

**MACDOWELL PREPARATORY ACADEMY**

**FINANCIAL REPORT  
WITH  
SUPPLEMENTAL INFORMATION**

**JUNE 30, 2020**

# MACDOWELL PREPARATORY ACADEMY

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## INDEPENDENT AUDITOR'S REPORT

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

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

We have audited the accompanying financial statements of the governmental activities, major fund and remaining fund information of MacDowell Preparatory Academy (the Academy) as of and for the year ended June 30, 2020, 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.

## **Independent Auditor's Report (Continued)**

### **Auditor's Responsibility (Continued)**

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, major fund and remaining fund information of the Academy as of June 30, 2020 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.

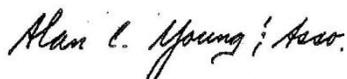
### **Other Matters**

#### ***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 October 21, 2020 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.



Detroit, Michigan  
October 21, 2020

# **MACDOWELL PREPARATORY ACADEMY**

## **Management's Discussion and Analysis (MD&A) June 30, 2020**

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, 2020 and 2019.

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, 2020, the Academy's fund balance was \$951,592 as compared to \$739,191 at June 30, 2019.
- As of June 30, 2020, the Academy had net position of \$1,049,045 as compared to \$875,680 at June 30, 2019.

### **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.

# **MACDOWELL PREPARATORY ACADEMY**

## **Management's Discussion and Analysis (MD&A) (Continued)**

**June 30, 2020**

### **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 primary fund. The Academy also has a school service fund that accounts for the Academy's food service operations.

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 actual revenues and expenditures 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 15 of this report.

# MACDOWELL PREPARATORY ACADEMY

## Management's Discussion and Analysis (MD&A) (Continued) June 30, 2020

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Academy's net position was \$1,049,045 at June 30, 2020. This amount represents net investment in capital assets of \$97,453, restricted net position of \$3,449 and unrestricted net position of \$948,143. The Academy's net position was \$875,680 at June 30, 2019 and of this amount \$136,489 represented net investment in capital assets and \$739,191 represents unrestricted net position.

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

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
<b>Assets</b>		
Current Assets	\$ 1,413,927	\$ 1,314,149
Capital Assets, Net of Depreciation	97,453	136,489
<b>Total Assets</b>	<u>1,511,380</u>	<u>1,450,638</u>
<b>Liabilities</b>		
Current Liabilities	462,335	574,958
<b>Total Liabilities</b>	<u>462,335</u>	<u>574,958</u>
<b>Net Position</b>		
Net Investment in Capital Assets	97,453	136,489
Restricted	3,449	-
Unrestricted	948,143	739,191
<b>Total Net Position</b>	<u>\$ 1,049,045</u>	<u>\$ 875,680</u>

# MACDOWELL PREPARATORY ACADEMY

Management's Discussion and Analysis (MD&A) (Continued)  
June 30, 2020

## 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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
<b>Revenue</b>		
General Revenues	\$ 2,996,001	\$ 2,837,683
Program Revenues	1,013,206	726,919
<b>Total Revenues</b>	<u>4,009,207</u>	<u>3,564,602</u>
<b>Functions/Program Expenses</b>		
Instruction	1,400,079	1,289,563
Instruction Support Services	2,193,581	2,086,887
Food Services	242,182	-
<b>Total Expenses</b>	<u>3,835,842</u>	<u>3,376,450</u>
<b>Change in Net Position</b>	173,365	188,152
<b>Net Position - Beginning of Year</b>	<u>875,680</u>	<u>687,528</u>
<b>Net Position - End of the Year</b>	<u>\$ 1,049,045</u>	<u>\$ 875,680</u>

## GOVERNMENTAL FUND EXPENDITURES

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

<u>Functions/Programs</u>	<u>2020</u>		<u>2019</u>	
	<u>Expenditure</u>	<u>Percent</u>	<u>Expenditure</u>	<u>Percent</u>
<b>Governmental Expenditures</b>				
Instructional Expenditures	\$ 1,403,383	37%	\$ 1,293,713	38%
Support Services	2,151,241	57%	2,105,657	62%
Food Services	242,182	6%	-	0%
<b>Total Governmental Expenditures</b>	<u>\$ 3,796,806</u>	<u>100%</u>	<u>\$ 3,399,370</u>	<u>100%</u>

### 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 \$152,618 less than budget or approximately 4%.
- The total budgeted expenses compared to actual expenses varied from line item to line item with the ending actual expenses being \$325,459 less than budget or approximately 8%.

# **MACDOWELL PREPARATORY ACADEMY**

**Management's Discussion and Analysis (MD&A) (Continued)**  
**June 30, 2020**

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### ***Capital Assets***

At June 30, 2020, the Academy had capital assets of \$97,453, net of accumulated depreciation, including building and improvements, furniture and equipment and IT equipment and software compared to \$136,489 at June 30, 2019.

