

Audited Financial Statements

Southwest Detroit Community School

Detroit, Michigan

June 30, 2017

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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 and major fund of the Southwest Detroit Community School as of and for the year ended June 30, 2017, 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, 2017, 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, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and 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, and schedules of revenues and expenditures, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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 schedules of revenues and expenditures are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has 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 it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2017, 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 the effectiveness of Southwest Detroit Community School's 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

October 25, 2017
Rochester, Michigan





David M. Croskey, CPA
Thomas B. Lanni, CPA
Carolyn A. Jones, CPA, CFP® MST
Clifton F. Powell Jr., CPA, CFP®, PFS
Roger J. DeJong, CPA
Patrick M. Sweeney, CPA
Leonard A. Geronemus, CPA, PFS

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 and major fund of the Southwest Detroit Community School, as of and for the year ended June 30, 2017, 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 25, 2017.

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. Accordingly, we do not express an opinion on the effectiveness of 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.



Croskey Lanni, PC

October 25, 2017
Rochester, Michigan

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, 2017. Please read it in conjunction with the school’s financial statements, which immediately follow this section.

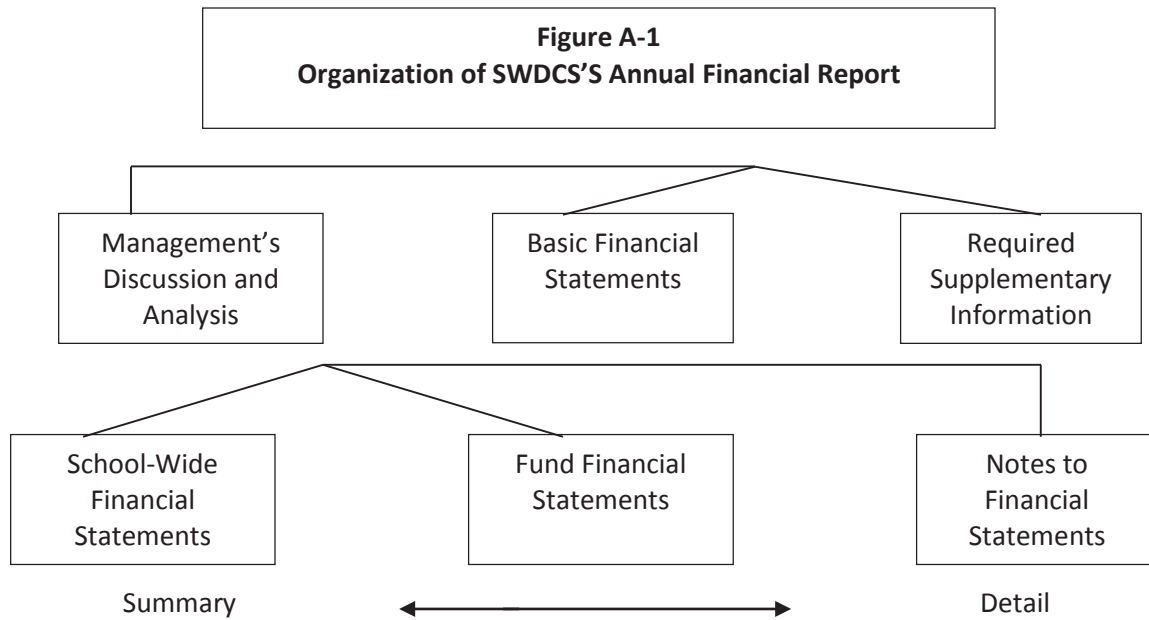
FINANCIAL HIGHLIGHTS

- ❖ The school has added to general fund fund balance for the second year in a row.
- ❖ The total cost of basic programs was \$1,266,734.
- ❖ Revenues were \$4,276,778 and expenditures were \$4,137,571 in the General Fund.
 - Blended enrollment used for state aid purposes was 448.15.
- ❖ The school decreased its outstanding long term debt by \$56,187. These payments satisfied the remaining outstanding debt in full.
- ❖ The school increased its fund balance by \$139,207 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – the management’s discussion and analysis (this section), the basic financial statements and the 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 position *Statement of changes in fiduciary net position
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 school was in a deficit for the first two years of operations (years ended 2014 and 2015). For the fiscal year ended June 30, 2016, the school increased fund balance by \$175,649 and eliminated the deficit. For the fiscal year ended June 30, 2017, the school increased fund balance by \$139,207 due to careful planning and conservative budgeting. Continued 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 which will assist in maintaining and growing 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 2017/2018 school year. This is partly due to the following:

