RECEIVED
By Gloria Suggitt at 9:00 am, Oct 30, 2019

MACDOWELL PREPARATORY ACADEMY

FINANCIAL REPORT
WITH
SUPPLEMENTAL INFORMATION

JUNE 30, 2019

Contents

A C Y

Alan C. Young & Associates, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

7310 Woodward Ave, Suite 740
Detroit, MI 48202

(313) 873-7500 (Tel.)
(313) 873-7502 (Fax)
www.alancyoung.com

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 major fund of MacDowell Preparatory Academy (the Academy) as of and for the year ended June 30, 2019, 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 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 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.

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 major fund of the Academy as of June 30, 2019 and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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 September 18, 2019 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 & Asso.

Detroit, Michigan
September 18, 2019

As management of MacDowell Preparatory Academy (the "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, 2019 and 2018.

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, 2019, the Academy's fund balance was $739,191 as compared to $573,959 at June 30, 2018.

- As of June 30, 2019, the Academy had net position of $875,680 as compared to $687,528 at June 30, 2018.

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) academy-wide basic financial statements, 2) fund basic financial statements, and 3) notes to the basic financial statements.

Academy-Wide Financial Statements

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

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 balance. 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Academy's net position was $875,680 at June 30, 2019. This amount represents net investment in capital assets of $136,489 and unrestricted net position of $739,191.The Academy's net position was $687,528 at June 30, 2018 and of this amount $113,569 represented net investment in capital assets and $573,959 represents unrestricted net position.

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

	June 30, 2019	June 30, 2018
Assets		
Current Assets	$ 1,314,149	$ 1,205,618
Capital Assets, Net of Depreciation	136,489	113,569
Total Assets	1,450,638	1,319,187
Liabilities		
Current Liabilities	574,958	631,659
Total Liabilities	574,958	631,659
Net Position		
Net Investment in Capital Assets	136,489	113,569
Unrestricted	739,191	573,959
Total Net Position	$ 875,680	$ 687,528

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

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, 2019 and 2018:

	2019	2018
Revenue		
General Revenues	$ 2,837,683	$ 2,533,360
Program Revenues	726,919	723,834
Total Revenues	3,564,602	3,257,194
Functions/Program Expenses		
Instruction	1,289,563	1,168,901
Instruction Support Services	2,086,887	2,019,345
Total Expenses	3,376,450	3,188,246
Change in Net Position	188,152	68,948
Net Position - Beginning of Year	687,528	618,580
Net Position - End of the Year	$ 875,680	$ 687,528

GOVERNMENTAL FUND EXPENDITURES

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

	2019		2018	
Functions/Programs	**Expenditure**	**Percent**	**Expenditure**	**Percent**
Governmental Expenditures				
Instructional Expenditures	$ 1,293,713	38%	$ 1,188,907	38%
Support Services	2,105,657	62%	1,959,437	62%
Total Governmental Expenditures	$ 3,399,370	100%	$ 3,148,344	100%

Comments on Budget Comparisons

- General fund budgeted revenue compared to actual revenue varied from line item to line item with the ending actual revenues being $194,439 less than budget or approximately 5%.
- The total budgeted expenses compared to actual expenses varied from line item to line item with the ending actual expenses being $299,251 less than budget or approximately 8%.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2019, the Academy had capital assets of $136,489, net of accumulated depreciation, including building and improvements, furniture and equipment and IT equipment and software compared to $113,569 at June 30, 2018.

Debt

At June 30, 2019 and 2018, 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 2019-2020 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 2019-20 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 2019 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, 2019

		Governmental Activities
ASSETS		
Cash and Cash Equivalents (Note 3)	$	641,304
Due From Other Governmental Units (Note 4)		640,014
Inventory		4,434
Deposits		112
Prepaid Expenses		28,285
Capital Assets, Net of Accumulated Depreciation (Note 5)		136,489
Total Assets		1,450,638
LIABILITIES		
Accounts Payable		99,768
Accrued Liabilities		238,347
State Aid Anticipation Note (Note 9)		102,547
Unearned Revenue (Note 1)		134,296
Total Liabilities		574,958
NET POSITION		
Net Investment in Capital Assets		136,489
Unrestricted		739,191
Total Net Position	$	875,680

