

Audited Financial Statements

Southwest Detroit Community School

Detroit, Michigan

June 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Southwest Detroit Community School

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Southwest Detroit Community School as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Southwest Detroit Community School'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 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Southwest Detroit Community School as of June 30, 2016, and the respective changes in financial position, thereof 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 the other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Southwest Detroit Community School's basic financial statements. The introductory section, combining and individual nonmajor fund 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 nonmajor fund financial statements and the schedules of revenues and expenditures 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 nonmajor fund financial statements and the schedules of revenues and expenditures 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2016, on our consideration of Southwest Detroit Community School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Southwest Detroit Community School's internal control over financial reporting and compliance.



Croskey Lanni, PC

Rochester, Michigan
October 26, 2016

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 Community School

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Southwest Detroit Community School, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Southwest Detroit Community School's basic financial statements, and have issued our report thereon dated October 26, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Southwest Detroit Community School'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 the Southwest Detroit Community School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Southwest Detroit Community School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

A handwritten signature in blue ink that reads "Croskey Lanni, PC". The signature is written in a cursive style.

Croskey Lanni, PC

Rochester, Michigan
October 26, 2016

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Southwest Detroit Community School’s, “SWDCS”, annual financial report presents our discussion and analysis of the school’s financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the school’s financial statements, which immediately follow this section.

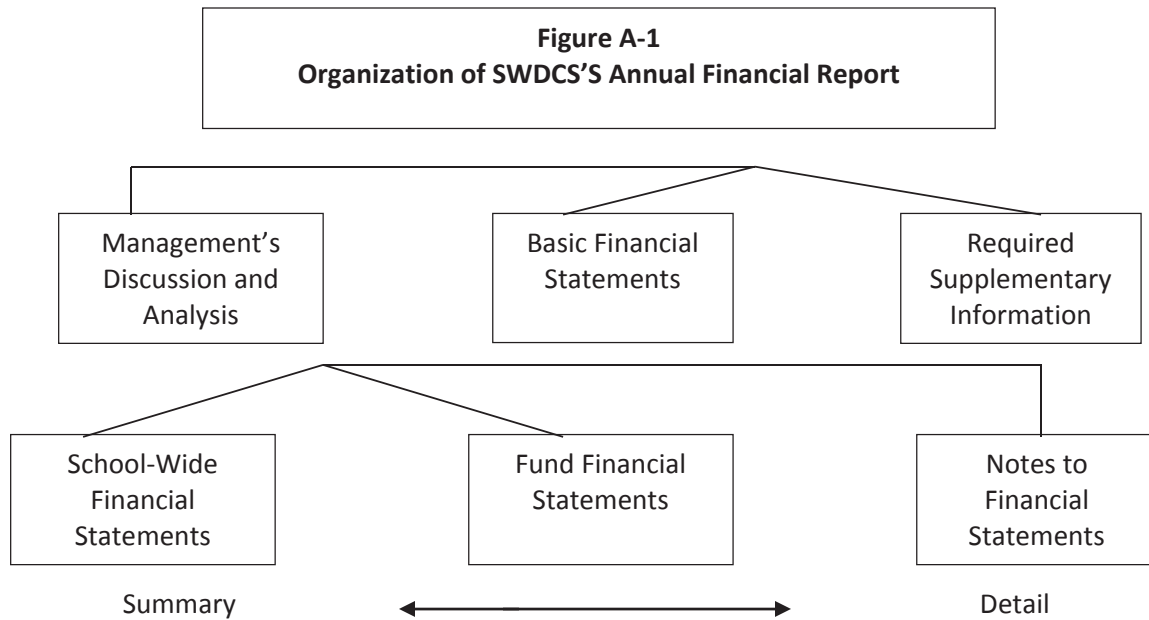
FINANCIAL HIGHLIGHTS

- ❖ The school’s general fund balance is now positive after being in a deficit in the previous year.
- ❖ The total cost of basic programs was \$1,231,354.
- ❖ Revenues were \$4,006,047 and expenditures were \$3,830,398 in the General Fund.
 - Blended enrollment used for state aid purposes was 416.60.
- ❖ The school decreased its outstanding long term debt by \$101,204.
- ❖ The school increased its fund balance by \$175,649 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management’s discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy:

- 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.



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 one kind of fund:

- ❖ *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.

