

**DETROIT INNOVATION ACADEMY**

**FINANCIAL REPORT  
WITH  
SUPPLEMENTAL INFORMATION**

**JUNE 30, 2018**

# DETROIT INNOVATION ACADEMY

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# *Alan C. Young & Associates, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

7310 Woodward Ave, Suite 740  
Detroit, MI 48202

(313) 873-7500 (Tel.)  
(313) 873-7502 (Fax)  
[www.alancyoung.com](http://www.alancyoung.com)

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Detroit Innovation Academy  
Detroit, Michigan

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

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

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

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

### **Auditor's Responsibility**

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

## **Independent Auditor's Report (Continued)**

### **Auditor's Responsibility (Continued)**

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

### **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 aggregate remaining fund information of the Academy as of June 30, 2018 and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

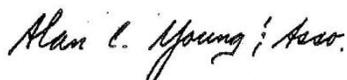
### **Other Matters**

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as identified in the table of contents 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 23, 2018 on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



Detroit, Michigan  
October 23, 2018

# DETROIT INNOVATION ACADEMY

## Management's Discussion and Analysis (MD&A) June 30, 2018

Detroit Innovation Academy (the Academy) is a Public School Academy located in Detroit, Michigan. As management of the Academy, we offer the readers of the Academy's financial statements this narrative overview and analysis of the financial activities of the Academy for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

### FINANCIAL HIGHLIGHTS

- The General Fund had a fund balance at June 30, 2018 of \$347,873, an increase of \$14,176 from 2017.
- The General Fund had \$3,566,830 in revenue, which primarily consisted of State funding (87%), followed by Local Sources (2%), and Federal Sources (11%).

### OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Academy's basic financial statements. The Academy's basic financial statements comprise three components: 1) academy-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

**Academy-wide Financial Statements** - The academy-wide financial statements are designed to provide readers with a broad overview of the Academy's finances, in a manner similar to a private-sector business.

The statement of net position presents information, using the accrual basis of accounting, on all of the Academy's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Academy is improving or deteriorating.

The statement of activities presents information showing how the Academy's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The academy-wide financial statements outline functions of the Academy that are principally supported by State Aid and intergovernmental revenues (Federal grants) and operations and management.

The academy-wide financial statements can be found on pages 1 and 2 of this report.

**Fund Financial Statements** - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Michigan public school districts utilizing Bulletin 1022. The Academy uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Academy can be divided into three categories: governmental, proprietary and fiduciary funds. All activities of the Academy are included in the governmental funds. The Academy does not maintain any proprietary or fiduciary funds.

The basic governmental fund financial statements can be found on page 3 and 5 of this report.

# DETROIT INNOVATION ACADEMY

## Management's Discussion and Analysis (MD&A) (Continued) June 30, 2018

### OVERVIEW OF FINANCIAL STATEMENTS (Continued)

**Notes to the Financial Statements** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 7 to 14 of this report.

### FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Academy, assets exceeded liabilities by \$626,932 as of June 30, 2018.

The Academy's financial position is the product of financial transactions for the year, including the net results of activities, the acquisition of capital assets, and the depreciation of capital assets.

### Net Position as of June 30, 2018 and 2017

The following shows a summary of the Academy's Statement of Net Position as of June 30, 2018 and 2017:

	June 30	
	2018	2017
<b>Assets</b>		
Current Assets	\$ 729,652	\$ 806,369
Capital Assets	286,523	91,234
<b>Total Assets</b>	<b>1,016,175</b>	<b>897,603</b>
<b>Liabilities</b>		
Current Liabilities	299,588	415,586
Noncurrent Liabilities	89,655	-
<b>Total Liabilities</b>	<b>389,243</b>	<b>415,586</b>
<b>Net Position</b>		
Net Investment in Capital Assets	196,868	91,234
Restricted	82,191	57,086
Unrestricted	347,873	333,697
<b>Total Net Position</b>	<b>\$ 626,932</b>	<b>\$ 482,017</b>

