

# Southwest Detroit Lighthouse Charter Academy

Detroit, Michigan

Audited Financial Statements

June 30, 2014

CROSKEY LANNI, PC

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

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## INDEPENDENT AUDITOR'S REPORT

### To the Board of Directors of Southwest Detroit Lighthouse Charter Academy

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southwest Detroit Lighthouse Charter Academy, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Southwest Detroit Lighthouse Charter 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are the 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 opinion.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, each major fund, and the aggregate remaining fund information of Southwest Detroit Lighthouse Charter Academy, as of June 30, 2014, 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 v - x and 18 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 assurances.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Southwest Detroit Lighthouse Charter Academy's basic financial statements. The introductory section, combining and individual non-major fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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



Croskey Lanni, PC

November 11, 2014  
Rochester, Michigan

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**To the Board of Directors  
of Southwest Detroit Lighthouse Charter 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 Southwest Detroit Lighthouse Charter Academy, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Southwest Detroit Lighthouse Charter Academy's basic financial statements, and have issued our report thereon dated November 11, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Southwest Detroit Lighthouse Charter 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 Southwest Detroit Lighthouse Charter Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of Southwest Detroit Lighthouse Charter 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 Southwest Detroit Lighthouse Charter 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2014-01.

### **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.



Croskey Lanni, PC

November 11, 2014  
Rochester, Michigan

## **MANAGEMENT’S DISCUSSION AND ANALYSIS**

This section of Southwest Detroit Lighthouse Charter Academy’s, “SDLCA”, annual financial report presents our discussion and analysis of the school’s financial performance during the fiscal year that ended on June 30, 2014. Please read it in conjunction with the school’s financial statements, which immediately follow this section.

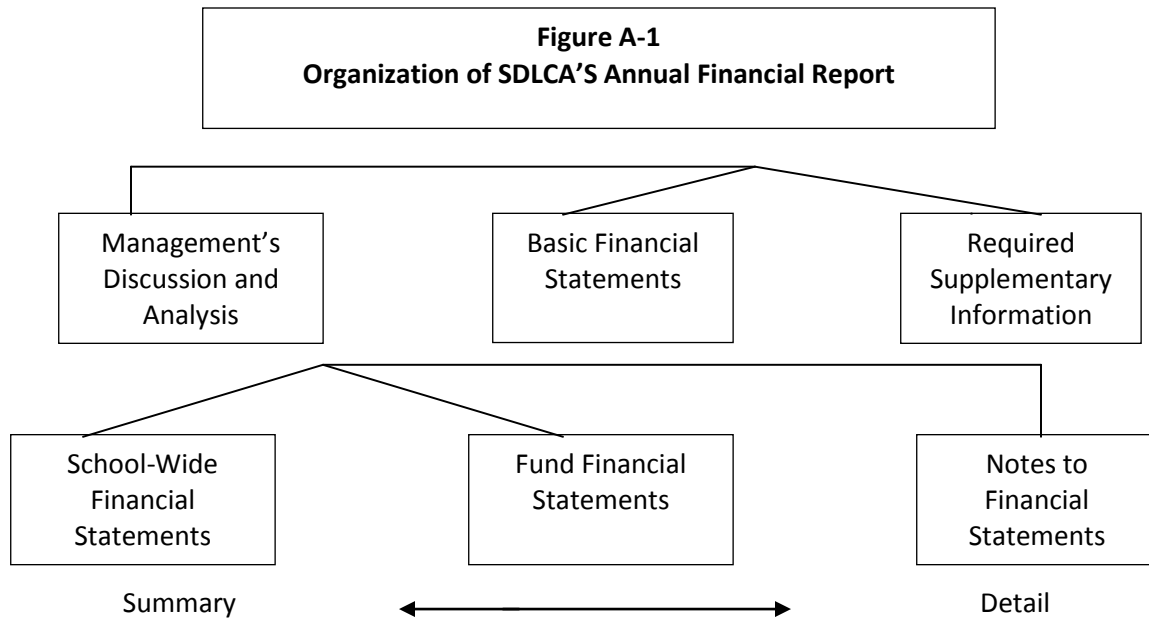
### **FINANCIAL HIGHLIGHTS**

- ❖ The school’s general fund balance is a deficit after the academy’s first year of operations.
- ❖ The total cost of basic programs was \$887,316.
- ❖ Revenues were at \$2,442,767 while expenditures were \$2,873,005 in the General Fund.
  - Blended enrollment used for state aid purposes was 295.75.
- ❖ The school decreased its outstanding long term debt by \$39,554.
- ❖ The school has a deficit fund balance in the General Fund of \$145,345.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts – management’s discussion and analysis (this section), the basic financial statements which include two kinds of statements that present different views of the school:

