

MACDOWELL PREPARATORY ACADEMY

**FINANCIAL REPORT
WITH
SUPPLEMENTAL INFORMATION**

JUNE 30, 2016

MACDOWELL PREPARATORY ACADEMY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
MacDowell Preparatory Academy
Detroit, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of MacDowell Preparatory Academy (the Academy) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsible for the Financial Statements

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

Auditor's Responsibility

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

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

Independent Auditor's Report (Continued)

Auditor's Responsibility (Continued)

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Academy as of June 30, 2016 and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplement Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 19, 2016 on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Academy's internal control over financial reporting and compliance.

Alan C. Young & Assoc.

Detroit, Michigan
October 19, 2016

MACDOWELL PREPARATORY ACADEMY

Management's Discussion and Analysis (MD&A) June 30, 2016

As management of MacDowell Preparatory Academy (the "Academy"), formerly known as International Preparatory Academy, we offer readers of the Academy's basic financial statements this narrative overview and analysis of the financial activities of the Academy for the years ended June 30, 2016 and 2015.

Management's discussion and analysis is included at the beginning of the Academy's basic financial statements to provide, in layman's terms, the current position of the Academy's financial condition. This summary should not be taken as a replacement for the audit, which consists of the basic financial statements and other supplementary information.

FINANCIAL HIGHLIGHTS

Our basic financial statements provide these insights into the results of this year's operations.

- As of June 30, 2016, the Academy's fund balance was \$209,442 as compared to \$194,344 at June 30, 2015.
- As of June 30, 2016, the Academy had net position of \$362,388 as compared to \$365,667 at June 30, 2015.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Academy's basic financial statements. The Academy's basic financial statements are comprised of three components: 1) government-wide basic financial statements, 2) fund basic financial statements, and 3) notes to the basic financial statements.

Government-Wide Financial Statements

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

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

The statement of activities presents information showing how the Academy's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this Statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected revenues and services rendered but unpaid).

The government-wide financial statements include all governmental activities that are principally supported by grants and entitlements from the state for full-time equivalent funding. The Academy does not have any business-type activities. The governmental activities of the Academy primarily include instruction and instructional support services.

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

MACDOWELL PREPARATORY ACADEMY

Management's Discussion and Analysis (MD&A) (Continued)
June 30, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Academy, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide basic financial statements, governmental fund basic financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Academy's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Academy's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and change in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

All of the Academy's services are reported in governmental funds. Information is presented in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and change in fund balances. The General fund is the Academy's only fund.

The Academy adopts an annual budget for its governmental funds. Budgets are revised in an attempt to deal with unexpected changes in revenue and expenditure. State law requires that the budget be amended to ensure that expenditures do not exceed appropriation. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided as required supplemental information of these financial statements.

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

Notes to Basic Financial Statements

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

MACDOWELL PREPARATORY ACADEMY

Management's Discussion and Analysis (MD&A) (Continued) June 30, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Academy's net position was \$362,388 at June 30, 2016. This amount represents net investment in capital assets of \$152,946 and unrestricted net position of \$209,442. The Academy's net position was \$365,997 at June 30, 2015 and of this amount \$192,207 represents net investment in capital assets and \$173,460 represents unrestricted net position.

Our analysis in the table below focuses on the net position of the Academy's governmental activities:

Governmental Activities

The results of the operations for the Academy as a whole are reported in the statement of activities on page 2. The table below provides a condensed presentation of the Academy's revenues and expenses for the years ended June 30, 2016 and 2015:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Assets		
Current and Other Assets	\$ 791,469	\$ 865,640
Capital Assets, Net of Depreciation	152,946	192,207
Total Assets	<u>944,415</u>	<u>1,057,847</u>
Liabilities		
Current Liabilities	582,027	671,296
Long-term Liabilities	-	20,884
Total Liabilities	<u>582,027</u>	<u>692,180</u>
Net Position		
Net Investment in Capital Assets	152,946	192,207
Unrestricted	209,442	173,460
Total Net Position	<u>\$ 362,388</u>	<u>\$ 365,667</u>