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. The fiscal year ending June 30, 2015 also ended in a deficit due in part to the timing of when federal revenues were received, more than 60 days after the end of the fiscal year. For the fiscal year ended June 30, 2016, the school increased fund balance by \$175,649 and eliminated the deficit. Careful planning and consideration will be given going forward to ensure the school can continue to build fund balance.

School Governmental

Enrollment at SWDCS is steady and continues to grow which will assist in providing additional fund balance in the future.

General Fund Budgetary Analysis

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

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

Financial Outlook

Southwest Detroit Community School's financial forecast is optimistic heading into the 2016/2017 school year. This is partly due to the following:

- ❖ Enrollment has increased year over year, with additional room to grow in the future.
- ❖ New school leadership is stable and budget conscious. All expenditures are reviewed carefully against the budget.

Figure A-3
Southwest Detroit Community School's Net Position

	<u>2016</u>	<u>2015</u>
Current assets and deferred outflows	\$ 1,109,008	\$ 944,281
Capital assets, net	82,021	172,749
Total assets and deferred outflows	1,191,029	1,117,030
Current liabilities	1,111,191	1,085,682
Long-term debt, long-term portion	-	56,187
Total liabilities and deferred inflows	1,111,191	1,141,869
Net position:		
Net investments in capital assets	25,834	15,357
Unrestricted	54,004	(40,196)
Total net position	<u>\$ 79,838</u>	<u>\$ (24,839)</u>

Figure A-4
Changes in Southwest Detroit Community School's Net Position

	<u>2016</u>	<u>2015</u>
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 795,220	\$ 540,252
Charges for service	7,118	8,505
Total program revenues	802,338	548,757
General revenues:		
State aid - unrestricted	3,060,539	2,550,948
Other	61,722	92,173
Total general revenues	3,122,261	2,643,121
Total revenues	3,924,599	3,191,878
Expenses:		
Instruction	1,890,056	1,588,415
Support services	1,814,761	1,376,228
Community services	119	-
Unallocated depreciation	99,142	96,151
Unallocated interest	15,844	29,101
Total expenses	3,819,922	3,089,895
Change in net position	<u>\$ 104,677</u>	<u>\$ 101,983</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2016, the school had invested \$82,081 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.) The Academy's capital assets are as follows:

**Figure A-5
Southwest Detroit Community School's Capital Assets**

	Balance June 30, 2016	Balance June 30, 2015
Furniture	\$ 160,316	\$ 157,800
Computers	202,347	196,449
Total cost	362,663	354,249
Less accumulated depreciation	280,642	181,500
Net book value	<u>\$ 82,021</u>	<u>\$ 172,749</u>

The school's fiscal year 2016 budget anticipates around \$45,000 in capital expenditures.

Long-Term Debt

At year end the school had debt of \$56,187, consisting of equipment lease agreements.

- ❖ The school long term debt decreased by \$101,204.

FACTORS BEARING ON THE SCHOOL'S FUTURE

- ❖ Improvement of enrollment trends
- ❖ Stabilized leadership and staffing
- ❖ New School Improvement Plan

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 Community School, 4001 29th Street, Detroit, MI 48210

SOUTHWEST DETROIT COMMUNITY SCHOOL

STATEMENT OF NET POSITION
JUNE 30, 2016
See Independent Auditor's Report

ASSETS

Current Assets

Cash	\$	253,106
Due from other governmental units		834,893
Prepaid expenses		<u>21,009</u>
Total current assets		1,109,008

Capital Assets - Net of Accumulated Depreciation

82,021

Total assets and deferred outflows \$ 1,191,029

LIABILITIES AND NET POSITION

Current Liabilities

Accounts payable	\$	190,245
Notes payable		625,000
Other accrued expenses		239,759
Long-term debt - current portion		<u>56,187</u>
Total current liabilities		1,111,191

Net Position

Net investment in capital assets		25,834
Unrestricted		<u>54,004</u>
Total net position		<u>79,838</u>
Total liabilities, deferred inflows and net position	\$	<u>1,191,029</u>

