



# THE CLAIRMOUNT GROUP, PLC

Certified Public Accountants

## **Detroit Academy of Arts and Sciences**

(A Michigan Public School Academy)

**Financial Statements**

**For the Year Ended**

**June 30, 2017**



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THE CLAIRMOUNT GROUP, PLC  
Certified Public Accountants

## **Independent Auditor's Report**

To the Board of Directors  
Detroit Academy of Arts and Sciences

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

We have audited the accompanying financial statements of the governmental activities, the major fund (General Fund), and the aggregate remaining fund information of Detroit Academy of Arts and Sciences as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Detroit Academy of Arts and Sciences' 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are 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, the major fund (General Fund), and the aggregate remaining fund information of Detroit Academy of Arts and Sciences as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows 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, schedule of bond indebtedness on page 27 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 Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Detroit Academy of Arts and Sciences' basic financial statements. The introductory, statistical section and schedule of expenditures for federal awards is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance) and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards 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 schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2017, on our consideration of Detroit Academy of Arts and Sciences' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Detroit Academy of Arts and Sciences' internal control over financial reporting and compliance.

***The Clairmount Group, PLC***

The Clairmount Group, PLC  
Detroit, MI 48226  
October 10, 2017

## **Detroit Academy of Arts and Sciences Management's Discussion and Analysis**

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This section of the Detroit Academy of Arts and Sciences (the "Academy") annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2017. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

### **Using the Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy financially as a whole. The government-wide financial statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the Academy's operations in more detail than the government-wide financial statements by providing information about the Academy's most significant funds – the General Fund and Debt Service Fund, with the other fund presented in one column as the non-major Food Service Fund.

Management's Discussion and Analysis (MD&A)  
(Required Supplemental Information)

#### **Basic Financial Statements**

Government-wide Financial Statements                      Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)  
Budgetary Information for Major Fund

Other Supplemental Information

## **Detroit Academy of Arts and Sciences Management's Discussion and Analysis (continued)**

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### ***Reporting the Academy as a Whole - Government-wide Financial Statements***

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Academy's net position - the difference between assets and liabilities, as reported in the statement of net position - as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net position - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the Academy. The statement of net position and the statement of activities report the governmental activities for the Academy, which encompass all of the Academy's services, including instruction, support services, community services, athletics, and food services. Unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

### ***Reporting the Academy's Most Significant Funds - Fund Financial Statements***

The Academy's fund financial statements provide detailed information about the most significant funds - not the Academy as a whole. Some funds are required to be established by State law and by bond covenants. However, the Academy establishes many other funds to help it control and manage money for particular purposes (the Food Service is an example) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the Academy use the following accounting approach:

- Governmental funds - All of the Academy's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Academy and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in reconciliation.

**Detroit Academy of Arts and Sciences  
Management's Discussion and Analysis (continued)**

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*The Academy as a Whole*

Recall that the statement of net position provides the perspective of the Academy as a whole. Table 1 provides a summary of the Academy's net position as of June 30, 2017:

	Governmental Activities	
	June 30	
	2017	2016
	(in millions)	
<b>Assets</b>		
Current and other assets	\$3.4	\$3.2
Capital assets	7.9	8.1
Total assets	11.3	11.3
<b>Liabilities</b>		
Current liabilities	1.1	1.0
Long-term liabilities	14.0	14.3
Total liabilities	15.1	15.3
<b>Net Position</b>		
Invested in property and equipment - Net of related debt	(6.3)	(6.4)
Restricted	1.5	1.5
Unrestricted	1.0	0.9
Total net position (deficit)	<u>(\$3.8)</u>	<u>(\$4.0)</u>

The above analysis focuses on the net position (see Table 1). The change in net position (see Table 2) of the Academy's governmental activities is discussed below. The Academy's net position was \$(3.8) million at June 30, 2017. Capital assets, net of related debt totaling \$(6.4) million, compares the original cost, less depreciation of the Academy's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from General Fund operations as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Academy's ability to use those assets for day-to-day operations. The remaining amount of net position \$1.0 million was unrestricted.

**Detroit Academy of Arts and Sciences  
Management's Discussion and Analysis (continued)**

The \$.9 million in unrestricted net position of governmental activities represents the *accumulated* results of all past years' operations. The unrestricted net position balance enables the Academy to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the Academy as a whole are reported in the statement of activities (Table 2), which shows the changes in net position for fiscal years 2016 and 2015.