MACDOWELL PREPARATORY ACADEMY

Management's Discussion and Analysis (MD&A) (Continued)
June 30, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Governmental Activities - (Continued)

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Revenue:		
General Revenues	\$ 2,504,332	\$ 2,829,156
Program Revenues	<u>799,899</u>	<u>976,144</u>
Total Revenues	<u>3,304,231</u>	<u>3,805,300</u>
Functions/Program Expenses:		
Instruction	1,216,864	1,482,772
Instruction Support Services	<u>2,090,646</u>	<u>2,286,339</u>
Total Expenses	<u>3,307,510</u>	<u>3,769,111</u>
Change in Net Position (Deficit)	(3,279)	36,189
Net Position - Beginning of Year	<u>365,667</u>	<u>329,478</u>
Net Position - End of the Year	<u>\$ 362,388</u>	<u>365,667</u>

GOVERNMENTAL FUND EXPENDITURES

In the table below, we have presented the cost of the largest functions/programs as a percentage of total governmental expenditures:

<u>Functions/Programs</u>	<u>2016</u>		<u>2015</u>	
	<u>Expenditure</u>	<u>Percent</u>	<u>Expenditure</u>	<u>Percent</u>
Governmental Expenditures:				
Instructional Expenditures	\$ 1,216,864	37%	\$ 1,482,772	39%
Support Services	2,047,965	62%	2,229,691	59%
All Other Functions/Programs	<u>42,681</u>	<u>1%</u>	<u>56,648</u>	<u>2%</u>
Total Governmental Expenditures	<u>\$ 3,307,510</u>	<u>100%</u>	<u>\$ 3,769,111</u>	<u>100%</u>

MACDOWELL PREPARATORY ACADEMY

Management's Discussion and Analysis (MD&A) (Continued)
June 30, 2016

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the Academy had capital assets of \$152,946, net of accumulated depreciation, invested in building and improvements, furniture and equipment and IT equipment and software compared to \$192,207 at June 30, 2015.

Debt

At June 30, 2016 and 2015, the Academy had no long-term outstanding debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Academy considers many factors when setting the Academy's 2016-2017 fiscal year budgets. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2016-17 fiscal years is 90 percent of the current school year October count and 10 percent of the prior February count. The all-inclusive budget was adopted in June 2016 based on enrollment estimates.

Under State law, the Academy cannot assess property taxes for additional revenue for general operations. As a result, the Academy is heavily dependent on the State's ability to fund school operations.

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

REQUESTS FOR INFORMATION

If you have questions about this report or need additional information, please contact the Academy's Business Office at 4201 W. Outer Drive, Detroit, Michigan 48221.

MACDOWELL PREPARATORY ACADEMY

Statement of Net Position June 30, 2016

	<u>Governmental Activities</u>
Assets	
Cash and Cash Equivalents (Note 3)	\$ 190,687
Due From Other Governmental Units (Note 4)	599,573
Other Receivables	374
Deposits	112
Prepaid Expenses	723
Capital Assets, Net of Accumulated Depreciation (Note 5)	<u>152,946</u>
Total Assets	<u>944,415</u>
Liabilities	
Accounts Payable	286,172
Accrued Payroll	111,879
State Aid Anticipation Note (Note 9)	124,586
Unearned Revenue	<u>59,390</u>
Total Liabilities	<u>582,027</u>
Net Position	
Net Investment in Capital Assets	152,946
Unrestricted	<u>209,442</u>
Total Net Position	<u>\$ 362,388</u>