# DETROIT INNOVATION ACADEMY

Management's Discussion and Analysis (MD&A) (Continued)  
June 30, 2018

## FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (Continued)

### Net Position as of June 30, 2018 and 2017 (Continued)

	June 30	
	2018	2017
<b>Revenue</b>		
General Revenues	\$ 2,771,091	\$ 2,650,707
Operating Grants	993,141	888,655
Charges for Services	13,748	13,918
<b>Total Revenues</b>	<b>3,777,980</b>	<b>3,553,280</b>
<b>Functions/Program Expenses</b>		
Instruction	1,342,841	1,352,218
Instruction Support Services	1,931,552	1,769,385
Athletics	700	700
Food Service	186,045	206,894
Community Service	59,049	33,130
Depreciation	112,878	61,602
<b>Total Expenses</b>	<b>3,633,065</b>	<b>3,423,929</b>
<b>Change in Net Position</b>	<b>\$ 144,915</b>	<b>\$ 129,351</b>

### Financial Analysis of the School's Funds

The performance of the Academy as a whole is reflected in the governmental funds. As the Academy completed its year, its governmental funds reported a combined fund balance of \$430,064.

### Comments on Budget Comparisons

- General fund budgeted revenue compared to actual revenue varied from line item to line item with the ending actual revenues being \$41,085 more than budget or approximately 1.2%.
- The total budgeted expenses compared to actual expenses varied from line item to line item with the ending actual expenses being \$30,527 less than budget or approximately 0.8%.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At the end of 2018 the Academy had \$286,523 invested in capital assets net of depreciation, including leasehold improvements, furniture, computers and other equipment. Total depreciation for the year was \$112,878.

# **DETROIT INNOVATION ACADEMY**

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## **Management's Discussion and Analysis (MD&A) (Continued)**

**June 30, 2018**

### **CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)**

#### **Long-Term Debt**

At June 30, 2018, the Academy had \$89,665 in long-term debt. The debt was taken in order to renovate the building the Academy is housed in. The debt is scheduled to be paid through 2019.

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

The Academy considers many factors when setting the Academy's 2018-2019 fiscal year budgets. 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 2018-19 fiscal years is 90 percent of the current school year October count and 10 percent of the prior February count. The all-inclusive budget was adopted in June 2018 based on an enrollment estimate of 362 students in the Fall of 2018-19.

Under State law, the Academy cannot assess property taxes for additional revenue for general operations. As a result, the Academy is heavily dependent on the State's ability to fund school operations. Based on early enrollment data and aggressive recruiting efforts, the estimated fall count of 362 students is in line with the estimate used to create the budget.

Once the final student count and related pupil funding are validated, State law requires the Academy to amend the budget if actual Academy resources are not sufficient to fund original appropriations. Since the Academy's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenue to fund its appropriations to public schools and public school academies. The State periodically holds a revenue estimating conference to estimate revenues.

### **CONTACTING THE ACADEMY'S MANAGEMENT**

This financial report is designed to provide our citizens and taxpayers with a general overview of the Academy's finances. If you have questions about this report or need additional information, contact Equity Education, 13600 Virgil, Detroit, Michigan 48223.

# DETROIT INNOVATION ACADEMY

## Statement of Net Position June 30, 2018

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and Cash Equivalents (Note 3)	\$ 114,123
Due From Other Governmental Units (Note 4)	573,692
Prepaid Expenses	41,837
Capital Assets, net of Accumulated Depreciation (Note 5)	286,523
<b>Total Assets</b>	<b>1,016,175</b>
<b>Liabilities</b>	
Accounts Payable	203,749
Accrued Expenses	14,955
State Aid Anticipation Loan (Note 7)	80,884
Long-term Loan Payable (Note 8)	89,655
<b>Total Liabilities</b>	<b>389,243</b>
<b>Net Position</b>	
Net Investment in Capital Assets	196,868
Restricted - Food Service	82,191
Unrestricted	347,873
<b>Total Net Position</b>	<b>\$ 626,932</b>