	Governmental Activities	
	Year Ended June 30	
	2017	2016
<b>Revenue</b>	( in millions)	
Program revenue:		
Operating grants and contributions	\$3.0	\$3.0
General revenue:		
State foundation allowance	8.1	8.1
<b>Total revenue</b>	<b>11.1</b>	<b>11.1</b>
<b>Functions/Program Expenses</b>		
Instructions	3.9	4.1
Support Services	4.9	4.9
Food services, community service and athletics	0.8	0.6
Interest and charges on long-term debt	0.8	0.9
Depreciation and amortization (unallocated)	0.5	0.5
<b>Total functions/program expenses</b>	<b>10.9</b>	<b>11.0</b>
<b>Increase/(Decrease) in Net Position</b>	<b>0.2</b>	<b>0.1</b>
<b>Net Position (Deficit) - Beginning of year</b>	<b>(4.0)</b>	<b>(4.0)</b>
<b>Net Position (Deficit) - End of year</b>	<b>(\$3.8)</b>	<b>(\$3.9)</b>

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$10.9 million. Certain activities were partially funded by other governments and organizations that subsidized certain programs with grants and contributions of \$3.0 million. We paid for the remaining "public benefit" portion of our governmental activities with \$8.1 million in State foundation allowance, and with our other revenues, i.e., interest and general entitlements.

As discussed above, the net cost shows the financial burden that was placed on the State and the Academy's taxpayers by each of these functions. Since unrestricted State aid constitute the vast majority of district operating revenue sources, the Board of Education and administration must annually evaluate the needs of the Academy and balance those needs with State-prescribed available unrestricted resources.

## **Detroit Academy of Arts and Sciences Management's Discussion and Analysis (continued)**

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### **Capital Assets and Debt Administration**

#### **Capital Assets**

As of June 30, 2017, the Academy had approximately \$8.1 million invested in net capital assets, including leasehold improvements, furniture, and equipment. The amount represents a net decrease, including additions and depreciation, of approximately \$.4 million from last year.

#### **Debt**

Debt includes bond obligations of approximately \$14.3. The amount represents a decrease of \$.2 million from last year.

### **The Academy's Funds**

As we noted earlier, the Academy uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Academy is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Academy's overall financial health.

As the Academy completed this year, the governmental funds reported a combined fund balance of \$2.4 million, which is an increase of \$.2 million from last year.

In the General Fund, our principal operating fund, the fund balance increased approximately \$.1 million to \$1.0 million. General Fund balance is available to fund costs related to allowable school operating purposes.

### **General Fund Budgetary Highlights**

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted just before year end. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

There were significant revisions made to the 2015-2016 General Fund original budget. Budgeted revenues were increased \$.4 million due to an increase in actual student enrollment versus original estimates.

### **Contacting the Academy's Management**

This financial report is intended to provide our taxpayers, parents, and investors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the business office.

**Detroit Academy of Arts and Sciences**  
**Statement of Net Position- Governmental Activities**  
**June 30, 2017**

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**Assets**

**Current Assets**

Cash and cash equivalents	\$ 210,607
Restricted assets - investments	1,314,861
Due from other governmental units	1,916,957
Prepaid expenses	<u>25,363</u>

**Total Current Assets** 3,467,788

**Noncurrent Assets**

Capital Assets - net	<u>7,894,470</u>
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**Total Assets** 11,362,258

**Liabilities and Net Position**

**Current Liabilities**

Accounts payable	209,203
Accrued payroll-related liability	418,679
Other accrued liabilities	48,294
Notes Payable	202,980
Current portion of long-term debt	<u>225,000</u>

**Total Current Liabilities** 1,104,156

**Noncurrent Liabilities**

Long term debt	<u>14,055,000</u>
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**Total Liabilities** 15,159,156

**Net Position**

Investments in capital assets - net of related debt	(6,385,530)
Restricted	
Debt service	1,541,804
Unrestricted	<u>1,046,828</u>