The accompanying notes are an integral part of these financial statements

MACDOWELL PREPARATORY ACADEMY

Statement of Activities Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues		Governmental
		Charges for Services	Operating Grants and Contributions	Activities
				Net (Expenses) Revenues and Changes in Net Position
Governmental Activities				
Basic Instruction	\$ 791,762	\$ -	\$ 323,297	\$ (468,465)
Instruction - Added Needs	425,102	-	395,778	(29,324)
<u>Supporting Services:</u>				
Pupil Support Services	243,471	-	-	(243,471)
Instructional Staff Services	220,461	-	-	(220,461)
General Administration Services	539,150	-	-	(539,150)
School Administration Services	154,875	-	80,824	(74,051)
Business Services	80,456	-	-	(80,456)
Operations and Maintenance	474,805	-	-	(474,805)
Central Services	207,257	-	-	(207,257)
Depreciation Expenses (Unallocated)	42,681	-	-	(42,681)
Transportation	123,747	-	-	(123,747)
Community Services	3,743	-	-	(3,743)
Total Governmental Activities	3,307,510	-	799,899	(2,507,611)
			<u>General Revenues</u>	
			State Aid - Formula Grants	2,499,718
			Other Revenue	4,614
			Total General Revenues	2,504,332
			Change in Net Position	(3,279)
			Net Position - July 1, 2015	365,667
			Net Position - June 30, 2016	\$ 362,388

The accompanying notes are an integral part of these financial statements

MACDOWELL PREPARATORY ACADEMY

Governmental Funds Balance Sheet June 30, 2016

	General Fund
ASSETS	
Cash and Cash Equivalents (Note 3)	\$ 190,687
Due From Other Governmental Units (Note 4)	599,573
Other Receivables	374
Deposits	112
Prepaid Expense	723
Total Assets	\$ 791,469
LIABILITIES AND FUND BALANCES	
Liabilities	
Accounts Payable	\$ 286,172
Accrued Payroll	111,879
State Aid Anticipation Note (Note 9)	124,586
Unearned Revenue	59,390
Total Liabilities	582,027
Fund Balance	
Nonspendable	723
Unassigned	208,719
Total Fund Balance	209,442
Total Liabilities and Fund Balance	\$ 791,469

The accompanying notes are an integral part of these financial statements

MACDOWELL PREPARATORY ACADEMY

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2016

Total Fund Balances - Governmental Funds \$ 209,442

Amounts Reported for Governmental Activities in the
Statement of Net Assets are different because:

Capital assets used in Governmental Activities are not
financial resources and therefore, not reported as
assets in Governmental Funds:

Cost of Capital Assets	258,954	
Accumulated Depreciation	<u>(106,008)</u>	<u>152,946</u>

Total Net Position - Governmental Activities \$ 362,388

The accompanying notes are an integral part of these financial statements

MACDOWELL PREPARATORY ACADEMY

Statement of Revenue, Expenditures and Changes in Fund Balance Year Ended June 30, 2016

	General Fund
Revenue	
Federal Sources	\$ 484,791
State Sources	2,814,826
Local Sources	4,614
Total Revenue	<u>3,304,231</u>
Expenditures	
Basic Instruction	791,762
Instruction - Added Needs	425,102
<u>Supporting Services:</u>	
Pupil Support Services	243,701
Instructional Staff Services	227,772
General Administration Services	539,150
School Administration Services	155,380
Business Services	82,533
Operations and Maintenance	481,187
Central Services	211,636
Capital Outlay	3,420
Transportation	123,747
Community Services	3,743
Total Expenditures	<u>3,289,133</u>
Net Change in Fund Balance	15,098
Fund Balance - July 1, 2015	<u>194,344</u>
Fund Balance - June 30, 2016	<u>\$ 209,442</u>

The accompanying notes are an integral part of these financial statements

MACDOWELL PREPARATORY ACADEMY

Reconciliation of the Governmental Funds Statement of Revenue, Expenditures and Changes in Fund Balance to the Statement of Activities Year Ended June 30, 2016

Net Change in Fund Balances - Total Governmental Funds \$ 15,098

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

Governmental Funds Report Capital Outlays as
Expenditures. In the Statement of Activities, these Costs
are Allocated over their Estimated useful lives as
Depreciation:

Depreciation Expense	(42,681)	
Capitalized Capital Outlay Expense	<u>3,420</u>	(39,261)

Governmental Funds Record Payments on Long term
Liabilities as Expenditures. These Payments Reduce a
Liability in the Government-wide statements.