- The first two statements are school-wide financial statements that provide both short-term and long-term information about the school’s overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the school, reporting the schools operations in more detail.
- The governmental fund statements tell how basic services like regular and special education were financed.
- Fiduciary funds statements provide information about the financial relationships in which the school acts solely as a trustee or agent for the benefit of others. These consist of student activity funds held by the school on behalf of the student group.



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the school's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-2**  
**Major Features of School-Wide and Fund Financial Statements**

Fund Financial Statements

	School-Wide Statements	Government Funds	Fiduciary Funds
Scope	Entire school (except fiduciary funds)	The activities of the school that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the school administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required Financial Statements	*Statement of net position *Statement of activities	*Balance sheet *Statement of revenues, expenditures and changes in fund balances	*Statement of fiduciary net assets *Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid



Figure A-2 summarizes the major features of the school's financial statements, including the portion of the school's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

## **SCHOOL-WIDE STATEMENTS**

The school-wide statements report information about the school as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the school's assets, deferred outflows, liabilities, and deferred inflows. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two school wide statements report the school's net position and how it has changed. Net position – the difference between the school's assets, deferred outflows, liabilities, and deferred inflows – are one way to measure the school's financial health or position.

- ❖ Over time, increases or decreases in the school's position is an indicator of whether its financial position is improving or deteriorating, respectively.
- ❖ To assess the overall health of the school, you need to consider additional non-financial factors such as changes in the school's enrollment and the condition of school buildings and other facilities.

## **FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detailed information about the school's funds, focusing on its most significant or "major" funds – not the school as a whole. Funds are accounting devices the school uses to keep track of specific sources of funding and spending on particular programs:

- ❖ *Governmental activities* – Most of the school's basic services are included in the general fund, such as regular and special education and administration. State foundation aid finances most of these activities.
- ❖ The school establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues.

The school has two kinds of funds:

- ❖ *Governmental funds* – Most of the school's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the school's programs. Because this information does not encompass the additional long-term focus of the school-wide statements, we provide additional information with governmental funds statements that explains the relationship (or differences) between them.
- ❖ *Fiduciary funds* – The school is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the school-wide financial statements because the school cannot use these assets to finance its operations.

## **FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE**

The school's financial position is the product of many factors. The fiscal year ending June 30, 2014 was the school's first year of operations. Some grant funds were not approved due to timing of the application which resulted in an overall deficit. A deficit elimination plan is in progress and will be sent to MDE for approval.

### **School Governmental**

The stability of the school's finances is a result of the following measures:

- ❖ Although SDLCA consistently curtailed excessive spending the fiscal year ended with a deficit due to timing of the implementation grant application.
- ❖ Enrollment at SDLCA is steady and continues to grow which will assist in eliminating the deficit in future fiscal years.

### **General Fund Budgetary Analysis**

Over the course of the year, the school reviewed the annual operating budget several times and amended it once. The following operational changes were made:

- ❖ Significant changes were made in the fourth quarter to account for final enrollment counts, and changes in assumptions since the original budget was adopted.