*The accompanying notes are an integral part of these financial statements*

# DETROIT INNOVATION ACADEMY

## Statement of Activities Year Ended June 30, 2018

Functions/Programs	Program Revenues			Governmental Activities
	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expenses) Revenues and changes in Net Position
<b>Governmental Activities</b>				
Instruction	\$ 1,342,841	\$ 13,748	\$ 315,142	\$ (1,013,951)
Support Services	1,931,552	-	466,849	(1,464,703)
Athletics	700	-	-	(700)
Food Services	186,045	-	211,150	25,105
Community Service	59,049	-	-	(59,049)
Depreciation (unallocated)	112,878	-	-	(112,878)
<b>Total Governmental Activities</b>	<b>3,633,065</b>	<b>13,748</b>	<b>993,141</b>	<b>(2,626,176)</b>
			General Revenues:	
			State Aid - Formula Grants	2,740,292
			Other Revenue	30,799
			<b>Total General Revenues</b>	<b>2,771,091</b>
			Change in Net Position	144,915
			<b>Net Position - July 1, 2017</b>	<b>482,017</b>
			<b>Net Position - June 30, 2018</b>	<b>\$ 626,932</b>

The accompanying notes are an integral part of these financial statements

# DETROIT INNOVATION ACADEMY

## Governmental Funds Balance Sheet June 30, 2018

	<u>General Fund</u>	<u>Non Major Special Revenue Fund- School Lunch Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and Cash Equivalents (Note 3)	\$ 114,123	\$ -	\$ 114,123
Due From Other Funds	-	82,191	82,191
Due From Other Governmental Units (Note 4)	573,692	-	573,692
Prepaid Expenses	41,837	-	41,837
<b>Total Assets</b>	<u>\$ 729,652</u>	<u>\$ 82,191</u>	<u>\$ 811,843</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts Payable	\$ 203,749	\$ -	\$ 203,749
Accrued Expenses	14,955	-	14,955
Loans Payable (Note 7)	80,884	-	80,884
Due To Other Funds	82,191	-	82,191
<b>Total Liabilities</b>	<u>381,779</u>	<u>-</u>	<u>381,779</u>
<b>Fund Balance</b>			
Nonspendable - Prepaid Expenses	41,837	-	41,837
Restricted	-	82,191	82,191
Unassigned	306,036	-	306,036
<b>Total Fund Balance</b>	<u>347,873</u>	<u>82,191</u>	<u>430,064</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 729,652</u>	<u>\$ 82,191</u>	<u>\$ 811,843</u>

*The accompanying notes are an integral part of these financial statements*

# DETROIT INNOVATION ACADEMY

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## Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2018

<b>Fund Balance - Total Governmental Funds</b>		\$ 430,064
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	653,480	
Accumulated depreciation	<u>(366,957)</u>	286,523
Liabilities not due and payable in the current period and are not reported in the governmental funds		<u>(89,655)</u>
<b>Total Net Position - Governmental Activities</b>		<u>\$ 626,932</u>

*The accompanying notes are an integral part of these financial statements*

# DETROIT INNOVATION ACADEMY

## Statement of Revenue, Expenditures and Changes in Fund Balances Year Ended June 30, 2018

	General Fund	Non Major Governmental Special Revenue Fund-School Lunch Fund	Total Governmental Funds
<b>Revenue</b>			
Federal Sources	\$ 404,077	\$ 209,757	\$ 613,834
State Sources	3,118,206	1,393	3,119,599
Local Sources	44,547	-	44,547
<b>Total Revenue</b>	<b>3,566,830</b>	<b>211,150</b>	<b>3,777,980</b>
<b>Expenditures</b>			
Basic Instruction	1,026,007	-	1,026,007
Instruction - Added Needs	316,834	-	316,834
<u>Supporting Services:</u>			
Pupil Support Services	197,855	-	197,855
Instructional Staff Services	276,830	-	276,830
General Administration	435,984	-	435,984
School Administration	375,937	-	375,937
Business	17,266	-	17,266
Operations/Maintenance	558,059	-	558,059
Transportation	7,183	-	7,183
Central	56,470	-	56,470
Athletics	700	-	700
Food Services	-	186,045	186,045
Community Services	59,049	-	59,049
Principal & Interest	66,313	-	66,313
Capital Outlay	308,167	-	308,167
<b>Total Expenditures</b>	<b>3,702,654</b>	<b>186,045</b>	<b>3,888,699</b>
<b>Other Financing Sources (Uses)</b>			
Proceeds From Loan	150,000	-	150,000
	150,000	-	150,000
<b>Net Change in Fund Balance</b>	<b>14,176</b>	<b>25,105</b>	<b>39,281</b>
<b>Fund Balance - July 1, 2017</b>	<b>333,697</b>	<b>57,086</b>	<b>390,783</b>
<b>Fund Balance - June 30, 2018</b>	<b>\$ 347,873</b>	<b>\$ 82,191</b>	<b>\$ 430,064</b>