20,884

Change in Net Position - Governmental Activities \$ (3,279)

The accompanying notes are an integral part of these financial statements

MACDOWELL PREPARATORY ACADEMY

Notes to Financial Statements
June 30, 2016

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of MacDowell Preparatory Academy (the Academy), formerly known as International Preparatory Academy, conform to generally accepted accounting principles as applicable to schools. The following is a summary of the significant policies:

Reporting Entity

MacDowell Preparatory Academy is a charter school academy organized under the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994.

On July 31, 2012 the Academy entered into a five year contract with the School District of the City of Detroit to Charter a Public School Academy. The School District of the City of Detroit Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the Contract and all applicable laws and other related activities for which compensation is permissible. By agreement between School District of the City of Detroit and the Academy, the Academy pays the School District of the City of Detroit Board of Trustees 3 percent of the Academy's State School Aid Payments as an administrative fee. The total administrative fees paid for the year ended June 30, 2016 to School District of the City of Detroit were approximately \$79,000.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide and Fund 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 activities of the Academy. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy's activities are considered governmental activities.

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

MACDOWELL PREPARATORY ACADEMY

Notes to Financial Statements (Continued)
June 30, 2016

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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

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

Fund Financial Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

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

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

Assets, Liabilities, and Net Assets or Equity

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

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

MACDOWELL PREPARATORY ACADEMY

Notes to Financial Statements (Continued)
June 30, 2016

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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

Capital Assets – Capital assets, which include furniture and equipment and computer hardware, are reported in the applicable governmental column in the Academy-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$500 and a useful life greater than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Cost of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure-type assets.

All the Academy's assets are depreciated using the straight-line method over the following useful lives:

Leasehold Improvements	5 years
Furniture and Other Equipment	5 to 10 years

Deferred Outflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. The Academy has no deferred outflows of resources at June 30, 2016.

Deferred Inflows of Resources – In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues, which arises only under a modified accrual basis of accounting, from grants receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The Academy had no deferred inflows of resources at June 30, 2016.

MPSERS Liability – The Academy contracted with an outside organization to provide all staffing personnel during the year under audit. Consequently, all staffing costs are treated as purchased services in these financial statements. The Academy has no obligation to fund the Michigan Public School Employees Retirement System for the year 2016, and no such funding was made for the year.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Compensated Absences (Vacation) – A Liability for compensated absences would be reported in the government-wide statements and consist of earned but unused accumulated vacation benefits. A liability for these amounts would be reported in governmental funds as it comes due for payment. The liability is calculated using the vesting method, in which amounts for both employees who are currently eligible to receive termination payments at normal retirement age and other employees who are expected to become eligible in the future to receive such payments upon normal retirement are included. The Academy had no liability for compensated absences at June 30, 2016.

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

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

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

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

2) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for the General Fund, except that capital outlay expenditures are budgeted within the various functions. All annual appropriations lapse at fiscal year ended.

MACDOWELL PREPARATORY ACADEMY

Notes to Financial Statements (Continued)
June 30, 2016

2) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – (Continued)

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

The Academy exceeded the budget in the following categories:

	<u>Final Budget</u>	<u>Actual</u>
General Administration Services	\$ 538,955	\$ 539,150
Capital Outlay	-	3,420
Pupil Transportation Services	115,180	123,747

Encumbrance accounting is employed in governmental funds. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Grants – Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, would become a liability of the General Fund. In the Academy's opinion, no disallowed claims are expected and would not have a material effect on the financial statements as of and for the year ended June 30, 2016.