**Total Net Position** (3,796,898)

**Total Liabilities and Net Position** \$ 11,362,258

**Detroit Academy of Arts and Sciences**  
**Statement of Activities**  
**Year Ended June 30, 2017**

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	<u>Expenses</u>	<u>Program Revenues</u> Charges for Services	<u>Operating</u> Grants/ Contributions	<u>Activities</u> Net(Expenses) and Changes in Net Assets
<b>Functions/Programs</b>				
Primary government - Government activities				
Instruction	\$ 3,978,323	\$ -	\$ 1,957,305	\$ (2,021,018)
Support services	4,945,165	-	112,884	(4,832,281)
Community Services	17,649	-	-	(17,649)
Food Services	762,252	-	754,921	(7,331)
Interest and charges on long-term debt	868,690	-	-	(868,690)
Depreciation (unallocated)	467,512	-	-	(467,512)
Total governmental activities	<u>\$ 11,039,591</u>	<u>\$ -</u>	<u>\$ 2,825,110</u>	<u>(8,214,481)</u>
General Revenues:				
State aid not restricted to specific purposes				8,142,859
Other income				184,806
Total general revenues				<u>8,327,665</u>
Change in Net Position				<u>113,184</u>
Net Position (Deficit) - Beginning of year				<u>(3,910,082)</u>
Net Position (Deficit) - End of Year				<u>\$ (3,796,898)</u>

**Detroit Academy of Arts and Sciences  
Governmental Funds  
Balance Sheet  
June 30, 2017**

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	General Fund	Debt Service Fund	Other Nonmajor Fund Food Service	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 210,607	\$ -	\$ -	\$ 210,607
Investments - restricted	-	1,314,861	-	1,314,861
Due from Other Governmental Units	1,859,686	-	57,271	1,916,957
Prepaid Expenses	25,363	-	-	25,363
Due from Other Funds	-	226,943	17,598	244,541
<b>Total assets</b>	<u>2,095,656</u>	<u>1,541,804</u>	<u>74,869</u>	<u>3,712,329</u>
<b>Liabilities</b>				
Accounts payable	142,690	-	66,513	209,203
Accrued Payroll	418,679	-	-	418,679
Other accrued liabilities	48,294	-	-	48,294
Notes payable	202,980	-	-	202,980
Due to other funds	244,541	-	-	244,541
<b>Total liabilities</b>	<u>1,057,184</u>	<u>-</u>	<u>66,513</u>	<u>1,123,697</u>
<b>Fund Balances</b>				
Nonspendable				
Prepaid costs	25,363	-	-	25,363
Restricted				
Debt Service	-	1,541,804	-	1,541,804
Food services	-	-	8,356	8,356
Unassigned	1,013,109	-	-	1,013,109
<b>Total fund balance</b>	<u>1,038,472</u>	<u>1,541,804</u>	<u>8,356</u>	<u>2,588,632</u>
<b>Total liabilities and fund balances</b>	<u>\$ 2,095,656</u>	<u>\$ 1,541,804</u>	<u>\$ 74,869</u>	<u>\$ 3,712,329</u>

**Detroit Academy of Arts and Sciences  
 Reconciliation of the Total Governmental  
 Fund Balance to Net Position of Governmental Activities  
 Year Ended June 30, 2017**

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**Fund Balance** - Total governmental funds \$ 2,588,632

Amounts reported for governmental activities in the  
 Statement of Net Position are different because:

Capital assets used in governmental activities are  
 not financial resources and are not reported  
 in governmental funds

Cost of capital assets	16,295,990	
Accumulated depreciation	<u>(8,401,520)</u>	

7,894,470

Bonds Payable

(14,280,000)

**Net Position** - Governmental activities

\$ (3,796,898)

**Detroit Academy of Arts and Sciences**  
**Governmental Funds**  
**Statement of Revenue, Expenditures, and Changes in Fund Balance**  
**Year Ended June 30, 2017**

	General Fund	Debt Services Fund	Other Nonmajor Fund Food Service	Total Governmental Funds
<b>Revenue</b>				
Local sources	\$ 217,532	\$ 8,212	\$ -	\$ 225,744
State sources	8,878,846	-	-	8,878,846
Federal sources	1,293,262	-	754,921	2,048,183
<b>Total revenue</b>	<u>10,389,640</u>	<u>8,212</u>	<u>754,921</u>	<u>11,152,773</u>
<b>Expenditures</b>				
Current				
Instruction				
Basic programs	3,128,141	-	-	3,128,141
Added needs	850,182	-	-	850,182
Total instruction	<u>3,978,323</u>	<u>-</u>	<u>-</u>	<u>3,978,323</u>
Support services				
Pupil	442,224	-	-	442,224
Instructional	727,470	-	-	727,470
General administration	645,070	-	-	645,070
School administration	583,961	-	-	583,961
Business services	249,811	-	-	249,811
Operation and maintenance	1,333,330	-	-	1,333,330
Pupil transportation and services	747,907	-	-	747,907
Central Services	215,392	-	-	215,392
Total Support Services	<u>4,945,165</u>	<u>-</u>	<u>-</u>	<u>4,945,165</u>
Capital Outlay	174,745	-	55,090	229,835
Community Activity	17,649	-	-	17,649
Food services	-	-	762,252	762,252
Debt service				
Interest	-	863,100	-	863,100
Principal payments	-	210,000	-	210,000
Bond expenses	-	5,590	-	5,590
Total expenditures	<u>9,115,882</u>	<u>1,078,690</u>	<u>817,342</u>	<u>11,011,914</u>
<b>Excess of Revenue Over(Under)</b>				
<b>Expenditures</b>	1,273,758	(1,070,478)	(62,421)	140,859
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	1,134,594	-	1,134,594
Transfers out	(1,134,594)	-	-	(1,134,594)
Total other financing sources (uses)	<u>(1,134,594)</u>	<u>1,134,594</u>	<u>-</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	139,164	64,116	(62,421)	140,859
<b>Fund Balances - Beginning of year</b>	<u>899,308</u>	<u>1,477,688</u>	<u>70,777</u>	<u>970,085</u>
<b>Fund Balances - End of year</b>	<u>\$ 1,038,472</u>	<u>\$ 1,541,804</u>	<u>\$ 8,356</u>	<u>\$ 1,110,944</u>