The accompanying notes are an integral part of these financial statements

# DETROIT INNOVATION ACADEMY

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## Reconciliation of the Governmental Funds Statement of Revenue, Expenditures and Changes in Fund Balance to the Statement of Activities Year Ended June 30, 2018

**Net Change in Fund Balance - Total Governmental Funds** \$ 39,281

Amounts Reported for Governmental Activities in the Statement  
of activities are different because

Governmental Funds Report Capital Outlay as expenditures;  
in the Statement of Activities, these cost are allocated over  
their Estimated Useful Lives as Depreciation

Depreciation Expense	(112,878)	
Capitalized Capital Outlay	<u>308,167</u>	195,289

Government funds record proceeds from loans as other  
financing sources at inception, these loans are recorded  
as a liability on the statement of net position

Proceeds from Long-term Debt	(150,000)	
Payments on Lont-term Debt	<u>60,345</u>	<u>(89,655)</u>

**Net Position - Governmental Activities** \$ 144,915

*The accompanying notes are an integral part of these financial statements*

## 1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Detroit Innovation Academy (the Academy) conform to generally accepted accounting principles as applicable to schools. The following is a summary of the significant policies:

### 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 (CMU) Board of Trustees 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 CMU Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract, all applicable laws and other related activities for which compensation is permissible. By agreement between CMU and the Academy, CMU may charge additional fees beyond the administrative fees for services rendered. The Academy pays the CMU Board of Trustees 3 percent of the Academy's State School Aid Payments as an administrative fee. The total administrative fee paid in the year ended June 30, 2018 to CMU was approximately \$82,000. The Academy's charter expired on June 30, 2017. Effective July 1, 2017, the Academy entered into a two-year contract with Central Michigan University to charter a public school academy expiring on June 30, 2019.

### 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 activities of the Academy. Governmental activities, which normally are supported by 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 academy-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments 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.

Depreciation on the capital assets is unallocated in the Statement of Activities.

**1) SUMMARY OF 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 to 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.

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.

**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 available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

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

**General Fund** - The Academy's major fund is the General Fund. This fund is used to account for all operational activities of the Academy. The General Fund includes the current operating expenditures of the Academy. Revenues are derived primarily from the State of Michigan.

Additionally, the Academy reports the following fund type:

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

**Assets, Liabilities, and Net Position**

**Cash and Cash Equivalents** – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Assets, Liabilities, and Net Position (Continued)**

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

**Prepaid Costs** – Certain payment to vendors reflect cost applicable to future fiscal years and are recorded as prepaid costs in both academy-wide and fund financial statements.

**Capital Assets** – Capital assets, which include furniture, school equipment and leasehold improvements, 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 one year. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Cost 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.

Academy's 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

**Deferred Outflows of Resources** – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future periods(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. The Academy had no deferred outflows of resources at year-end.

**Deferred Inflows of Resources** – In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues, which arises only under a modified accrual basis of accounting, from grants receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The Academy had no deferred inflows of resources at June 30, 2018.

**Unearned Revenue** – Unearned revenue is reported in connection to funds that have been received for services which have not been performed and is therefore not yet earned. At June 30, 2018, the Academy had no unearned revenue.

## 1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Assets, Liabilities, and Net Position (Continued)

**MPSERS Liability** – The Academy contracted with an outside organization to provide all staffing personnel during the year under audit. Consequently, all staffing costs are treated as purchased services in these financial statements. The Academy has no obligation to fund the Michigan Public School Employees Retirement System for the year 2018, and no such funding was made for the year.

**Fund Balance** – GASB 54 provides for two major types of fund balances, which are non-spendable and spendable. Non-spendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. This category typically includes prepaid items and inventories.

In addition to non-spendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- a. Restricted Fund Balance – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- b. Committed Fund Balance – Amounts constrained to specific purposes by the Board; to be reported as committed, amounts cannot be used for any other purpose unless the Board takes action to remove or change the constraint.
- c. Assigned Fund Balance – Amounts the Board intends to use for a specific purpose; intent can be expressed by the Board or by an official or committee to which the Board delegates the authority.
- d. Unassigned Fund Balance – Amounts that are available for any purpose; these amounts are reported only in the general fund.