The accompanying notes are an integral part of these financial statements

Statement of Activities
Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Governmental Activities: Net (Expenses) Revenues and Changes in Net Position
Governmental Activities				
Basic Instruction	$ 1,050,716	$ -	$ 433,425	$ (617,291)
Instruction - Added Needs	238,847	-	98,525	(140,322)
Supporting Services				
Pupil Support	253,861	-	-	(253,861)
Instructional Staff	222,935	-	91,962	(130,973)
General Administration	132,798	-	-	(132,798)
School Administration	249,710	-	103,007	(146,703)
Business Services	415,564	-	-	(415,564)
Operations and Maintenance	444,555	-	-	(444,555)
Central Services	156,734	-	-	(156,734)
Depreciation Expenses (Unallocated)	41,186	-	-	(41,186)
Transportation	167,180	-	-	(167,180)
Community Services	2,364	-	-	(2,364)
Total Governmental Activities	3,376,450	-	726,919	(2,649,531)
		General Revenues		
		State Aid - Formula Grants		2,817,346
		Other Revenue		20,337
		Total General Revenues		2,837,683
		Change in Net Position		188,152
		Net Position - July 1, 2018		687,528
		Net Position - June 30, 2019		$ 875,680

The accompanying notes are an integral part of these financial statements

Governmental Funds
Balance Sheet
June 30, 2019

		General Fund
ASSETS		
Cash and Cash Equivalents (Note 3)	$	641,304
Due From Other Governmental Units (Note 4)		640,014
Inventory		4,434
Deposits		112
Prepaid Expense		28,285
Total Assets	$	1,314,149
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts Payable	$	99,768
Accrued Expenditure		238,347
State Aid Anticipation Note (Note 9)		102,547
Unearned Revenue (Note 1)		134,296
Total Liabilities		574,958
Fund Balance		
Nonspendable		32,719
Unassigned		706,472
Total Fund Balance		739,191
Total Liabilities and Fund Balance	$	1,314,149

The accompanying notes are an integral part of these financial statements

Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Position
June 30, 2019

Total Fund Balances - Governmental Funds		$ 739,191
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	388,902	
Accumulated depreciation	(252,413)	136,489
Total Net Position - Governmental Activities		$ 875,680

The accompanying notes are an integral part of these financial statements

Statement of Revenue, Expenditures and Changes in Fund Balance
Year Ended June 30, 2019

	General Fund
REVENUE	
Federal Sources	$ 381,730
State Sources	3,182,357
Local Sources	515
Total Revenue	3,564,602
EXPENDITURES	
Basic Instruction	1,054,866
Instruction - Added Needs	238,847
Supporting Services:	
Pupil Support Services	253,861
Instructional Staff Services	222,935
General Administration Services	132,798
School Administration Services	249,710
Business Services	415,564
Operations and Maintenance	444,555
Central Services	156,734
Transportation	167,180
Building Improvements	59,956
Community Services	2,364
Total Expenditures	3,399,370
Net Change in Fund Balance	165,232
Fund Balance - July 1, 2018	573,959
Fund Balance - June 30, 2019	$ 739,191

The accompanying notes are an integral part of these financial statements

Reconciliation of the Governmental Funds Statement of Revenue, Expenditures and Changes in Fund Balance to the Statement of Activities
Year Ended June 30, 2019

Net Change in Fund Balances - Total Governmental Funds		$ 165,232
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	(41,186)	
Capitalized capital outlay expense	64,106	22,920
Change in Net Position - Governmental Activities		$ 188,152

The accompanying notes are an integral part of these financial statements

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of MacDowell Preparatory Academy (the 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 Detroit Public Schools Community District (DPSCD) to Charter a Public School Academy. The Academy renewed its contract with DPSCD on July 1, 2017, through June 30, 2022. The DPSCD 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 DPSCD and the Academy, the Academy pays the DPSCD Board of Trustees 3 percent of the Academy’s State School Aid payments as an administrative fee. The total administrative fee paid for the year ended June 30, 2019 to DPSCD was approximately $87,000.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Academy-Wide and Fund Financial Statements

The academy-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.

Academy-Wide Financial Statements – The academy-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.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Academy-Wide Financial Statements – (Continued) 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 Position 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.

Prepaid Costs – 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.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position or Equity (Continued)

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 financial statements 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 periods(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, 2019.

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, 2019.

Unearned Revenue – Unearned Revenue is reported in connection with funds that have been received for services which have not been performed, and is therefore not yet earned. At June 30, 2019, the Academy had $134,296 of unearned revenue for at risk funds not yet utilized.

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 2019, and no such funding was made for the year.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position or Equity (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 Academy had no liability for compensated absences at June 30, 2019.

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.