**Detroit Academy of Arts and Sciences  
 Governmental Funds  
 Reconciliation of the Statement of Revenue, Expenditures and Changes in  
 Fund Balances of Governmental Funds to the Statement of Activities  
 Year Ended June 30, 2017**

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**Net Change in Fund Balance - Total governmental funds** \$ 140,859

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

Governmental funds report capital outlay as expenditures;  
 in the Statement of Activities, these costs are allocated over  
 their estimated useful lives as depreciation or amortization:

Depreciation and amortization expense	(467,512)	
Capital outlay	<u>229,837</u>	(237,675)

Payments on contractual obligations are an expenditure  
 in the governmental funds, but not in the Statement of Activities  
 (where they reduce long-term debt)

210,000

**Change in Net Position of Governmental Activities** \$ 113,184

**Detroit Academy of Arts and Sciences**  
**Notes to Financial Statements**  
**June 30, 2017**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of June 30, 2017 Detroit Academy of Arts and Sciences (the “Academy”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy:

**Reporting Entity**

The Academy was formed as a charter school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994.

On June 30, 2015 the Academy entered into a five-year contract with the Oakland University Board of Trustees to charter Detroit Academy of Arts and Sciences. 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 Oakland University 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. The Academy pays the Oakland University Board of Trustees 3.0 percent of state aid as administrative fees. The total administrative fees for the year ended June 30, 2017 paid the Oakland University Board of Trustees were approximately \$266,365.

**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 non-fiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy’s government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. 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 revenue are reported instead as general revenue.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Detroit Academy of Arts and Sciences**  
**Notes to Financial Statements (Continued)**  
**June 30, 2017**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus, Basis Accounting and Financial Statement Presentation**

**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 of 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.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

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.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes unrestricted state aid.

**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 revenue to be available if it is 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. However, debt service expenditures are recorded only when payment is due.

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

**Detroit Academy of Arts and Science**  
**Notes to Financial Statements (Continued)**  
**June 30, 2017**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The Academy reports the following major governmental funds:

**General Fund** – The General Fund is the Academy’s primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

**Debt Service Fund** – The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term obligation debt of governmental funds.

Additionally, the Academy reports the following fund type:

**Special Revenue Fund** – The Special Revenue Fund is used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The Academy’s Special Revenue Fund is the Food Service Fund. Any operating deficit generated by these activities is the responsibility of the General Fund.

**Assets, Liabilities, and Net Position**

**Cash and Investments** – Cash and investments include cash on hand and demand deposits.

**Receivables and Payables** – In general, outstanding balances between funds are reported as “due to/from other funds”. Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds”.

All trade 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 is recorded.

**Prepaid Expenses**– 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.

**Restricted Assets** –The restricted assets represent amounts held in the Debt Service Fund for future principal and interest payments.

**Detroit Academy of Arts and Science**  
**Notes to Financial Statements (Continued)**  
**June 30, 2017**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Capital Assets** – Capital assets, which include land, buildings, and equipment, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$750 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs 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.

Buildings, equipment, and furniture are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20 to 40 years
Furniture and other equipment	3 to 10 years

**Long-term Obligations** – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets (deficit).

**Net Position** – Net position represents the difference between assets, deferred outflows, liabilities and deferred inflows. Net position consists of the following:

*Net investment in capital assets* – Consists of historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.

*Restricted net position* – Consists of restricted assets less any accrued interest.