### **Financial Outlook**

Southwest Detroit Lighthouse Charter Academy's financial forecast is cautiously optimistic heading into the 2014/2015 school year. This is partly due to the following:

- ❖ Marketing and enrollment remain steady
- ❖ Implementation Grant will be used to offset large purchases in 2014/2015 and 2015/2016 as the school moves towards adding middle school grades.
- ❖ New Administration

**Figure A-3**  
**Southwest Detroit Lighthouse Charter Academy's Net Position**

	<b>2014</b>
Current assets	\$ 769,892
Capital assets, net	263,862
Total assets and deferred outflows	1,033,754
Current liabilities	1,003,184
Long term liabilities	157,392
Net Position:	
Net investment in capital assets	18,523
Unrestricted	(145,345)
Total net position	\$ (126,822)

**Figure A-4**  
**Changes in Southwest Detroit Lighthouse Charter Academy's Net Position**

	<b>2014</b>
Revenues:	
Program revenues:	
Federal and state categorical grants	\$ 295,945
Charges for service	-
Total program revenues	295,945
General revenues:	
State aid - unrestricted	2,127,254
Other	19,568
Total general revenues	2,146,822
Total revenues	2,442,767
Expenses:	
Instruction	1,249,922
Support services	1,209,042
Unallocated depreciation	85,349
Unallocated interest	25,276
Total expenses	2,569,589
Change in net position	\$ (126,822)

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

By the end of 2014, the school had invested \$263,863 in capital assets, including furniture, computers and software, net of accumulated depreciation. (More detailed information about capital assets can be found in Note 5 to the financial statements.)

	<b>Balance June 30, 2014</b>
Furniture	\$ 196,449
Computers	152,762
Total cost	349,211
Less accumulated depreciation	85,349
Net book value	<u>\$ 263,862</u>

The school's fiscal year 2015 budget anticipates less than \$10,000 in capital assets.

### **Long-Term Debt**

At year end the school had debt of \$245,339, consisting of equipment lease agreements.

- ❖ The school long term debt decreased by \$39,554.

## **FACTORS BEARING ON THE SCHOOL'S FUTURE**

- ❖ Improvement of enrollment trends
- ❖ State aid foundation stabilized with federal funds
- ❖ Stabilized Staffing
- ❖ Renewed School Purpose

## **CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our students, parents and creditors with a general overview of the school's finances and to demonstrate the school's accountability for the money it receives. If you have questions about this report or need additional information, contact the school's office at:

Southwest Detroit Lighthouse Charter Academy, 4001 29<sup>th</sup> Street, Detroit, MI 48210

# SOUTHWEST DETROIT LIGHTHOUSE CHARTER ACADEMY

STATEMENT OF NET POSITION  
JUNE 30, 2014  
See Independent Auditor's Report

## ASSETS AND DEFERRED OUTFLOWS

### Current Assets

Cash and cash equivalents	\$ 182,480
Due from other governmental units	582,033
Prepaid expenses	<u>5,379</u>
Total current assets	769,892

### Capital Assets - Net of Accumulated Depreciation

263,862

Total assets and deferred outflows \$ 1,033,754

## LIABILITIES, DEFERRED INFLOWS AND NET POSITION

### Current Liabilities

Accounts payable	\$ 131,035
Notes payable	625,000
Unearned revenue	24,724
Other accrued expenses	134,478
Long-term debt - current portion	<u>87,947</u>
Total current liabilities	1,003,184

### Long-Term Debt - Long-Term Portion

157,392

### Net Position

Net investment in capital assets	18,523
Unrestricted	<u>(145,345)</u>
Total net position	<u>(126,822)</u>
Total liabilities, deferred inflows and net position	<u>\$ 1,033,754</u>

See accompanying notes to financial statements

## SOUTHWEST DETROIT LIGHTHOUSE CHARTER ACADEMY

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014  
See Independent Auditor's Report

		Program Revenues		Net (Expense) Revenues and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants	Government Type Activities
<b>Functions</b>				
Instruction				
Basic programs	\$ 887,316	\$ -	\$ 14,264	\$ (873,052)
Added needs	362,606	-	223,307	(139,299)
Support services				
Pupil support services	49,608	-	48,965	(643)
Instructional staff support services	38,956	-	9,409	(29,547)
General administration	260,159	-	-	(260,159)
School administration	171,194	-	-	(171,194)
Business support services	85,726	-	-	(85,726)
Operations and maintenance	497,637	-	-	(497,637)
Pupil transportation services	93,940	-	-	(93,940)
Central support services	11,822	-	-	(11,822)
Unallocated depreciation	85,349	-	-	(85,349)
Unallocated interest	25,276	-	-	(25,276)
Total primary government	\$ 2,569,589	\$ -	\$ 295,945	(2,273,644)
<b>General Purpose Revenues</b>				
State school aid - unrestricted				2,127,254
Miscellaneous revenues				19,568
Total general purpose revenues				2,146,822
Change in net position				(126,822)
Net position - July 1, 2013				-
Net position - June 30, 2014				\$ (126,822)

