note (Note 6)	<u>94,106</u>
Total liabilities	<u>953,082</u>
Net Position	
Net investment in capital assets	192,863
Restricted - Food service	12,679
Unrestricted	<u>74,372</u>
Total net position	<u><u>\$ 279,914</u></u>

Detroit Innovation Academy

Statement of Activities Year Ended June 30, 2015

Functions/Programs	Program Revenues			Governmental
	Expenses	Charges for Services	Operating Grants and Contributions	Activities Net (Expense) Revenue and Changes in Net Position
Primary government - Governmental activities:				
Instruction	\$ 1,171,606	\$ 8,028	\$ 508,202	\$ (655,376)
Support services	1,498,543	-	135,359	(1,363,184)
Food services	218,325	-	216,528	(1,797)
Community services	4,425	-	4,251	(174)
Depreciation expense (unallocated) (Note 5)	65,265	-	-	(65,265)
Total primary government	<u>\$ 2,958,164</u>	<u>\$ 8,028</u>	<u>\$ 864,340</u>	(2,085,796)
General revenues:				
State aid not restricted to specific purposes				2,173,795
Private contributions not restricted to specific purpose				614
Total general revenues				<u>2,174,409</u>
Change in Net Position				88,613
Net Position - Beginning of year				<u>191,301</u>
Net Position - End of year				<u>\$ 279,914</u>

Detroit Innovation Academy

Governmental Funds Balance Sheet June 30, 2015

	General Fund	Nonmajor Governmental Special Revenue Fund - School Lunch Fund	Total Governmental Funds
Assets			
Cash (Note 3)	\$ 376,320	\$ -	\$ 376,320
Due from other governmental units	614,766	41,939	656,705
Due from other funds (Note 7)	29,260	-	29,260
Prepaid assets	7,108	-	7,108
Total assets	<u>\$ 1,027,454</u>	<u>\$ 41,939</u>	<u>\$ 1,069,393</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 738,144	\$ -	\$ 738,144
Accrued payroll-related liabilities	120,832	-	120,832
State aid anticipation note (Note 6)	94,106	-	94,106
Due to other funds (Note 7)	-	29,260	29,260
Total liabilities	953,082	29,260	982,342
Fund Balances			
Nonspendable - Prepaid assets	7,108	-	7,108
Restricted - Food service	-	12,679	12,679
Unassigned	67,264	-	67,264
Total fund balances	<u>74,372</u>	<u>12,679</u>	<u>87,051</u>
Total liabilities and fund balances	<u>\$ 1,027,454</u>	<u>\$ 41,939</u>	<u>\$ 1,069,393</u>

Detroit Innovation Academy

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position Year Ended June 30, 2015

Fund Balance Reported in Governmental Funds \$ 87,051

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

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

Cost of capital assets	\$ 311,055	
Accumulated depreciation	(118,192)	<u>192,863</u>

Net Position of Governmental Activities \$ 279,914

Detroit Innovation Academy

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2015

	General Fund	Nonmajor Governmental Special Revenue Fund - School Lunch Fund	Total Governmental Funds
Revenue			
Local sources	\$ 8,642	\$ -	\$ 8,642
State sources	2,391,909	4,316	2,396,225
Federal sources	430,256	211,654	641,910
Total revenue	2,830,807	215,970	3,046,777
Expenditures			
Current:			
Instruction	1,173,794	-	1,173,794
Support services	1,496,355	-	1,496,355
Food services	-	218,325	218,325
Community services	4,425	-	4,425
Capital outlay	94,510	-	94,510
Total expenditures	2,769,084	218,325	2,987,409
Excess of Revenue Over (Under) Expenditures	61,723	(2,355)	59,368
Other Financing Sources (Uses)			
Transfers in	-	8,000	8,000
Transfers out	(8,000)	-	(8,000)
Net Change in Fund Balances	53,723	5,645	59,368
Fund Balances - Beginning of year	20,649	7,034	27,683
Fund Balances - End of year	\$ 74,372	\$ 12,679	\$ 87,051

Detroit Innovation Academy

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2015

Net Change in Fund Balances - Total Governmental Funds	\$ 59,368
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Amounts reported for governmental activities in the statement of activities are different because:

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

Depreciation expense	\$ (65,265)	
Capitalized capital outlay	94,510	29,245
	<u> </u>	<u> </u>

Change in Net Position of Governmental Activities	<u><u>\$ 88,613</u></u>
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Detroit Innovation Academy

Notes to Financial Statements June 30, 2015

Note I - Nature of Business and Significant Accounting Policies

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

Reporting Entity

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

On January 17, 2012, the Academy entered into a five-year contract with Central Michigan 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. The Central Michigan University board of trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Central Michigan University board of trustees 3.0 percent of state aid as administrative fees. The total administrative fees for the year ended June 30, 2015 paid to the Central Michigan University board of trustees were approximately \$66,000.

Academy-wide and Fund Financial Statements

The academy-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

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

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Notes to Financial Statements June 30, 2015

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Academy-wide Financial Statements - The academy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Revenue not meeting this definition is classified as a deferred inflow of resources. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The Academy reports the following major governmental fund:

Detroit Innovation Academy

Notes to Financial Statements June 30, 2015

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

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

Additionally, the Academy reports the following fund type:

Special Revenue Fund – The special revenue fund is used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The Academy's special revenue fund is the Food Services Funds. Any operating deficit generated by these activities is the responsibility of the General Fund.

Assets, Liabilities, and Net Position or Equity

Cash - Cash includes cash on hand and demand deposits

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." All interfund transactions relate to cash flow and financing assistance provided by the General Fund to the School Lunch Fund

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

Capital Assets - Capital assets, which include leasehold improvements and computer equipment, are reported in the applicable governmental column in the academy-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure-type assets.

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

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

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

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

- **Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact.
- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions or enabling legislation for use for a specific purpose.
- **Committed:** Amounts that have been formally set aside by the board of directors for use for use for specific purposes. Commitments are made and can be rescinded only via resolution of the board of directors.
- **Assigned:** Intent to spend resources on specific purposes expressed by the by the board of directors to make assignments.
- **Unassigned:** Amounts that do not fall into any other category above. This is the residual classification for amounts in the general fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed or assigned to specific purposes in the general fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed or assigned to those purposes.

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

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

Note 2 - Stewardship, Compliance, and Accountability

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

Detroit Innovation Academy

Notes to Financial Statements June 30, 2015

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

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

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

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

Note 3 - Deposits and Investments

State statutes authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Academy is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Academy's deposits are in accordance with statutory authority. As of June 30, 2015, the Academy does not have any investments.

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy does not have a deposit policy for custodial credit risk. At year end, of the Academy's deposit balance of \$376,070, included is \$126,070 of uninsured deposits. The Academy evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

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Notes to Financial Statements June 30, 2015

Note 4 - Receivables and Unavailable/Unearned Revenue

Governmental funds report unavailable revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the Academy had no unavailable or unearned revenue.

Note 5 - Capital Assets

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

Governmental Activities	Balance July 1, 2014	Additions/ Transfers	Disposals/ Transfers	Balance June 30, 2015
Capital assets being depreciated:				
Leasehold improvements	\$ 46,595	\$ -	\$ -	\$ 46,595
Furniture and equipment	74,099	24,589	-	98,688
Computer equipment	95,851	69,921	-	165,772
Subtotal	216,545	94,510	-	311,055
Accumulated depreciation:				
Leasehold improvements	14,399	9,319	-	23,718
Furniture and fixtures	10,541	12,342	-	22,883
Computer equipment	27,987	43,604	-	71,591
Subtotal	52,927	65,265	-	118,192
Net capital assets	<u>\$ 163,618</u>	<u>\$ 29,245</u>	<u>\$ -</u>	<u>\$ 192,863</u>

Depreciation expense was not charged to activities as the Academy's assets impact multiple activities, and allocation is not practical.

Note 6 - State Aid Anticipation Note

On August 20, 2014, the Academy borrowed net assets through the Michigan Finance Authority on a state aid anticipation note. The note bears interest at 2.80 percent and is due in monthly installments, including interest, of \$48,332 through August 20, 2015. The note was paid in full subsequent to year end.