- ❖ There is additional room to grow enrollment in the future.
- ❖ New school leadership is stable and budget conscious. All expenditures are reviewed carefully against the budget.

The Academy is also facing some financial challenges, including significant scheduled step increases in the monthly rental payment. The Academy plans to pursue purchasing the building in order to stabilize these expenditures going forward.

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

	<u>2017</u>	<u>2016</u>
Current assets	\$ 1,338,714	\$ 1,109,008
Capital assets, net	44,648	82,021
Total assets	1,383,362	1,191,029
Current liabilities	1,142,151	1,111,191
Net position:		
Net investments in capital assets	44,648	25,834
Unrestricted	196,563	54,004
Total net position	<u>\$ 241,211</u>	<u>\$ 79,838</u>

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

	<u>2017</u>	<u>2016</u>
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 875,761	\$ 795,220
Charges for service	3,617	7,118
Total program revenues	879,378	802,338
General revenues:		
State aid - unrestricted	3,350,791	3,060,539
Other	49,961	61,722
Total general revenues	3,400,752	3,122,261
Total revenues	4,280,130	3,924,599
Expenses:		
Instruction	1,845,154	1,890,056
Support services	2,226,262	1,814,761
Community services	-	119
Unallocated depreciation	45,004	99,142
Unallocated interest	2,337	15,844
Total expenses	4,118,757	3,819,922
Change in net position	<u>\$ 161,373</u>	<u>\$ 104,677</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2017, the school had invested \$44,648 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

	<u>Balance</u> <u>June 30, 2017</u>	<u>Balance</u> <u>June 30, 2016</u>
Furniture	\$ 166,109	\$ 160,316
Computers	204,185	202,347
Total cost	370,294	362,663
Less accumulated depreciation	325,646	280,642
Net book value	<u>\$ 44,648</u>	<u>\$ 82,021</u>

The school's fiscal year 2018 budget anticipates around \$50,000 in capital expenditures.

Long-Term Debt

At year end the school had paid off all existing long-term debt.

- ❖ The school long term debt decreased by \$56,187.

FACTORS BEARING ON THE SCHOOL'S FUTURE

- ❖ Improvement of enrollment trends
- ❖ Stabilized leadership and staffing
- ❖ Option to purchase the building from the landlord

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, 2017

ASSETS

Current Assets

Cash	\$	524,739
Due from other governmental units		772,908
Prepaid expenses		<u>41,067</u>
Total current assets		1,338,714

Capital Assets - Net of Accumulated Depreciation

44,648

Total assets	\$	<u><u>1,383,362</u></u>
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LIABILITIES AND NET POSITION

Current Liabilities

Accounts payable	\$	184,314
Notes payable		625,000
Other accrued expenses		238,968
Unearned revenue		<u>93,869</u>
Total current liabilities		1,142,151

Net Position

Net investment in capital assets		44,648
Unrestricted		<u>196,563</u>
Total net position		<u>241,211</u>
Total liabilities and net position	\$	<u><u>1,383,362</u></u>