*Unrestricted net position* – Consists of all other assets that do not meet the definition of “restricted” or “Net investment in capital assets”.

**Detroit Academy of Arts and Sciences**  
**Notes to Financial Statements (Continued)**  
**June 30, 2017**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fund Balance** – The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

*Non-spendable:* Amounts that are not in spendable form or are legally or contractually required to be maintained intact.

*Restricted:* Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose.

*Unassigned:* The residual classification of the General Fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

**Revenue Recognition** – All grant and contract revenue is recognized to the extent earned.

**Comparative Data/Reclassifications** – Comparative data is not included in the Academy's financial statements.

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

**NOTE 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 and all special revenue funds.

The budget document presents information by fund and function. 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 function 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 districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner; the Academy amended the budget to reflect changes in funding from federal and state sources.

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.

**Detroit Academy of Arts and Sciences**  
**Notes to Financial Statements (Continued)**  
**June 30, 2017**

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**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)**

**Excess of Expenditures Over- Appropriations in Budgeted Funds** – During the year, the Academy incurred expenditures in the General Fund which were in excess of the amounts budgeted as detailed below.

General Fund	Final Budget	Actual	Over Budget
Basic programs	\$ 3,158,055	\$ 3,167,207	\$ 9,152
Pupil	478,257	480,174	1,917
Instructional	726,438	727,470	1,032
General administration	646,081	651,980	5,899
School administration	584,477	588,847	4,370
Business services	261,331	264,608	3,277
Operations and maintenance	1,390,132	1,394,559	4,427
Community activities	2,563	17,649	15,086

**NOTE 3 – DEPOSITS AND INVESTMENTS**

State statutes and the Academy’s investment policy authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Academy is allowed to invest in U.S. Treasury or agency obligations, U.S. government’s 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 has designated two 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 a bank failure, the Academy’s deposits may not be returned to it. The Academy’s investment policy does not have a deposit policy for custodial credit risk. At year end, the Academy’s deposit balance of \$289,327 was not fully insured by the FDIC. The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it will not always be practical to insure all deposits. The Academy evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Detroit Academy of Arts and Sciences**  
**Notes to Financial Statements (Continued)**  
**June 30, 2017**

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**NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**Custodial Credit Risk of Investments** – Custodial credit risk 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’s policy for custodial credit risk states custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law, and by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the Academy will do business using the criteria established in the investment policy.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Academy’s investment policy does not decrease as a result of a rise in interest rates. The Academy’s investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. The Academy’s policy minimizes interest rate risk by requiring the 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 to the top two ratings issued by nationally recognized statistical rating organizations. The Academy’s investment policy does not further limit its investment choices.

**Fair Value Measurement**– The Academy categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Academy has the following recurring fair value measurements as of June 30, 2017: Level 1 inputs – Mutual Funds of \$1.3 million valued using quoted market prices.

**Detroit Academy of Arts and Sciences**  
**Notes to Financial Statements (Continued)**  
**June 30, 2017**

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**NOTE 4 – RECEIVABLES**

Receivables as of year-end were as follows:

State of Michigan	\$	1,609,813
Federal		193,595
Other		113,549
	\$	<u>1,916,957</u>

All receivables were deemed collectible as of June 30, 2017.

**NOTE 5 – CAPITAL ASSETS**

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

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017
Land	\$ 440,420	\$ -	\$ -	\$ 440,420
Buildings and improvements	13,119,140	-	-	13,119,140
Furniture and equipment	<u>2,506,593</u>	<u>229,837</u>	-	<u>2,736,430</u>
Subtotal	16,066,153	229,837	-	16,295,990
Accumulated depreciation				
Buildings and improvements	5,571,445	332,724	-	5,904,169
Furniture and equipment	<u>2,362,563</u>	<u>134,788</u>	-	<u>2,497,351</u>
Subtotal	<u>7,934,008</u>	<u>467,512</u>	-	<u>8,401,520</u>
Net Capital Assets	<u>\$ 8,132,145</u>	<u>\$ (237,675)</u>	<u>\$ -</u>	<u>\$ 7,894,470</u>

Certain items were budgeted as purchased services but were capital outlay in nature. These items have been capitalized in the above capital assets schedule.

Depreciation expense for the fiscal year ended June 30, 2017 was \$467,512. Depreciation expense was not charged to activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

**Detroit Academy of Arts and Sciences**  
**Notes to Financial Statements (Continued)**  
**June 30, 2017**

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**NOTE 6 – OPEARTING LEASES**

The Academy leases the South Building under a three year lease agreement that expires June 30, 2019. The following is a schedule of future minimum rental payments for the years ending June 30. The Academy had lease expense of \$162,000.