Net Position – Net position of the Academy is classified in three components. Net Investment in capital assets consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase of those assets. Restricted net position is further classified as expendable and nonexpendable. The Academy did not have any expendable restricted net position during the year. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

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.

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.

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, 2019.

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, 2019, the Academy does not have any investments.

The Academy has designated one bank 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:

3) DEPOSITS AND INVESTMENTS (Continued)

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 $723,935, out of which $473,935 was not covered by federal depository insurance.

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, 2019.

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 and Academy's policy prohibit investment in foreign currency.

4) DUE FROM OTHER GOVERNMENTAL UNITS

Receivables from other governmental units as of year-end for the Academy include $572,447 from the State of Michigan and $67,567 from Federal grants.

5) CAPITAL ASSETS

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

	Balance July 1, 2018	Additions	Disposals	Balance June 30, 2019
Capital Assets Being Depreciated:				
Buildings & Improvements	$ 48,520	$ 51,656	$ -	$ 100,176
IT Equipment	239,074	12,450	-	251,524
Furniture and Equipment	37,202	-	-	37,202
Subtotal	324,796	64,106	-	388,902
Accumulated Depreciation:				
Buildings & Improvements	42,023	1,498	-	43,521
IT Equipment	149,714	35,626	-	185,340
Furniture and Equipment	19,490	4,062	-	23,552
Subtotal	211,227	41,186	-	252,413
Net Governmental Capital Assets	$ 113,569	$ 22,920	$ -	$ 136,489

Total depreciation expense was $41,186 for the year ended June 30, 2019. Depreciation is unallocated in the Statement of Activities.

6) MANAGEMENT COMPANY AGREEMENT

The Academy has entered into a contract with American Promise Schools effective July 1, 2017 through June 30, 2022. Under the direction of the Academy's Board, American Promise Schools 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 management contract provides that the Academy shall pay American Promise Schools an annual fee of 10.5% of the State school aid the Academy receives from the State of Michigan less the administrative fees paid to DPSCD.

Compensation for the year ended June 30, 2019 was $320,735.

7) OPERATING LEASES

The Academy leases its School building from the DPSCD. The lease was entered into on July 1, 2017 and expires on June 30, 2022. The lease is cancelable in the event of the charter contract between the Academy and DPSCD being terminated. The Annual rent for the year 2018-2019 was calculated as 5 percent of total state aid revenue received by the Academy. Rent expense for the year was $157,000. Additionally, the Academy leases copy machines under a non-cancelable operating lease expiring August, 2021. Copier lease expense for the year was $6,732. The expected future minimum lease payments based on these lease terms are as follows:

Year	Amount
2020	$ 6,732
2021	6,732
2022	1,122
Total	**$ 14,586**

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.

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

9) STATE AID ANTICIPATION NOTE

In September 2018, the Academy borrowed $575,000 at 5.3 percent annual interest on a state aid anticipation note. Proceeds from the note were used to fund school operations. The unpaid balance totals $102,547 at June 30, 2019. The note was fully paid subsequent to year end.

10) SUBSEQUENT EVENTS

The Academy has evaluated all subsequent events through September 18, 2019, the date the financial statements were available to be issued. On September 5, 2019, the Academy entered into an agreement with the Michigan Finance Authority to borrow $306,000 at 3.65 percent annual interest on a state aid anticipation note. The note is due in monthly installments, including interest, of $28,366 from October 21, 2019 through August 20, 2020.

Alan C. Young & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

7310 Woodward Ave, Suite 740
Detroit, MI 48202

(313) 873-7500 (Tel.)
(313) 873-7502 (Fax)
www.alancyoung.com

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, Michigan

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, 2019, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated September 18, 2019.

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 or significant deficiencies. However, material weaknesses or significant deficiencies may exist that have not been identified.

<u>Compliance and Other Matters</u>

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.*

<u>Purpose of this Report</u>

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 Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Alan C. Young & Asso.