See accompanying notes to financial statements



# SOUTHWEST DETROIT LIGHTHOUSE CHARTER ACADEMY

## COMBINED BALANCE SHEET – ALL GOVERNMENTAL FUNDS

JUNE 30, 2014

See Independent Auditor's Report

### ASSETS

Cash and cash equivalents	\$	182,480
Due from other governmental units		582,033
Prepaid expenses		<u>5,379</u>
Total assets	\$	<u><u>769,892</u></u>

### LIABILITIES AND FUND BALANCE

#### Liabilities

Accounts payable	\$	131,035
Notes payable		625,000
Unearned revenue		24,724
Other accrued expenses		<u>134,478</u>
Total liabilities		915,237

#### Fund Balance

Nonspendable		5,379
Unassigned		<u>(150,724)</u>
Total fund balance		<u>(145,345)</u>
Total liabilities and fund balance	\$	<u><u>769,892</u></u>

See accompanying notes to financial statements



## SOUTHWEST DETROIT LIGHTHOUSE CHARTER ACADEMY

### RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES

JUNE 30, 2014

See Independent Auditor's Report

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

<b>Total Governmental Fund Balances</b>	\$ (145,345)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$349,211 and the accumulated depreciation is \$85,349.	263,862
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(245,339)</u>
<b>Net Position of Governmental Activities</b>	<u><u>\$ (126,822)</u></u>



## SOUTHWEST DETROIT LIGHTHOUSE CHARTER ACADEMY

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE – ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2014  
See Independent Auditor’s Report

**Revenues**

Local sources	\$ 19,568
State sources	2,255,762
Federal sources	167,437
	2,442,767
Total governmental fund revenues	2,442,767

**Expenditures**

Instruction	
Basic programs	887,316
Added needs	362,606
Support services	
Pupil support services	49,608
Instructional staff support services	38,956
General administration	260,159
School administration	171,194
Business support services	85,726
Operations and maintenance	497,637
Pupil transportation services	93,940
Central support services	11,822
Capital outlay	349,211
Debt principal and interest	64,830
	2,873,005
Total governmental fund expenditures	2,873,005

Excess (deficiency) of revenues over expenditures	(430,238)
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**Other Financing Sources (Uses)**

Proceeds from long-term debt	284,893
	284,893

Excess (deficiency) of revenues and other financing sources over expenditures and other uses	(145,345)
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Fund balance - July 1, 2013	-
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Fund balance - June 30, 2014	\$ (145,345)
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See accompanying notes to financial statements



## SOUTHWEST DETROIT LIGHTHOUSE CHARTER ACADEMY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014  
See Independent Auditor's Report

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

**Net Change in Fund Balances - Total Governmental Funds** \$ (145,345)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation and amortization expense. This is the amount by which capital outlays exceeded depreciation and amortization in the current period

Capital outlay	\$ 349,211	
Depreciation and amortization expense	<u>(85,349)</u>	263,862

The governmental funds report loan proceeds as an other financing source, while repayment of loan principal is reported as an expenditure. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of general loan obligations is as follows:

Proceeds from long-term debt	\$ (284,893)	
Repayment of loan principal	<u>39,554</u>	<u>(245,339)</u>

**Change in Net Position of Governmental Activities** \$ (126,822)

# SOUTHWEST DETROIT LIGHTHOUSE CHARTER ACADEMY

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014  
See Independent Auditor's Report

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Southwest Detroit Lighthouse Charter Academy (the "Academy") conform to generally accepted accounting principles applicable to public school academies. The following is a summary of the significant accounting policies:

### Reporting Entity

Southwest Detroit Lighthouse Charter 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, 2013.

In November 2012, the Academy entered into a five-year contract, expiring June 30, 2017, with Grand Valley State University's Board of Control 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 University's Board of Control 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's Board of Control three percent of state aid as administrative fees. Total administrative fees paid for the year ended June 30, 2014 were approximately \$63,600.