June 30, 2018	\$	154,500
June, 30, 2019		159,135
	\$	<u>313,635</u>

**NOTE 7 – INTER-FUND RECEIVABLES, PAYABLES AND TRANSFERS**

Inter-fund balances between the General and Debt Service Funds relate to the accrued July state aid payment restricted for debt service, which is transferred from the General Fund to the Debt Service Fund upon receipt of the payment each month.

**NOTE 8 – NOTES PAYABLE**

The Academy participated in the State Aid Borrowing Program and borrowed \$1,100,000 at an interest rate of 3.3 percent. The borrow was utilized for working capital. Interest paid was \$25,969.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
State Aid Borrowing	<u>\$ 179,681</u>	<u>\$ 1,100,000</u>	<u>\$ 1,076,701</u>	<u>\$ 202,980</u>

**NOTE 9 – LONG-TERM CONTRACTUAL OBLIGATIONS**

The Academy issued serial bonds through the Michigan Municipal Bond Authority to restructure the 2001 Bond Series with Series 2013 Bonds in the amount of \$14,880,000. The Academy’s bond holders agreed to refund by virtue of an exchange all of the outstanding 2001 series bond in the amount of \$25,400,000.

The Academy’s contractual obligations consist of a \$14,880,000 financing obligation in annual installments of \$190,000 to \$1,020,000 through October 31, 2044, at an interest rate at 6.0 percent.

Long-term contractual obligations can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
2013 Series Bonds, Refunding	<u>\$ 14,490,000</u>	<u>\$ -</u>	<u>\$ 210,000</u>	<u>\$ 14,280,000</u>	<u>\$ 225,000</u>

**Detroit Academy of Arts and Sciences**  
**Notes to Financial Statements (Continued)**  
**June 30, 2017**

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**NOTE 10 – DEFINED PENSION PLAN**

The Academy did not participate in the Michigan Public School Employees' Retirement System (MPSERS). The Academy's employees are leased from Academy Management Company. Therefore, no pension plan disclosure is deemed necessary.

**NOTE 11 – LEASED EMPLOYEES**

The Academy leases substantially its entire staff from Academy Management Company (AMC). AMC is responsible for providing personnel to the Academy and the Academy shall reimburse AMC for its payment of all such compensation as approved by the Board and provided for in the budget.

**NOTE 12 – RISK MANAGEMENT**

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The risk of employee injuries and medical benefits for employees of the management company is covered by insurance held by the employee leasing company. The Academy has purchased commercial insurance for all other claims.

**NOTE 13 – CONTINGENCIES**

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds.

**NOTE 14 – SUBSEQUENT EVENTS**

On August 20, 2017, the Academy participated in the State Aid Borrowing Program and borrowed \$1,200,000 at a rate of 3.75 percent.

Subsequent events have been evaluated through October 10, 2017, which is the date the financial statements were available to be issued. Events occurring after the date have not been evaluated to determine whether a change in the financial statements would be required.  
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## **Required Supplemental Information**

**Detroit Academy of Arts and Sciences  
Required Supplemental Information  
Budgetary Comparison Schedule – General Fund  
Year Ended June 30, 2017**

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Revenue</b>				
Local sources	\$ 182,700	\$ 189,000	\$ 217,532	\$ 28,532
State sources	8,720,136	8,878,850	8,878,846	(4)
Federal sources	1,250,761	1,255,573	1,293,262	37,689
<b>Total revenue</b>	<b>10,153,597</b>	<b>10,323,423</b>	<b>10,389,640</b>	<b>66,217</b>
<b>Expenditures</b>				
Current				
Instruction:				
Basic programs	3,242,882	3,158,055	3,167,207	9,152
Added needs	902,313	861,244	860,089	(1,155)
<b>Total instruction</b>	<b>4,145,195</b>	<b>4,019,299</b>	<b>4,027,296</b>	<b>7,997</b>
Support services:				
Pupil	513,370	478,257	480,174	1,917
Instructional	475,203	726,438	727,470	1,032
General administration	646,640	646,081	651,980	5,899
School administration	561,021	584,477	588,847	4,370
Business services	209,036	261,331	264,608	3,277
Operation and maintenance	1,364,081	1,390,132	1,394,559	4,427
Pupil transportation services	795,545	748,750	747,907	(843)
Central services	181,516	215,459	215,392	(67)
<b>Total support services</b>	<b>4,746,412</b>	<b>5,050,925</b>	<b>5,070,937</b>	<b>20,012</b>
Community activities	11,563	2,563	17,649	15,086
<b>Total expenditures</b>	<b>8,903,170</b>	<b>9,072,787</b>	<b>9,115,882</b>	<b>43,095</b>
<b>Other Financing Sources (Uses)</b>				
Transfers Out	1,132,279	1,134,594	1,134,594	-
<b>Total Expenditures</b>	<b>10,035,449</b>	<b>10,207,381</b>	<b>10,250,476</b>	<b>43,095</b>
<b>Net Change in Fund Balance</b>	<b>118,148</b>	<b>116,042</b>	<b>139,164</b>	<b>23,122</b>
<b>Fund Balance - July 1, 2016</b>	<b>899,308</b>	<b>899,308</b>	<b>899,308</b>	<b>-</b>
<b>Fund Balance - June 30, 2017</b>	<b>\$ 1,017,456</b>	<b>\$ 1,015,350</b>	<b>\$ 1,038,472</b>	<b>\$ 23,122</b>