See accompanying notes to financial statements

SOUTHWEST DETROIT COMMUNITY SCHOOL

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

		Program Revenues		Net (Expense) Revenues and Changes in Net Position
	Expenses	Charges for Services	Operating Grants	Government Type Activities
Functions				
Instruction				
Basic programs	\$ 1,231,354	\$ 7,118	\$ 29,154	\$ (1,195,082)
Added needs	658,702	-	655,258	(3,444)
Support services				
Pupil support services	110,808	-	110,808	-
Instructional staff support services	14,701	-	-	(14,701)
General administration	438,119	-	-	(438,119)
School administration	270,147	-	-	(270,147)
Business support services	99,747	-	-	(99,747)
Operations and maintenance	715,879	-	-	(715,879)
Pupil transportation services	152,898	-	-	(152,898)
Central support services	12,462	-	-	(12,462)
Community services	119	-	-	(119)
Unallocated depreciation	99,142	-	-	(99,142)
Unallocated interest	15,844	-	-	(15,844)
Total primary government	\$ 3,819,922	\$ 7,118	\$ 795,220	(3,017,584)
General Purpose Revenues				
State school aid - unrestricted				3,060,539
Miscellaneous revenues				61,722
Total general purpose revenues				3,122,261
Change in net position				104,677
Net position - July 1, 2015				(24,839)
Net position - June 30, 2016				\$ 79,838

See accompanying notes to financial statements

SOUTHWEST DETROIT COMMUNITY SCHOOL

COMBINED BALANCE SHEET – ALL GOVERNMENTAL FUNDS

JUNE 30, 2016

See Independent Auditor's Report

ASSETS

Cash	\$	253,106
Due from other governmental units		834,893
Prepaid expenses		<u>21,009</u>
Total assets	\$	<u><u>1,109,008</u></u>

LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE

Liabilities

Accounts payable	\$	190,245
Notes payable		625,000
Other accrued expenses		<u>239,759</u>
Total liabilities		1,055,004

Deferred Inflows of Resources - Unavailable revenue 3,434

Fund Balance

Nonspendable		21,009
Unassigned		<u>29,561</u>
Total fund balance		<u>50,570</u>

Total liabilities, deferred inflows and fund balance \$ 1,109,008

SOUTHWEST DETROIT COMMUNITY SCHOOL

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

JUNE 30, 2016

See Independent Auditor's Report

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

Total Governmental Fund Balances	\$ 50,570
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$362,663 and the accumulated depreciation is \$280,642	82,021
Deferred inflows of resources (unavailable revenue) not available to benefit the current period and are not reported in the statement of net position	3,434
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(56,187)</u>
Net Position of Governmental Activities	<u><u>\$ 79,838</u></u>

See accompanying notes to financial statements

SOUTHWEST DETROIT COMMUNITY SCHOOL

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE – ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

Revenues

Local sources	\$ 73,391
State sources	3,397,331
Federal sources	462,485
Interdistrict sources	<u>72,840</u>
 Total governmental fund revenues	 4,006,047

Expenditures

Instruction	
Basic programs	1,231,354
Added needs	658,702
Support services	
Pupil support services	110,808
Instructional staff support services	14,701
General administration	438,119
School administration	270,147
Business support services	99,747
Operations and maintenance	715,879
Pupil transportation services	152,898
Central support services	12,462
Community services	119
Capital outlay	8,414
Debt principal and interest	<u>117,048</u>
 Total governmental fund expenditures	 <u>3,830,398</u>

Excess (deficiency) of revenues over expenditures	175,649
 Fund balance - July 1, 2015	 <u>(125,079)</u>
 Fund balance - June 30, 2016	 <u><u>\$ 50,570</u></u>

See accompanying notes to financial statements

SOUTHWEST DETROIT COMMUNITY SCHOOL

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, 2016
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	\$	175,649
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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	\$	8,414	
Depreciation and amortization expense		<u>(99,142)</u>	(90,728)

Revenue is reported in the statement of activities when earned, but not reported in the funds until collected or collectible within 60 days of year end			(81,448)
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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:

Repayment of loan principal			<u>101,204</u>
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Change in Net Position of Governmental Activities	\$	<u>104,677</u>
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See accompanying notes to financial statements

SOUTHWEST DETROIT COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Southwest Detroit Community School (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 Community School 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. At the end of the fiscal year, the Academy changed its name from Southwest Detroit Lighthouse Charter Academy to Southwest Detroit Community School.

In November 2012, the Academy entered into a seven-year contract, expiring June 30, 2020, 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, 2016 were approximately \$91,800.