At June 30, 2018, the Academy had \$82,891 in restricted fund balance restricted for the school lunch fund.

**Net Position** – Net position of the Academy is classified in three components. Net Investment in capital assets – net of related debt consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase of those assets. Restricted net position is further classified as expendable and nonexpendable. The Academy did not have any expendable restricted net position during the year. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

# DETROIT INNOVATION ACADEMY

Notes to Financial Statements (Continued)  
June 30, 2018

## 1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

## 2) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

**Budgetary Information** – The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. The Academy is required by law to adopt general and special revenue fund budgets. During the year ended June 30, 2018 the budget was amended in a legally permissible manner.

### Excess Of Expenditures Over Appropriations in Budgeted Funds

During the year, the Academy incurred expenditures in the General Fund, which were in excess of the amounts budgeted by more than 5% as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Central Services	45,741	56,470	10,729

**Grants** – Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, would become a liability of the General Fund. In the Academy's opinion, no disallowed claims are expected and would not have a material effect on the financial statements as of and for the year ended June 30, 2018.

## 3) DEPOSITS AND INVESTMENTS

State statutes and the Academy's investment policy authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan; the Academy is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, 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.

The Academy has designated two banks for deposit of its funds.

The investment policy adopted by the Board has authorized investments as listed in the State statutory authority as listed above.

**3) DEPOSITS AND INVESTMENTS (Continued)**

The Academy's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of bank failure, the Academy's deposits may not be returned to it. The Academy's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the Academy's deposit for custodial credit risk. At June 30, 2018, the Academy had a deposit balance of \$114,123, which was fully insured

Interest Rate Risk

Interest rate risk is the risk that value of investments will decrease as a result of a rise in interest rates. The Academy's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. The Academy's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby, avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with Academy's cash requirements. The Academy does not have investments with interest rate risk.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Academy's investment policy does not further limit its investment choices, the Academy held no such investment at June 30, 2018.

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value, as a result of changes in foreign currency exchange rates. State law and Academy's policy prohibit investment in foreign currency.

**4) DUE FROM OTHER GOVERNMENTAL UNITS**

Receivables as of June 30, 2018 for the Academy include \$563,951 in State Aid receivable and \$9,741 in Federal grant receivable.

# DETROIT INNOVATION ACADEMY

Notes to Financial Statements (Continued)  
June 30, 2018

## 5) CAPITAL ASSETS

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

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions/ Transfers</u>	<u>Balance</u> <u>June 30, 2018</u>
<b>Capital Assets Being Depreciated:</b>			
Leasehold Improvements	\$ 48,781	\$ 308,167	\$ 356,948
Furniture & Fixtures	107,736	-	107,736
Computer Equipment	188,796	-	188,796
Subtotal	345,313	308,167	653,480
<b>Accumulated Depreciation:</b>			
Leasehold Improvements	42,575	67,839	110,414
Furniture & Fixtures	52,577	15,170	67,747
Computer Equipment	158,927	29,869	188,796
Subtotal	254,079	112,878	366,957
Net Capital Assets	<u>\$ 91,234</u>	<u>\$ 195,289</u>	<u>\$ 286,523</u>

Depreciation is unallocated in the Statement of Activities.

## 6) MANAGEMENT COMPANY AGREEMENT

Effective July 1, 2017 the Academy entered into a management agreement with Equity Education a Michigan nonprofit corporation through June 30, 2019. 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, reimburses the management company for services provided, the management fee is calculated based on 10 percent of all state revenue received by the Academy,

The annual compensation for Detroit Innovation. Compensation for the year ended June 30, 2018 was approximately \$310,000.

## 7) STATE AID ANTICIPATION NOTE

In fiscal 2018, the Academy took out a \$451,000 state aid anticipation note bearing interest at 3.75%. The note had a balance of \$80,884 at June 30, 2018 and was repaid in full in August 2018.