## **Other Supplemental Information**

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**Detroit Academy of Arts and Sciences  
Other Supplemental Information  
Schedule of Bonded Indebtedness  
Year Ended June 30, 2017**

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	2013 Series Bond		Total
	Principal	Interest	
2018	225,000	850,050	1,075,050
2019	240,000	836,100	1,076,100
2020	250,000	821,400	1,071,400
2021	265,000	805,950	1,070,950
2022	285,000	789,450	1,074,450
2023	300,000	771,900	1,071,900
2024	320,000	753,300	1,073,300
2025	335,000	733,650	1,068,650
2026	355,000	712,950	1,067,950
2027	380,000	690,900	1,070,900
2028	400,000	667,500	1,067,500
2029	425,000	642,750	1,067,750
2030	450,000	616,500	1,066,500
2031	480,000	588,600	1,068,600
2032	505,000	559,050	1,064,050
2033	535,000	527,850	1,062,850
2034	570,000	494,700	1,064,700
2035	605,000	459,450	1,064,450
2036	640,000	422,100	1,062,100
2037	680,000	382,500	1,062,500
2038	720,000	340,500	1,060,500
2039	760,000	296,100	1,056,100
2040	810,000	249,000	1,059,000
2041	855,000	199,050	1,054,050
2042	910,000	146,100	1,056,100
2043	960,000	90,000	1,050,000
2044	1,020,000	30,600	1,050,600
Total	<u>\$ 14,280,000</u>	<u>\$ 14,478,000</u>	<u>\$ 28,758,000</u>

Principal payments due	October 1
Interest payments due	Oct 1/Apr 1
Interest rate	6.00%
Original issue	<u>\$ 14,880,000</u>

## **Additional Required Supplementary Information**



THE CLAIRMOUNT GROUP, PLC  
Certified Public Accountants

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

**Independent Auditor's Report**

To the Board of Directors of  
Detroit Academy of Arts and Sciences

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Detroit Academy of Arts and Sciences, for the year ended June 30, 2017, 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 10, 2017.

**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 statements, 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 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 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.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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.

## ***The Clairmount Group, PLC***

The Clairmount Group, PLC  
Detroit, MI  
October 10, 2017



THE CLAIRMOUNT GROUP, PLC  
Certified Public Accountants

## **Report on Compliance for Each Major Program and on Internal Control over Compliance Required by Uniform Guidance**

### **Independent Auditor's Report**

To the Board of Directors of  
Detroit Academy of Arts and Sciences

#### **Report on Compliance for Each Major Federal Program**

We have audited Detroit Academy of Arts and Sciences (the "Academy") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Academy's major federal programs for the year ended June 30, 2017. The Academy's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Academy's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirement, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Academy's compliance.

#### **Opinion on Each Major Federal Program**

In our opinion, Detroit Academy of Arts and Sciences complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

#### **Other Matters**

The results of our auditing procedures disclosed no instances of noncompliance, which are required to be reported in accordance with the Uniform Code.