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 provided a variety of services including financial management, educational programs and consulting as well as human resources and teacher training. The total paid for these services amounted to approximately \$309,000 for the year ended June 30, 2016. In June 2016, the Academy terminated its contract with LHA and subsequently entered into an agreement with Education Alliance Solution (EAS). Under the terms of this agreement, EAS 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 EAS ten percent of its revenues, net of food service revenues and restricted donations.

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 COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2016
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.

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 COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2016
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.

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 COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2016
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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, 2016. 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, 2016 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 2016 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, 2016, 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 COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2016
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 COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2016
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, 2016 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, 2016 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 COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2016
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, 2016, 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, 2016, \$88,004 of the Academy's cash was exposed to custodial credit risk. All cash balances were uncollateralized as of June 30, 2016.

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:

Local sources	\$ 3,434
State sources	610,199
Federal sources	212,625
Interdistrict Sources	<u>8,635</u>
Total	<u>\$ 834,893</u>

SOUTHWEST DETROIT COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS - Continued
 FOR THE YEAR ENDED JUNE 30, 2016
 See Independent Auditor's Report

NOTE 5 - CAPITAL ASSETS

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

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2016</u>
Capital assets subject to depreciation				
Furniture	\$ 157,800	\$ 2,516	\$ -	\$ 160,316
Computers	196,449	5,898	-	202,347
Sub-total	354,249	8,414	-	362,663
Accumulated depreciation				
Furniture	60,299	32,021	-	92,320
Computers	121,201	67,121	-	188,322
Sub-total	181,500	99,142	-	280,642
Total net capital assets	<u>\$ 172,749</u>	<u>\$ (90,728)</u>	<u>\$ -</u>	<u>\$ 82,021</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.

NOTE 6 – NOTES PAYABLE

Notes payable as of June 30, 2016 can be summarized as follows:

Loan Information

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Other</u>
SAAN 13/14	4.50%	August, 2014	Provided by the Academy's management company and issues 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.

SOUTHWEST DETROIT COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS - Continued
 FOR THE YEAR ENDED JUNE 30, 2016
 See Independent Auditor's Report

NOTE 6 – NOTES PAYABLE - Continued

Loan Activity

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Retirements and Payments</u>	<u>Balance June 30, 2016</u>
SAAN 13/14	\$ 625,000	\$ -	\$ -	\$ 625,000

NOTE 7 – OTHER ACCRUED EXPENSES

Other accrued expenses can be summarized as follows:

Purchased services	\$ 223,057
University oversight fee	<u>16,702</u>
Total accrued expenses	<u>\$ 239,759</u>

NOTE 8 - LONG-TERM OBLIGATIONS PAYABLE

The following is a summary of long-term obligations for the Academy during the year ended June 30, 2016:

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.

SOUTHWEST DETROIT COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS - Continued
 FOR THE YEAR ENDED JUNE 30, 2016
 See Independent Auditor's Report

NOTE 8 - LONG-TERM OBLIGATIONS PAYABLE - Continued

Loan Activity

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u> <u>and Payments</u>	<u>Balance</u> <u>June 30, 2016</u>	<u>Due Within</u> <u>One Year</u>
Capital lease 1	\$ 58,667	\$ -	\$ 37,724	\$ 20,943	\$ 20,943
Capital lease 2	41,125	-	26,443	14,682	14,682
Capital lease 3	57,599	-	37,037	20,562	20,562
	<u>\$ 157,391</u>	<u>\$ -</u>	<u>\$ 101,204</u>	<u>\$ 56,187</u>	<u>\$ 56,187</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 56,187	\$ 2,337	\$ 58,524

NOTE 9 – OPERATING LEASES

Lease obligations can be summarized as follows:

Lease Information

	<u>Maturity</u> <u>Date</u>	<u>Approximate</u> <u>Payment</u>	<u>Other</u>
29th Street, Detroit, MI	June, 2042	\$32,600 Monthly	Rent increases yearly. Option available for Academy to purchase property according to predetermined and agreed upon estimated fair market values.

SOUTHWEST DETROIT COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

NOTE 9 – OPERATING LEASES - Continued

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

	<u>Facilities</u>
2017	\$ 444,400
2018	699,084
2019	769,910
2020	787,233
2021	804,946
2022-2026	4,304,687
2027-2031	4,811,253
2032-2036	5,377,431
2037-2041	6,010,235
2042	1,284,388

Total lease expense included in the statement of activities for the year ended June 30, 2016 amounted to approximately \$392,000.