See accompanying notes to financial statements

SOUTHWEST DETROIT COMMUNITY SCHOOL

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2017

		Program Revenues		Net (Expense) Revenues and Changes in Net Position
	Expenses	Charges for Services	Operating Grants	Government Type Activities
Functions				
Instruction				
Basic programs	\$ 1,266,734	\$ 3,617	\$ 60,905	\$ (1,202,212)
Added needs	578,420	-	547,707	(30,713)
Support services				
Pupil support services	195,751	-	106,088	(89,663)
Instructional staff support services	149,549	-	136,795	(12,754)
General administration	576,813	-	5,883	(570,930)
School administration	173,812	-	2,287	(171,525)
Business support services	80,540	-	4,659	(75,881)
Operations and maintenance	784,424	-	2,418	(782,006)
Pupil transportation services	172,873	-	9,019	(163,854)
Central support services	92,500	-	-	(92,500)
Unallocated depreciation	45,004	-	-	(45,004)
Unallocated interest	2,337	-	-	(2,337)
Total primary government	\$ 4,118,757	\$ 3,617	\$ 875,761	(3,239,379)
General Purpose Revenues				
State school aid - unrestricted				3,350,791
Miscellaneous revenues				49,961
Total general purpose revenues				3,400,752
Change in net position				161,373
Net position - July 1, 2016				79,838
Net position - June 30, 2017				\$ 241,211

See accompanying notes to financial statements

SOUTHWEST DETROIT COMMUNITY SCHOOL

COMBINED BALANCE SHEET – ALL GOVERNMENTAL FUNDS JUNE 30, 2017

ASSETS

Cash	\$	524,739
Due from other governmental units		772,908
Prepaid expenses		<u>41,067</u>
Total assets	\$	<u><u>1,338,714</u></u>

LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE

Liabilities

Accounts payable	\$	184,314
Notes payable		625,000
Unearned revenue		93,869
Other accrued expenses		<u>238,968</u>
Total liabilities		1,142,151

Deferred Inflows of Resources - Unavailable revenue 6,786

Fund Balance

Nonspendable		41,067
Unassigned		<u>148,710</u>
Total fund balance		<u>189,777</u>
Total liabilities, deferred inflows and fund balance	\$	<u><u>1,338,714</u></u>

See accompanying notes to financial statements

SOUTHWEST DETROIT COMMUNITY SCHOOL

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES JUNE 30, 2017

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

Total Governmental Fund Balances	\$ 189,777
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$370,294 and the accumulated depreciation is \$325,646.	44,648
Deferred inflows of resources (unavailable revenue) not available to benefit the current period and are not reported in the statement of net position	<u>6,786</u>
Net Position of Governmental Activities	<u><u>\$ 241,211</u></u>

See accompanying notes to financial statements

SOUTHWEST DETROIT COMMUNITY SCHOOL

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – ALL GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2017

Revenues

Local sources	\$	46,609
State sources		3,652,893
Federal sources		457,399
Interdistrict sources		<u>119,877</u>
Total governmental fund revenues		4,276,778

Expenditures

Instruction		
Basic programs		1,266,734
Added needs		578,420
Support services		
Pupil support services		195,751
Instructional staff support services		149,549
General administration		576,813
School administration		173,812
Business support services		80,540
Operations and maintenance		784,424
Pupil transportation services		172,873
Central support services		92,500
Capital outlay		7,631
Debt principal and interest		<u>58,524</u>
Total governmental fund expenditures		<u>4,137,571</u>

Excess (deficiency) of revenues over expenditures		139,207
Fund balance - July 1, 2016		<u>50,570</u>
Fund balance - June 30, 2017	\$	<u><u>189,777</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, 2017

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

Net Change in Fund Balances - Total Governmental Funds	\$	139,207
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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	\$	7,631	
Depreciation and amortization expense		<u>(45,004)</u>	(37,373)

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		3,352
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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>56,187</u>
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Change in Net Position of Governmental Activities	\$	<u>161,373</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, 2017

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.

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, 2017 were approximately \$100,400.

In June 2016, the Academy entered into an agreement with EAS Schools, Inc. (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 total paid for these services amounted to approximately \$429,000 for the year ended June 30, 2017.

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, 2017

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.
- 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.

SOUTHWEST DETROIT COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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. In creating the government-wide financial statements the Academy has eliminated inter-fund transactions. 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.

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, 2017. 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.

SOUTHWEST DETROIT COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Receivables

Receivables at June 30, 2017 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 2017 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, 2017, 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

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.