## **Report on Internal Control Over Compliance**

Management of the Academy is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Academy's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

## ***The Clairmount Group, PLC***

The Clairmount Group, PLC  
Detroit, Michigan  
October 10, 2017

**Detroit Academy of Arts and Sciences  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2017**

Program Title/Project Number Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue at July 1, 2016	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2017
Clusters:								
<b>U.S. Department of Agriculture</b>								
Passed through the Michigan Department of Education								
Non-Cash Assistance (Commodities):								
Entitlement commodities - 2016-2017	10.550	\$ 35,834	\$ 992	\$ -	\$ -	\$ 35,567	\$ 35,567	\$ -
Cash Assistance:								
National School Breakfast Program:	10.553							
Project Number 161970		235,349	-	-	-	28,087	28,087	-
Project Number 171970		254,459	235,349	-	-	206,440	226,372	19,932
Total School Breakfast Program		489,808	-	-	-	234,527	254,459	19,932
National School Lunch Program:	10.555							
Project Number 161960		421,857		-	-	50,589	50,589	-
Project Number 171960		464,895	421,857	-	-	376,967	414,305	37,338
Total School Lunch Program		886,752	421,857	-	-	427,556	464,894	37,338
Total U.S. Department of Agriculture		1,412,395	422,849	-	-	697,650	754,920	57,270
<b>U.S. Department of Education:</b>								
Passed through the Wayne County ISD:								
I.D.E.A. Flow through								
Project number 15160050450		158,886	-	42,906	-	42,906	-	-
Project number 16170050450		166,128	158,886	-	-	136,985	166,128	29,143
Total Passed through Wayne County ISD		325,014	158,886	42,906	-	179,891	166,128	29,143
Passed through the Michigan Department of Education:								
Title I, Part A - Improving Basic Program								
Project number 161550	84.010	1,215,088	918,256	150,264		218,921	68,657	-
Project number 171550		1,022,595	1,204,954	-	-	882,093	986,532	104,439
Total Title I, Part A		2,237,683	2,123,210	150,264	-	1,101,014	1,055,189	104,439
Title II, Part A - Teacher/Principal Training								
Project number 160520	84.367	72,633	72,054	1,706	-	3,693	1,987	-
Project number 170520		69,957	70,676	-	-	67,217	69,957	2,740
Total Title II, Part A		142,590	142,730	1,706	-	70,910	71,944	2,740
Total Passed through the Michigan Department of Education		2,380,273	2,265,940	151,970	-	1,171,924	1,127,133	107,179
<b>Total Expenditures of Federal Awards</b>		<u>\$ 4,117,682</u>	<u>\$ 2,847,675</u>	<u>\$ 194,876</u>	<u>\$ -</u>	<u>\$ 2,049,465</u>	<u>\$ 2,048,181</u>	<u>\$ 193,592</u>

**Detroit Academy of Arts and Sciences**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2017**

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**Note 1 – Basis of Presentation and Significant Accounting Policies**

The accompanying schedule of federal awards (the “Schedule”) includes the federal grant activity of Detroit Academy of Arts and Sciences under programs of the federal government for the year ended June 30, 2017. Expenditures reported on the Schedule are reported on the same basis of accounting as the general purpose financial statements. The information in the schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Therefore some amounts presented in the schedule may differ from amounts presented in, or used in preparation of the general purpose financial statements.

Because the Schedule presents only a selected portion of the operations of Detroit Academy of Arts and Sciences, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows, if applicable, of Detroit Academy of Arts and Sciences. Pass-through entity identifying numbers are presented where available.

**Note 2 – Grant Auditor’s Report**

Management has utilized the Cash Management System (CMS) Grant Auditor’s Report in preparing the schedule of expenditure of federal awards. There were exceptions due to timing of cash receipts as shown below.

	<u>Title I</u>	<u>Title II</u>	<u>Total</u>
Cash received per the Grant Auditor’s Report	\$1,008,199	\$ 69,185	\$1,077,384
Cash received after June 30, 2016	<u>92,815</u>	<u>1,725</u>	<u>\$ 94,540</u>
Cash received per the Schedule of Expenditures of Federal Awards	<u>\$1,101,014</u>	<u>\$ 70,910</u>	<u>\$1,171,924</u>

**Note 3 – Noncash Assistance**

The value of the noncash assistance received was determined in accordance with the provisions of Uniform Guidance.

**Detroit Academy of Arts and Sciences  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2017**

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**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes X No

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes X No

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified? \_\_\_\_\_ Yes X No

Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes X No

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? \_\_\_\_\_ Yes X No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster:
84.01	Title I, Part A - Improving Basic Programs

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ X Yes \_\_\_\_\_ No

**Detroit Academy of Arts and Sciences  
Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2017**

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**Section II – Financial Statement Findings**

There were none

**Section III – Federal Award Findings and Questioned Costs**

There were none.

**Section IV - Summary Schedule of Prior Audit Findings**

There were none.