In November 2012, the Academy entered into an agreement with Lighthouse Academies "LHA" to run concurrently with the Charter agreement. Under the terms of this agreement, LHA provides a variety of services including financial management, educational programs and consulting as well as human resources and teacher training. The Academy is obligated to pay LHA ten percent of its revenues, net of food service revenues and restricted donations. The total paid for these services amounted to approximately \$184,600 for the year ended June 30, 2014.

The accompanying 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 significant operational or financial relationships with the public school Academy. Based on application of criteria, the Academy does not contain component units.

### Fund Financial Statements

Fund financial statements report detailed information about the Academy. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

## SOUTHWEST DETROIT LIGHTHOUSE CHARTER ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2014  
See Independent Auditor's Report

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### **Basis of Presentation – Fund Accounting**

The accounts of the Academy are organized on the basis of funds. The operations of a fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based on 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 generic fund types in two broad fund categories.

#### **Governmental Funds**

A governmental fund is a fund 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 a governmental fund.

**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 Fund** - The special revenue fund, which the Academy does not currently maintain, is used to account for the food service program operations. The special revenue fund is a subsidiary operation and is an obligation of the general fund. Therefore any shortfall in the special revenue fund will be covered by an operating transfer from the general fund. The special revenue fund does not maintain its own assets and liabilities; accordingly, no balance sheet is presented for this fund.

**Debt Service Fund** - The debt service fund, which the Academy does not currently maintain, is used to record certain revenue and the payment of interest, principal and other expenditures on long-term debt.

**Capital Projects Fund** - The capital projects fund, which the Academy does not currently maintain, accounts for financial resources to be used for the acquisition, construction, or improvement of capital facilities.

Governmental and agency funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. Revenues are considered to be available when they are collectible 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 sixty days of the end of the current fiscal period.
- b. Payments for inventorable types of supplies, which are not significant at year end, are recorded as expenditures at the time of purchase.
- c. Principal and interest of general long-term debt are not recorded as expenditures until their due dates.

## **SOUTHWEST DETROIT LIGHTHOUSE CHARTER ACADEMY**

NOTES TO FINANCIAL STATEMENTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2014  
See Independent Auditor's Report

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

- d. The State of Michigan utilizes a foundation allowance funding approach, which provides for specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law. A major portion of the Academy's revenue is derived from this state aid. As such, the Academy is considered to be economically dependent on this aid. The Academy's existence is dependent upon qualification for such aid.

#### **Government-Wide Financial Statements**

The government-wide financial statements (i.e. the statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationships between the government-wide statements and the statements for governmental funds.

The government-wide Statement of Activities presents a comparison between expenses and program revenues for each segment of the business-type activities of the Academy and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. The Academy does not allocate indirect expenses to programs. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or function is self financing or draws from the general revenues of the Academy. When both restricted and unrestricted resources are available for use, it is the Academy's policy to use restricted resources first.

Net position should be reported as restricted when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The Academy first utilizes restricted resources to finance qualifying activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government - wide financial statements.

#### **Cash and Cash Equivalents**

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition. The Academy reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and GASB No. 40, Deposit and Investment Risk Disclosures.

## **SOUTHWEST DETROIT LIGHTHOUSE CHARTER ACADEMY**

NOTES TO FINANCIAL STATEMENTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2014  
See Independent Auditor's Report

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

Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated 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.

The Academy held no investments during the year ended June 30, 2014. State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, saving accounts, deposit accounts, and or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Corporation or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not 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, and mutual funds composed of investments as outlined above.

#### **Receivables**

Receivables at June 30, 2014 consist primarily of state school aid due from the State of Michigan and the federal government. All receivables are expected to be fully collected in July and August of 2014 and are considered current for the purposes of these financial statements.

#### **Prepaid Assets**

Payments made to vendors for services that will benefit periods beyond June 30, 2014, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

#### **Capital Assets and Depreciation**

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions or retirements during the year. The Academy follows the policy of not capitalizing assets with a useful life of less than one year. The Academy does not possess any infrastructure assets.