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.

SUPPLEMENTARY INFORMATION

SOUTHWEST DETROIT COMMUNITY SCHOOL

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor’s Report

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Local sources	\$ 80,283	\$ 105,827	\$ 73,391	\$ (32,436)
State sources	3,363,926	3,513,495	3,397,331	(116,164)
Federal sources	434,197	445,932	462,485	16,553
Interdistrict sources	94,080	72,840	72,840	-
Total governmental fund revenues	3,972,486	4,138,094	4,006,047	(132,047)
Expenditures				
Instruction				
Basic programs	1,156,570	1,183,842	1,231,354	47,512
Added needs	747,756	748,512	658,702	(89,810)
Support services				
Pupil support services	44,215	109,385	110,808	1,423
Instructional staff support services	43,500	22,767	14,701	(8,066)
General administration	433,136	507,923	438,119	(69,804)
School administration	306,478	292,516	270,147	(22,369)
Business support services	97,543	99,872	99,747	(125)
Operations and maintenance	726,980	767,836	715,879	(51,957)
Pupil transportation services	166,800	149,936	152,898	2,962
Central support services	-	12,000	12,462	462
Other support services	10,000	-	-	-
Community services	-	-	119	119
Capital outlay	-	-	8,414	8,414
Debt principal and interest	199,096	117,048	117,048	-
Total governmental fund expenditures	3,932,074	4,011,637	3,830,398	(181,239)
Excess (deficiency) of revenues and and other financing sources over expenditures and other uses	40,412	126,457	175,649	49,192
Fund balance - July 1, 2015	(125,079)	(125,079)	(125,079)	-
Fund balance - June 30, 2016	\$ (84,667)	\$ 1,378	\$ 50,570	\$ 49,192

SOUTHWEST DETROIT COMMUNITY SCHOOL

SCHEDULE OF REVENUES – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2016 See Independent Auditor’s Report

Local Sources

Student activities	\$ 7,118
Other local revenues	<u>66,273</u>
Total local sources	73,391

State Sources

At risk	221,686
Special education	115,106
State aid	<u>3,060,539</u>
Total state sources	3,397,331

Federal Sources

IDEA	55,770
Title I	309,533
Title II A	29,154
Other program revenue	<u>68,028</u>
Total federal sources	462,485

Interdistrict Sources

	<u>72,840</u>
Total general fund revenues	<u><u>\$ 4,006,047</u></u>

SOUTHWEST DETROIT COMMUNITY SCHOOL

SCHEDULE OF EXPENDITURES – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2016 See Independent Auditor’s Report

Basic Programs

Purchased services	\$ 1,156,775
Supplies and materials	72,743
Non-depreciable capital assets	<u>1,836</u>
Total basic programs	1,231,354

Added Needs

Purchased services	653,151
Supplies and materials	<u>5,551</u>
Total added needs	658,702

Pupil Support Services

Speech pathology and audiology	93
Social work services	<u>110,715</u>
Total pupil support services	110,808

Instructional Staff Support Services

Purchased services	14,701
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General Administration

Purchased services	20,080
Management fees	326,202
University oversight	91,816
Other expenditures	<u>21</u>
Total general administration	438,119

School Administration

Purchased services	240,309
Rentals	10,321
Supplies and materials	12,512
Other expenditures	<u>7,005</u>
Total school administration	270,147

SOUTHWEST DETROIT COMMUNITY SCHOOL

SCHEDULE OF EXPENDITURES – GENERAL FUND - Continued
FOR THE YEAR ENDED JUNE 30, 2016
See Independent Auditor's Report

Business Support Services

Purchased services	50,879
Other expenditures	<u>48,868</u>
Total business support services	99,747

Operations and Maintenance

Purchased services	62,711
Repairs and maintenance	176,122
Rentals	391,596
Supplies and materials	<u>85,450</u>
Total operations and maintenance	715,879

Pupil Transportation Services

Purchased services	152,898
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Central Support Services

Purchased services	12,462
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Community Services

Purchased services	119
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Capital Outlay

8,414

Debt Principal and Interest

117,048

Total general fund expenditures	<u><u>\$ 3,830,398</u></u>
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