SOUTHWEST DETROIT COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.
- 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. There are no governmental funds with a deficit.

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.

SOUTHWEST DETROIT COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2017

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, 2017 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, 2017 as detailed on page 18 of these financial statements however total expenditures were less than board approved appropriations. The budget statement differs from the presentation used in the fund level statements due to the presentation of capital outlay amounts on a functional basis.

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.

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, 2017, 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, 2017, \$271,306 of the Academy's cash was exposed to custodial credit risk. All cash balances were uncollateralized as of June 30, 2017.

SOUTHWEST DETROIT COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 3 - DEPOSITS AND INVESTMENTS - Continued

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.

Fair Value

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Academy has the ability to access.
- b. Level 2 inputs are inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly.
- c. Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The observable inputs should be developed based on the best information available in the circumstances and may include the Academy's own data.)

The Academy does not have any investments that are subject to the fair value measurement.

SOUTHWEST DETROIT COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 4 – DUE FROM OTHER GOVERNMENTAL UNITS

Amounts due from other governmental units consist of the following:

Local sources	\$	22,855
State sources		678,874
Federal sources		30,496
Interdistrict sources		<u>40,683</u>
Total	<u>\$</u>	<u>772,908</u>

NOTE 5 - CAPITAL ASSETS

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

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2017</u>
Furniture	\$ 160,316	\$ 5,793	\$ -	\$ 166,109
Computers	<u>202,347</u>	<u>1,838</u>	<u>-</u>	<u>204,185</u>
Sub-total	362,663	7,631	-	370,294
Accumulated depreciation				
Furniture	92,320	32,966	-	125,286
Computers	<u>188,322</u>	<u>12,038</u>	<u>-</u>	<u>200,360</u>
Sub-total	<u>280,642</u>	<u>45,004</u>	<u>-</u>	<u>325,646</u>
Total net capital assets	<u>\$ 82,021</u>	<u>\$ (37,373)</u>	<u>\$ -</u>	<u>\$ 44,648</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 COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 6 – NOTES PAYABLE

Notes payable as of June 30, 2017 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	Owed to the Academy's former management company. Secured by future state school aid payments and Academy assets. As of the date of these financial statements, the Academy and former management company are in negotiation regarding a final payoff amount to satisfy this note in full. No principal payments have been made to date. Unpaid interest has been accrued.

Loan Activity

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Retirements and Payments</u>	<u>Balance June 30, 2017</u>
SAAN 13/14	\$ 625,000	\$ -	\$ -	\$ 625,000

NOTE 7 – OTHER ACCRUED EXPENSES

Other accrued expenses can be summarized as follows:

Purchased services	\$ 220,697
University oversight fee	18,271
Total other accrued expenses	<u>\$ 238,968</u>

SOUTHWEST DETROIT COMMUNITY SCHOOL

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 8 - LONG-TERM OBLIGATIONS PAYABLE

The following is a summary of long-term obligations for the Academy during the year ended June 30, 2017:

Loan Information

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Other</u>
Capital lease 1	14.12%	December, 2016	Paid in full
Capital lease 2	14.12%	December, 2016	Paid in full
Capital lease 3	14.12%	December, 2016	Paid in full

Loan Activity

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Retirements and Payments</u>	<u>Balance June 30, 2017</u>	<u>Due Within One Year</u>
Capital lease 1	\$ 20,943	\$ -	\$ 20,943	\$ -	\$ -
Capital lease 2	14,682	-	14,682	-	-
Capital lease 3	20,562	-	20,562	-	-
	<u>\$ 56,187</u>	<u>\$ -</u>	<u>\$ 56,187</u>	<u>\$ -</u>	<u>\$ -</u>

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	\$58,300 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, 2017

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>
2018	\$ 699,084
2019	769,910
2020	787,233
2021	804,946
2022	823,057
2023-2027	4,401,543
2028-2032	4,919,506
2033-2037	5,498,423
2038-2042	6,145,465

Total lease expense included in the statement of activities for the year ended June 30, 2017 amounted to approximately \$444,400.