All reported capital assets, with the exception of land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Building and improvements	10 – 50 years
Furniture and equipment	5 – 15 years
Computers and software	3 – 10 years

## SOUTHWEST DETROIT LIGHTHOUSE CHARTER ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2014  
See Independent Auditor's Report

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the non-current portion of capital leases that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

#### Net Position

Net position represents the difference between assets, deferred outflows, liabilities and deferred inflows. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws of regulations of other governments.

#### Fund Equity

The Academy has adopted GASB 54 as part of its fiscal year reporting. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the Academy's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on those resources.

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable 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 nonspendable 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.

## **SOUTHWEST DETROIT LIGHTHOUSE CHARTER ACADEMY**

NOTES TO FINANCIAL STATEMENTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2014  
See Independent Auditor's Report

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

- d. *Unassigned fund balance* – amounts that are available for any purpose; these amounts are reported only in the general fund.

The Academy follows the policy that restricted, committed, or assigned amounts will be considered to have been spent when an expenditure is incurred for purposes for which both unassigned and restricted, committed or assigned fund balances are available.

#### **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

### **NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Annual budgets are adopted on a consistent basis with accounting principles generally accepted in the United States of America and state law for the general fund. All annual appropriations lapse at fiscal year end and encumbrances are not formally recorded.

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 a general fund budget. During the year ended June 30, 2014 the budget was amended in a legally permissible manner. The Academy incurred expenditures in certain budgetary functions in excess of the amounts appropriated for the year ended June 30, 2014 as detailed on page 18 of these financial statements.

### **NOTE 3 - DEPOSITS AND INVESTMENTS**

#### **Interest Rate Risk**

In accordance with its investment policy, the Academy will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, 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 the Academy's cash requirements.



## SOUTHWEST DETROIT LIGHTHOUSE CHARTER ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2014  
See Independent Auditor's Report

### NOTE 3 - DEPOSITS AND INVESTMENTS – Continued

#### Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2014, the Academy held no investments.

#### Concentration of Credit Risk

The Academy will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

#### Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2014, none of the Academy's cash was exposed to custodial credit risk. All cash balances were uncollateralized as of June 30, 2014.

#### Custodial Credit Risk - Investments

For an investment, 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.

The Academy will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Academy will do business.

#### Foreign Currency Risk

The Academy is not authorized to invest in investments which have this type of risk.

### NOTE 4 – DUE FROM OTHER GOVERNMENTAL UNITS

Amounts due from other governmental units consist of the following:

State sources	\$	414,595
Federal sources		<u>167,438</u>
Total	\$	<u>582,033</u>

## SOUTHWEST DETROIT LIGHTHOUSE CHARTER ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued  
 FOR THE YEAR ENDED JUNE 30, 2014  
 See Independent Auditor's Report

### NOTE 5 - CAPITAL ASSETS

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

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital assets subject to depreciation				
Furniture	\$ -	\$ 196,449	\$ -	\$ 196,449
Computer	-	152,762	-	152,762
Sub-total	-	349,211	-	349,211
Accumulated depreciaion				
Furniture	-	55,718	-	55,718
Computer	-	29,631	-	29,631
Sub-total	-	85,349	-	85,349
Total net capital assets	<u>\$ -</u>	<u>\$ 263,862</u>	<u>\$ -</u>	<u>\$ 263,862</u>

Depreciation and amortization expense was not charged to activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

**SOUTHWEST DETROIT LIGHTHOUSE CHARTER ACADEMY**

NOTES TO FINANCIAL STATEMENTS - Continued  
 FOR THE YEAR ENDED JUNE 30, 2014  
 See Independent Auditor's Report

**NOTE 6 – NOTES PAYABLE**

Notes payable as of June 30, 2014 can be summarized as follows:

**Loan Information**

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Other</u>
13/14 SAAN	4.50%	August, 2014	Provided by the Academy's management company and issued to provide operating funds for school before first state aid payment is received. Secured by future state school aid payments and Academy assets. As of the date of these financial statements no payments have been made on this loan and arrangements are being made to draft amended documents.