Detroit, Michigan
September 18, 2019

REQUIRED SUPPLEMENTAL INFORMATION

MACDOWELL PREPARATORY ACADEMY

Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Federal Sources	$ 399,128	$ 438,669	$ 381,730	$ (56,939)
State Sources	3,200,831	3,317,871	3,182,357	(135,514)
Local Sources	2,500	2,500	515	(1,985)
Other Financing Sources	540,000	-	-	-
Total Revenue	4,142,459	3,759,040	3,564,602	(194,438)
Expenditures				
Instructional Services				
Basic Programs	1,070,936	1,153,624	1,054,866	(98,758)
Added Needs	343,092	294,093	238,847	(55,246)
Supporting Services:				
Pupil Support Services	325,032	290,682	253,861	(36,821)
Instructional Staff Services	287,183	241,381	222,935	(18,446)
General Administration Services	140,804	139,174	132,798	(6,376)
School Administration Services	288,387	282,065	249,710	(32,355)
Business Services	442,182	419,297	415,564	(3,733)
Operation and Maintenance	276,915	457,483	444,555	(12,928)
Other Central Support	166,387	170,387	156,734	(13,653)
Pupil Transportation Services	144,000	180,234	167,180	(13,054)
Debt Services	57,342	-	-	-
Community Services	9,800	9,800	2,364	(7,436)
Facilities Acquisition, Construction, and Improvements	725,000	60,000	59,956	(44)
Welfare Activities	400	400	-	(400)
Total Expenditure	4,277,460	3,698,620	3,399,370	(299,250)
Net Change in Fund Balance	(135,001)	60,420	165,232	104,812
Fund Balance - July 1, 2018	573,959	573,959	573,959	-
Fund Balance - June 30, 2019	$ 438,958	$ 634,379	$ 739,191	$ 104,812

MACDOWELL PREPARATORY ACADEMY

AUDIT COMMUNICATION LETTER

JUNE 30, 2019

Alan C. Young & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

7310 Woodward Ave, Suite 740
Detroit, MI 48202

(313) 873-7500 (Tel.)
(313) 873-7502 (Fax)
www.alancyoung.com

September 18, 2019

To the Board of Directors
MacDowell Preparatory Academy
Detroit, Michigan

We have recently completed our audit of the financial statements of MacDowell Preparatory Academy (the Academy) for the year ended June 30, 2019. In addition to our audit report, we are providing the following required communication and recommendations, which impact the Academy.

We are grateful for the opportunity to be of service to the Academy. Should you have any questions regarding the comments in this report, please do not hesitate to contact us.

Very truly yours,

Alan C. Young & Asso.

Alan C. Young & Associates, P.C.
Detroit, Michigan

Alan C. Young & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

7310 Woodward Ave, Suite 740
Detroit, MI 48202

(313) 873-7500 (Tel.)
(313) 873-7502 (Fax)
www.alancyoung.com

RESULTS OF AUDIT

September 18, 2019

Board of Directors
MacDowell Preparatory Academy
Detroit, Michigan

We have audited the financial statements of the governmental activities and major fund of MacDowell Preparatory Academy (the Academy) for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, and *Government Auditing Standards* as well as certain information related to the scope and timing of our audit. We have communicated such information in our letter to you dated June 19, 2019. Professional standards also require that we communicate to you the following information related to our audit.

<u>Our Responsibility under U.S. Generally Accepted Auditing Standards</u>

As stated in our engagement letter dated June 19, 2019, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the Management Discussion & Analysis, and the Budgetary Comparison Schedule, which supplement the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

<u>Scope and Timing of the Audit</u>

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions examined and the areas tested.

Scope and Timing of the Audit (Continued)

Our audit included obtaining an understanding of the Academy and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the Academy.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Academy are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Academy during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. No such sensitive estimates were noted.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit. We would like to commend management and staff on the assistance provided to us during the audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Any such misstatement has been recorded and corrected by management.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Results of Audit
(Continued)

Significant Audit Findings (Continued)

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 18, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Academy's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Academy's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management discussion & analysis, and the budgetary comparison schedule, which are the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the information and use of the Board of Directors and management of the Academy and is not intended to be, and should not be, used by anyone other than these specified parties.

Alan C. Young & Asso.

Detroit, Michigan
September 18, 2019

INFORMATIONAL ITEMS

State Aid Funding

State of Michigan funding for public schools continued to focus on several recurring themes and some new ones for the fiscal year ended June 30, 2019: limited increases in the foundation allowance, additional funding boosts for Michigan schools at the minimum foundation, continued student count blending formula, and additional resources dedicated to assisting with funding school district retirement/postretirement healthcare obligation (MPSERS), including implications from changes in plan assumptions and costs incurred from changes to retirement system programs. For the 2018-2019 fiscal year, the base foundation increased by $120, from $8,289 to $8,409. The State continued its use of the “2X” formula, providing Michigan schools at the minimum foundation with an increase of $240 per pupil to $7,871. The Academy’s foundation allowance was increased from $7,631 to $7,871.