# DETROIT INNOVATION ACADEMY

Notes to Financial Statements (Continued)  
June 30, 2018

## 8) LONG-TERM DEBT

On August 21, 2017, The Academy signed a loan agreement with Michigan Finance Authority, a Michigan corporation. According to the agreement the Academy received \$150,000 to renovate the school building that it has been leasing in the past. The loan has an initial interest rate of 3.75% per annum until August 2019, the maturity date. The monthly installments of \$11,347, including interest, began on March 1, 2017. The loan is secured by the mortgage on the building, and a security lien on the deposit account held by the Academy at Lakeside Bank.

## 9) INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances include \$82,891 due to the School Lunch Fund from the General Fund. These balances result from the time lag between the dates that goods and services are provided, or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

There were no interfund transfers during the year.

## 10) OPERATING LEASES

The Academy has entered into an operating lease agreement for its facility. The lease expires on July 31, 2022. Rent expense in connection with its building lease was approximately \$475,000 for the year ended June 30, 2017. 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:

<u>Years Ending</u> <u>June 30</u>	<u>Amount</u>
2019	\$ 463,715
2020	478,371
2021	493,027
2022	507,684
Thereafter	<u>42,409</u>
Total	<u>\$ 1,985,206</u>

## 11) SUBSEQUENT EVENTS

The Academy has evaluated all subsequent events through October 23, 2018, the date the financial statements were available to be issued. On August 10, 2018, the Academy took out an \$850,000 state aid anticipation note. The note carries an interest rate of 3.09% and matures in July, 2019.



# *Alan C. Young & Associates, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

7310 Woodward Ave, Suite 740  
Detroit, MI 48202

(313) 873-7500 (Tel.)  
(313) 873-7502 (Fax)  
[www.alancyoung.com](http://www.alancyoung.com)

## **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**

To the Board of Directors of  
Detroit Innovation Academy  
Detroit, Michigan

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 Detroit Innovation Academy (the Academy) as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated October 23, 2018.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 statement, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given this limitation, during our audit we did not identify any deficiency in internal control that we consider to be a material weakness. However, material weaknesses may exist that were not identified.

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  
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of 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 is required to be reported under Government Auditing Standards.

We noted certain matters that we have reported to management of the Academy in a separate letter dated October 23, 2018.

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 Academy'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Alan C. Young, Assoc.*

Detroit, Michigan  
October 23, 2018

## **REQUIRED SUPPLEMENTARY INFORMATION**

# DETROIT INNOVATION ACADEMY

## Budgetary Comparison Schedule General Fund Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Revenue</b>				
Federal Sources	\$ 358,632	\$ 389,858	\$ 404,077	\$ 14,219
State Sources	3,113,632	3,112,887	3,118,206	5,319
Local Sources	10,000	23,000	44,547	21,547
<b>Total Revenue</b>	<u>3,482,264</u>	<u>3,525,745</u>	<u>3,566,830</u>	<u>41,085</u>
<b>Expenditures</b>				
Instructional Services	1,078,899	1,049,475	1,026,007	(23,468)
Added Needs	340,047	315,000	316,834	1,834
<u>Supporting Services:</u>				
Pupil Support Services	250,927	192,684	197,855	5,171
Instructional Staff Services	270,085	273,310	276,830	3,520
General Administration	435,344	433,105	435,984	2,879
School Administration	371,641	373,257	375,937	2,680
Business Services	19,000	26,131	17,266	(8,865)
Operations/Maintenance	555,860	584,486	558,059	(26,427)
Transportation	7,500	5,500	7,183	1,683
Central	92,091	45,741	56,470	10,729
Athletics	5,500	4,690	700	(3,990)
Community Service	3,020	56,660	59,049	2,389
Principal & Interest	66,142	66,142	66,313	171
Capital Outlay	295,000	307,000	308,167	1,167
<b>Total Expenditure</b>	<u>3,791,056</u>	<u>3,733,181</u>	<u>3,702,654</u>	<u>(30,527)</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Loan	150,000	150,000	150,000	-
<b>Excess of Revenue over Expenditures</b>				
<b>Net Change in Fund Balance</b>	(158,792)	(57,436)	14,176	71,612
<b>Fund Balance - July 1, 2017</b>	<u>333,697</u>	<u>333,697</u>	<u>333,697</u>	<u>-</u>
<b>Fund Balance - June 30, 2018</b>	<u>\$ 174,905</u>	<u>\$ 276,261</u>	<u>\$ 347,873</u>	<u>\$ 71,612</u>