**Loan Activity**

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Retirements and Payments</u>	<u>Balance June 30, 2014</u>
13/14 SAAN	\$ -	\$ 625,000	\$ -	\$ 625,000

**NOTE 7 – ACCRUED EXPENSES**

Accrued expenses can be summarized as follows:

Purchased services - payroll and benefits	<u>\$ 134,478</u>
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## SOUTHWEST DETROIT LIGHTHOUSE CHARTER ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued  
 FOR THE YEAR ENDED JUNE 30, 2014  
 See Independent Auditor's Report

### NOTE 8 - LONG-TERM OBLIGATIONS PAYABLE

The following is a summary of long-term obligations for the Academy during the year ended June 30, 2014:

#### Loan Information

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Other</u>
Capital lease 1	14.12%	December, 2016	Payable monthly at \$3,636. Secured by Academy equipment.
Capital lease 2	14.12%	December, 2016	Payable monthly at \$2,549. Secured by Academy equipment.
Capital lease 3	14.12%	December, 2016	Payable monthly at \$3,570. Secured by Academy equipment.

#### Loan Activity

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Retirements and Payments</u>	<u>Balance June 30, 2014</u>	<u>Due Within One Year</u>
Capital lease 1	\$ -	\$ 106,191	\$ 14,743	\$ 91,448	\$ 32,781
Capital lease 2	-	74,441	10,335	64,106	22,980
Capital lease 3	-	104,261	14,476	89,785	32,186
	<u>\$ -</u>	<u>\$ 284,893</u>	<u>\$ 39,554</u>	<u>\$ 245,339</u>	<u>\$ 87,947</u>

Following are maturities of long-term obligations for principal and interest for the next three years and in total:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 87,947	\$ 29,101	\$ 117,048
2016	101,204	15,843	117,047
2017	56,188	2,337	58,525

## SOUTHWEST DETROIT LIGHTHOUSE CHARTER ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued  
 FOR THE YEAR ENDED JUNE 30, 2014  
 See Independent Auditor's Report

### NOTE 9 – OPERATING LEASES

Lease obligations can be summarized as follows:

#### Lease Information

	<u>Maturity Date</u>	<u>Approximate Payment</u>	<u>Other</u>
29th Street, Detroit, MI	June, 2042	\$7,849 monthly	Rent increases yearly. Option available for Academy to purchase property according to predetermined and agreed upon estimated fair market values.

The approximate amount of lease obligations coming due during the next five years and in total is as follows:

	<u>Facilities</u>
2015	\$ 339,900
2016	391,600
2017	444,400
2018	746,377
2019	826,150
2020 - 2024	4,418,085
2025 - 2029	4,937,995
2030 - 2034	5,519,087
2035 - 2039	6,168,559
2040 - 2042	4,044,316

Total lease expense included in the statement of activities for the year ended June 30, 2014 amounted to approximately \$263,880.

### NOTE 10 - RISK MANAGEMENT

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

# SUPPLEMENTAL INFORMATION

## SOUTHWEST DETROIT LIGHTHOUSE CHARTER ACADEMY

REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2014  
See Independent Auditor’s Report

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Revenues</b>				
Local sources	\$ 31,600	\$ 15,931	\$ 19,568	\$ 3,637
State sources	2,249,557	2,278,712	2,255,762	(22,950)
Federal sources	464,235	429,154	167,437	(261,717)
Total governmental fund revenues	2,745,392	2,723,797	2,442,767	(281,030)
<b>Expenditures</b>				
Instruction				
Basic Programs	1,234,776	1,273,105	887,316	(385,789)
Added needs	448,572	441,879	362,606	(79,273)
Support Services				
Pupil support services	50,041	49,997	49,608	(389)
Instructional staff support services	71,887	33,609	38,956	5,347
General administration	270,502	270,956	260,159	(10,797)
School administration	186,721	176,989	171,194	(5,795)
Business support services	88,457	97,311	85,726	(11,585)
Operations and maintenance	507,932	512,905	497,637	(15,268)
Pupil transportation services	104,000	103,000	93,940	(9,060)
Central support services	10,000	10,000	11,822	1,822
Capital outlay	-	-	349,211	349,211
Debt principal and interest	53,198	35,465	64,830	29,365
Total governmental fund expenditures	3,026,086	3,005,216	2,873,005	(132,211)
Excess (deficiency) of revenues over expenditures	(280,694)	(281,419)	(430,238)	(148,819)
<b>Other Financing Sources (Uses)</b>				
Proceeds from long-term debt	283,000	283,000	284,893	1,893
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	2,306	1,581	(145,345)	(146,926)
Fund balance - July 1, 2013	-	-	-	-
Fund balance - June 30, 2014	<u>\$ 2,306</u>	<u>\$ 1,581</u>	<u>\$ (145,345)</u>	<u>\$ (146,926)</u>