Subsequent to year end, the Academy borrowed \$284,000 through the Michigan Finance Authority on a state aid anticipation note at a rate of 3.20 percent. This note is due in monthly installments, including interest, of \$26,301 from October 20, 2015 through August 22, 2016

Detroit Innovation Academy

Notes to Financial Statements June 30, 2015

Note 7 - Interfund Receivables, Payables, and Transfers

Interfund balances include \$29,260 due to the General Fund from the School Lunch Fund. These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

During the year, \$8,000 was transferred from the General Fund to the School Lunch Fund for additional financial support.

Note 8 - Operating Leases

The Academy has entered into an operating lease agreement for its facility. The facility is subleased from the Academy's management company. The lease expires on July 31, 2017. The lease contains a renewal option, which the Academy has the intention of exercising. The option for the extended maturity is five successive options to extend the term of the agreement for an additional five years. Rent expense in connection with its building lease was \$356,750 for the year ended June 30, 2015. The rental agreement calls for variable annual rental payments based on anticipated student enrollment and state aid received. The estimated future lease payments are as follows:

Years Ending June 30	Amount
2016	\$ 379,776
2017	381,601
2018	<u>31,800</u>
Total	<u>\$ 793,177</u>

Note 9 - Risk Management

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

Detroit Innovation Academy

Notes to Financial Statements June 30, 2015

Note 10 - Management Agreement

In May 2012, the Academy entered into a management agreement with a low-profit limited liability company. The management company is responsible for substantially all of the management, operation, administration, education, and food services at the Academy. The Academy subcontracts all employees from the management company and reimburses the management company for services provided. At June 30, 2015, \$693,922 is owed to the management company, of which a majority is related to the reimbursement of payroll costs and operating related expenses. The management fee charged to the Academy by the management company was approximately \$175,000 for the year ended June 30, 2015. The management fee is calculated based on two components: (1) a fixed fee which is calculated as a percentage of total revenue and (2) a reimbursement-based fee for all costs incurred and paid by the management company in providing services to the Academy. The agreement expires on June 30, 2017.

Required Supplemental Information

Detroit Innovation Academy

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Revenue				
Local sources	\$ 10,000	\$ 9,322	\$ 8,642	\$ (680)
State sources	2,310,490	2,393,222	2,391,909	(1,313)
Federal sources	438,647	446,704	430,256	(16,448)
Total revenue	<u>2,759,137</u>	<u>2,849,248</u>	<u>2,830,807</u>	<u>(18,441)</u>
Expenditures				
Current:				
Instruction:				
Basic program	1,011,963	1,081,449	1,072,255	(9,194)
Added needs	237,699	200,433	193,861	(6,572)
Total instruction	<u>1,249,662</u>	<u>1,281,882</u>	<u>1,266,116</u>	<u>(15,766)</u>
Support services:				
Pupil	164,775	159,917	156,279	(3,638)
Instructional staff	98,559	134,009	124,822	(9,187)
General administration	393,480	378,330	367,227	(11,103)
School administration	265,420	273,077	269,741	(3,336)
Business	63,500	74,770	76,612	1,842
Operations and maintenance	464,618	462,429	456,176	(6,253)
Pupil transportation services	-	3,055	2,848	(207)
Central	50,000	48,283	44,838	(3,445)
Total support services	<u>1,500,352</u>	<u>1,533,870</u>	<u>1,498,543</u>	<u>(35,327)</u>
Community services	1,619	5,665	4,425	(1,240)
Fund modification	-	(1,940)	-	1,940
Total expenditures	<u>2,751,633</u>	<u>2,819,477</u>	<u>2,769,084</u>	<u>(50,393)</u>
Excess of Revenue Over (Under)				
Expenditures	7,504	29,771	61,723	31,952
Other Financing Uses - Transfers out	-	-	(8,000)	(8,000)
Net Change in Fund Balance	7,504	29,771	53,723	23,952
Fund Balance - Beginning of year	<u>20,649</u>	<u>20,649</u>	<u>20,649</u>	<u>-</u>
Fund Balance - End of year	<u><u>\$ 28,153</u></u>	<u><u>\$ 50,420</u></u>	<u><u>\$ 74,372</u></u>	<u><u>\$ 23,952</u></u>