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, 2017

	Original Budget	Final Budget	Actual	Variance
Revenues				
Local sources	\$ 26,888	\$ 30,154	\$ 46,609	\$ 16,455
State sources	3,754,860	3,646,046	3,652,893	6,847
Federal sources	327,000	451,183	457,399	6,216
Interdistrict sources	-	110,000	119,877	9,877
Total general fund revenues	4,108,748	4,237,383	4,276,778	39,395
Expenditures				
Instruction				
Basic programs	1,195,445	1,303,986	1,269,127	(34,859)
Added needs	650,308	577,853	578,420	567
Support services				
Pupil support services	102,503	197,900	195,751	(2,149)
Instructional staff support services	25,000	146,750	149,549	2,799
General administration	843,285	552,406	576,813	24,407
School administration	-	183,600	173,812	(9,788)
Business support services	102,828	79,775	80,540	765
Operations and maintenance	795,400	791,400	784,424	(6,976)
Pupil transportation services	160,000	175,500	172,873	(2,627)
Central support services	12,000	105,000	97,738	(7,262)
Other support services	123,262	-	-	-
Debt principal and interest	90,000	58,524	58,524	-
Total general fund expenditures	4,100,031	4,172,694	4,137,571	(35,123)
Excess (deficiency) of revenues over expenditures	8,717	64,689	139,207	74,518
Fund balance - July 1, 2016	50,570	50,570	50,570	-
Fund balance - June 30, 2017	<u>\$ 59,287</u>	<u>\$ 115,259</u>	<u>\$ 189,777</u>	<u>\$ 74,518</u>

SOUTHWEST DETROIT COMMUNITY SCHOOL

SCHEDULE OF REVENUES – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2017

Local Sources

Other local revenues	\$ 46,609
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State Sources

At risk	186,871
Special education	115,232
State aid	<u>3,350,790</u>

Total state sources	3,652,893
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Federal Sources

IDEA	73,326
Title I	264,296
Title II A	99,670
Title III	<u>20,107</u>

Total federal sources	457,399
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Interdistrict Sources

<u>119,877</u>

Total general fund revenues	<u><u>\$ 4,276,778</u></u>
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SOUTHWEST DETROIT COMMUNITY SCHOOL

SCHEDULE OF EXPENDITURES – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2017

Basic Programs

Purchased services	\$ 1,234,941
Supplies and materials	31,793
	<hr/>
Total basic programs	1,266,734

Added Needs

Purchased services	575,800
Supplies and materials	2,620
	<hr/>
Total added needs	578,420

Pupil Support Services

Health services	22,598
Psychological services	2,500
Speech pathology and audiology	64,068
Social work services	106,585
	<hr/>
Total pupil support services	195,751

Instructional Staff Support Services

Purchased services	149,549
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General Administration

Purchased services	38,026
Management fees	428,898
University oversight	100,445
Other expenditures	9,444
	<hr/>
Total general administration	576,813

School Administration

Purchased services	128,387
Rentals	11,569
Supplies and materials	12,918
Other expenditures	20,938
	<hr/>
Total school administration	173,812

SOUTHWEST DETROIT COMMUNITY SCHOOL

SCHEDULE OF EXPENDITURES – GENERAL FUND - Continued FOR THE YEAR ENDED JUNE 30, 2017

Business Support Services

Purchased services	500
Other expenditures	80,040
	<hr/>
Total business support services	80,540

Operations and Maintenance

Purchased services	74,756
Repairs and maintenance	207,051
Rentals	444,396
Supplies and materials	58,221
	<hr/>
Total operations and maintenance	784,424

Pupil Transportation Services

Purchased services	172,873
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Central Support Services

Purchased services	89,034
Supplies and materials	3,466
	<hr/>
Total central support services	92,500

Capital Outlay

7,631

Debt Principal and Interest

58,524

Total general fund expenditures	<hr/> <hr/> <u>\$ 4,137,571</u>
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