## SOUTHWEST DETROIT LIGHTHOUSE CHARTER ACADEMY

SCHEDULE OF REVENUES – GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2014  
See Independent Auditor's Report on

### Local Sources

Student activities	\$	5,314
Other local revenues		<u>14,254</u>
Total local sources		19,568

### State Sources

At risk		128,508
State aid		<u>2,127,254</u>
Total state sources		2,255,762

### Federal Sources

IDEA		25,035
Title I		127,180
Title II A		<u>15,222</u>
Total federal sources		<u>167,437</u>
Total general fund revenues	\$	<u><u>2,442,767</u></u>



## SOUTHWEST DETROIT LIGHTHOUSE CHARTER ACADEMY

### SCHEDULE OF EXPENDITURES – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2014 See Independent Auditor’s Report

#### Basic Programs

Purchased services	\$ 783,762
Supplies and materials	103,554
	<hr/>
Total basic programs	887,316

#### Added Needs

Purchased services	362,606
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#### Pupil Support Services

Health services	643
Social work services	48,965
	<hr/>
Total pupil support services	49,608

#### Instructional Staff Support Services

Purchased services	38,489
Supplies and materials	467
	<hr/>
Total instructional staff support services	38,956

#### General Administration

Purchased services	259,253
Other expenditures	906
	<hr/>
Total general administration	260,159

#### School Administration

Purchased services	147,514
Rentals	15,455
Supplies and materials	7,400
Other expenditures	825
	<hr/>
Total school administration	171,194

#### Business Support Services

Purchased services	59,490
Other expenditures	26,236
	<hr/>
Total business support services	85,726

## SOUTHWEST DETROIT LIGHTHOUSE CHARTER ACADEMY

SCHEDULE OF EXPENDITURES – GENERAL FUND - Continued  
FOR THE YEAR ENDED JUNE 30, 2014  
See Independent Auditor’s Report

### Operations and Maintenance

Purchased services	82,323
Repairs and maintenance	71,239
Rentals	248,420
Supplies and materials	95,655

Total operations and maintenance 497,637

### Pupil Transportation Services

Purchased services	93,940
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### Central Support Services

Purchased services	11,822
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### Capital Outlay

349,211

### Debt Principal and Interest

64,830

Total general fund expenditures \$ 2,873,005

# SOUTHWEST DETROIT LIGHTHOUSE CHARTER ACADEMY

## SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2014

### Reference Number

### Findings

2014-01

#### **Finding Type** – Noncompliance

**Criteria** – In accordance with Public Act 621 (Michigan Uniform and Budgeting Accounting Act) no fund shall have a deficit fund balance.

**Condition** – As of June 30, 2014, the general fund of the Academy had an operating deficit of \$145,345.

**Cause / Effect** – The grant application for the Year One Implementation Grant was not submitted in an approvable format until July 2014. Additionally the timeframe associated with the spending of the allocation was not approved by the Michigan Department of Education. The Academy had been incurring expenditures related to this grant since July 2013 with the understanding that the grant funds could be used to cover the expenditures made before the grant was approved. As a result of this miscommunication the effect is that the Academy is violation of Public Act 621.

**Recommendation** – In accordance with Public Act 621 the Academy should adopt a Deficit Elimination Plan. Additional cost cutting and revenue enhancement alternatives should be explored in order to ensure the Academy can eliminate the deficit.

**Auditee Response** – The auditee agrees with the finding. The Academy is in the process of filing a Deficit Elimination Plan with the Michigan Department of Education and is working to eliminate the shortfall in subsequent years consistent with the to be approved plan.