3) DEPOSITS AND INVESTMENTS

State statutes authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Academy is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Academy's deposits are in accordance with the statutory authority. As of June 30, 2016, the Academy does not have any investments.

The Academy has designated three banks for the deposit of its funds.

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

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of bank failure, the Academy's deposits may not be returned to it. At the year end, the Academy had a deposit balance of \$265,308, out of which \$15,308 was not covered by federal depository insurance.

MACDOWELL PREPARATORY ACADEMY

Notes to Financial Statements (Continued)
June 30, 2016

3) DEPOSITS AND INVESTMENTS - (Continued)

Custodial Credit Risk of Bank Deposits – (Continued)

The Academy evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that value of investments will decrease as a result of a rise in interest rates. The Academy does not have investments with interest rate risk.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Academy held no such investment at June 30, 2016.

Foreign Currency Risk

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

4) DUE FROM OTHER GOVERNMENTAL UNITS

Receivables from other governmental units as of year-end for the Academy include \$529,128 from the State of Michigan and \$70,445 from Federal grants.

5) CAPITAL ASSETS

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

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2016</u>
Capital Assets Being Depreciated:			
Leasehold Improvements	\$ 42,020	\$ -	\$ 42,020
IT Equipment	181,033	3,420	184,453
Furniture and Equipment	32,481	-	32,481
Subtotal	<u>255,534</u>	<u>3,420</u>	<u>258,954</u>
Accumulated Depreciation:			
Leasehold Improvements	23,702	8,404	32,106
IT Equipment	30,417	30,899	61,316
Furniture and Equipment	9,208	3,378	12,586
Subtotal	<u>63,327</u>	<u>42,681</u>	<u>106,008</u>
Net Governmental Capital Assets	<u>\$ 192,207</u>	<u>\$ (39,261)</u>	<u>\$ 152,946</u>

MACDOWELL PREPARATORY ACADEMY

Notes to Financial Statements (Continued)
June 30, 2016

5) CAPITAL ASSETS (Continued)

Total depreciation expense was \$42,681 for the year ended June 30, 2016. Depreciation is unallocated in the Statement of Activities.

6) MANAGEMENT COMPANY AGREEMENT

The Academy has entered into a contract with Cincinnati Education Management LLC in July 2012. Under the direction of the Academy's Board, Cincinnati Education Management LLC shall be responsible for all of the management, operation, administration, and education at the Academy, by providing certain services directly to the Academy, subcontracting for certain services, and overseeing other contractors. The management contract may be terminated under various circumstances as defined in the management agreement. The agreement runs through June 30, 2016. The Academy pays the management company for management and license fees.

For the year ended June 30, 2016, the management and license fees charged to the Academy was approximately \$362,000 and the Academy owed a net balance of \$163,020 to Cincinnati Education Management LLC at June 30, 2016.

The Academy entered into an independent contract agreement with Michigan Educational Personnel Services (MEP) in August 2012 through June 2016. Subsequent to the year end, the Academy renewed the agreement with MEP through August 2016. MEP is responsible for all human resources, personnel, payroll, benefits, and related administrative functions of the Academy. The Academy subcontracts all employees from MEP and reimburses MEP for operating costs. The human resources fee charged to the Academy was approximately \$78,000. The Academy owed MEP Services \$107 at June 30, 2016.

7) OPERATING LEASES

The Academy leases its School building from the School District of the City of Detroit. The lease was entered into on July 1, 2012 and expires on June 30, 2017. The Annual rent is calculated as the lesser of 5 percent of total revenue received by the Academy or \$63,000 for each period ended June 30. Rent expense for the year was \$63,000. Additionally, the Academy leases copy machines under a non-cancelable operating lease expiring April 10, 2017. Copies lease expense for the year was \$7,600. The expected future minimum lease payments based on these lease terms in fiscal year 2017 is \$68,049.

MACDOWELL PREPARATORY ACADEMY

Notes to Financial Statements (Continued)
June 30, 2016

8) DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS

Plan Description – The Academy currently does not participate in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan. During the year ended June 30, 2016, the Academy offered all of its salaried employees, after the first year of service with 1,000 hours worked, a retirement plan under Internal Revenue Code, Section 401(k). The employee is allowed to contribute into the Plan up to the annual 401(k) limits. The Academy had \$1,255 in expense for fiscal 2016 for the 401(k) plan.

Post-employment Benefits – Currently, the Academy does not offer any post-employment benefits.

9) STATE AID NOTE

In August 2015, the Academy borrowed \$696,000 at 4.25 percent annual interest under the state aid note in anticipation of funds to be received by the Academy from the State of Michigan. Proceeds from the notes were used to fund school operations. The unpaid balance totals \$124,586 at June 30, 2016. The note was fully paid subsequent to year end.

10) SUBSEQUENT EVENTS

The Academy has evaluated all subsequent events through October 19, 2016, the date the financial statements were available to be issued. On August 22, 2016, the Academy entered into an agreement with the Michigan Finance Authority to borrow \$692,000 at 4.25 percent annual interest on a state aid anticipation note. The note is due in monthly installments, including interest, of \$64,450 from October 20, 2016 through August 21, 2017.

On May 18, 2016, the Academy entered into an agreement with American Promise School (APS) to provide educational and management services effective July 1, 2016 through June 30, 2017. The agreement can be renewed for an additional year and so forth based on the performance evaluation.



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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
MacDowell Preparatory Academy
Detroit, MI

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 MacDowell Preparatory Academy (the Academy) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated October 19, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given 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.

Report on Internal Control over Financial Reporting
And on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in
Accordance with Government Auditing Standards
(Continued)

Compliance and Other Matters

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

Purpose of this Report

This purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Alan C. Young; Assoc.

Detroit, Michigan
October 19, 2016

REQUIRED SUPPLEMENTAL INFORMATION

MACDOWELL PREPARATORY ACADEMY

Budgetary Comparison Schedule General Fund Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Federal Sources	\$ 495,227	\$ 525,981	\$ 484,791	\$ (41,190)
State Sources	3,149,754	2,873,526	2,814,826	(58,700)
Local Sources	9,059	6,489	4,614	(1,875)
Total Revenue	<u>3,654,040</u>	<u>3,405,996</u>	<u>3,304,231</u>	<u>(101,765)</u>
Expenditures				
<u>Instructional Services</u>				
Basic Programs	961,603	814,232	791,762	(22,470)
Added Needs	528,448	450,214	425,102	(25,112)
<u>Supporting Services:</u>				
Pupil Support Services	273,298	271,241	243,701	(27,540)
Instructional Staff Services	530,250	262,844	227,772	(35,072)
General Administration Services	306,722	538,955	539,150	195
School Administration Services	164,988	171,855	155,380	(16,475)
Business Services	164,156	82,739	82,533	(206)
Operation and Maintenance	517,584	514,873	481,187	(33,686)
Central Services	186,973	221,364	211,636	(9,728)
Capital Outlay	-	-	3,420	3,420
Pupil Transportation Services	72,140	115,180	123,747	8,567
Community Services	-	4,500	3,743	(757)
Total Expenditure	<u>3,706,162</u>	<u>3,447,997</u>	<u>3,289,133</u>	<u>(158,864)</u>
Net Change in Fund Balance	(52,122)	(42,001)	15,098	57,099
Fund Balance - July 1, 2015	<u>131,537</u>	<u>194,344</u>	<u>194,344</u>	<u>-</u>
Fund Balance - June 30, 2016	<u>\$ 79,415</u>	<u>\$ 152,343</u>	<u>\$ 209,442</u>	<u>\$ 57,099</u>