### ***Debt***

At June 30, 2020 and 2019, 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 2020-2021 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 2020-21 fiscal years is based on a super blend, which consists of 75 percent of fiscal year 2020 (90 percent and 10 percent of the October 2019 and February 2019 students, respectively) and 25 percent of fiscal year 2021 (90 percent and 10 percent of the October 2020 and February 2020 student counts, respectively). The all-inclusive budget was adopted in June 2020 based on an enrollment estimate of 389 students in the Fall of 2020-21.

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. Based on early enrollment data and aggressive recruiting efforts, the estimated fall count of 369 students is in line with the estimate used to create the budget.

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.

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 revenues to fund its revenues. Based on the results of the most recent conference, the State estimates funds will be sufficient to fund the appropriation. However, due to the uncertainty surrounding COVID-19, it remains to be determined whether these funds will continue to be allocated to the State School Aid Fund, or whether resources will be diverted elsewhere in order to support the many areas impacted by COVID-19.

## **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, 2020

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and Cash Equivalents (Note 3)	\$ 751,740
Due From Other Governmental Units (Note 4)	650,772
Inventory	11,303
Deposits	112
Capital Assets, Net of Accumulated Depreciation (Note 5)	<u>97,453</u>
<b>Total Assets</b>	<u>1,511,380</u>
<b>LIABILITIES</b>	
Accounts Payable	83,921
Accrued Liabilities	257,256
State Aid Anticipation Note (Note 9)	54,896
Unearned Revenue (Note 1)	<u>66,262</u>
<b>Total Liabilities</b>	<u>462,335</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	97,453
Restricted	3,449
Unrestricted	<u>948,143</u>
<b>Total Net Position</b>	<u>\$ 1,049,045</u>

*The accompanying notes are an integral part of these financial statements*

# MACDOWELL PREPARATORY ACADEMY

## Statement of Activities Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenues		Governmental
		Charges for Services	Operating Grants and Contributions	Activities Net (Expenses) Revenues and Changes in Net Position
<b>Governmental Activities</b>				
Basic Instruction	\$ 1,169,692	\$ -	\$ 491,299	\$ (678,393)
Instruction - Added Needs	230,387	-	96,768	(133,619)
<u>Supporting Services</u>				
Pupil Support	296,881	-	-	(296,881)
Instructional Staff	179,449	-	75,373	(104,076)
General Administration	146,020	-	-	(146,020)
School Administration	247,926	-	104,135	(143,791)
Business Services	410,996	-	-	(410,996)
Operations and Maintenance	591,983	-	-	(591,983)
Central Services	156,769	-	-	(156,769)
Transportation	116,493	-	-	(116,493)
Support Services - Other	2,356	-	-	(2,356)
Depreciation Expenses (Unallocated)	42,340	-	-	(42,340)
Community Services	2,368	-	-	(2,368)
Food Services	242,182	-	245,631	3,449
<b>Total Governmental Activities</b>	<b>3,835,842</b>	<b>-</b>	<b>1,013,206</b>	<b>(2,822,636)</b>
<u>General Revenues</u>				
State Aid - Formula Grants				2,964,836
Other Revenue				31,165
<b>Total General Revenues</b>				<b>2,996,001</b>
Change in Net Position				173,365
<b>Net Position - July 1, 2019</b>				<b>875,680</b>
<b>Net Position - June 30, 2020</b>				<b>\$ 1,049,045</b>

The accompanying notes are an integral part of these financial statements

# MACDOWELL PREPARATORY ACADEMY

**Governmental Funds  
Balance Sheet  
June 30, 2020**

	<b>General Fund</b>	<b>Non-Major Fund School Service Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash and Cash Equivalents (Note 3)	\$ 751,740	\$ -	\$ 751,740
Due From Other Governmental Units (Note 4)	637,547	13,225	650,772
Due From Other Funds	5,526	-	5,526
Inventory	11,303	-	11,303
Deposits	112	-	112
<b>Total Assets</b>	<b>\$ 1,406,228</b>	<b>\$ 13,225</b>	<b>\$ 1,419,453</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts Payable	\$ 83,825	\$ 96	83,921
Accrued Liabilities	253,102	4,154	257,256
Due To Other Funds	-	5,526	5,526
State Aid Anticipation Note (Note 9)	54,896	-	54,896
Unearned Revenue (Note 1)	66,262	-	66,262
<b>Total Liabilities</b>	<b>458,085</b>	<b>9,776</b>	<b>467,861</b>
<b>Fund Balance</b>			
Nonspendable	11,303	-	11,303
Restricted	-	3,449	3,449
Unassigned	936,840	-	936,840
<b>Total Fund Balance</b>	<b>948,143</b>	<b>3,449</b>	<b>951,592</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 1,406,228</b>	<b>\$ 13,225</b>	<b>\$ 1,419,453</b>

*The accompanying notes are an integral part of these financial statements*

# MACDOWELL PREPARATORY ACADEMY

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## Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2020

**Total Fund Balances - Governmental Funds** \$ 951,592

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	392,206	
Accumulated depreciation	<u>(294,753)</u>	<u>97,453</u>

**Total Net Position - Governmental Activities** \$ 1,049,045

*The accompanying notes are an integral part of these financial statements*

# MACDOWELL PREPARATORY ACADEMY

## Statement of Revenue, Expenditures and Changes in Fund Balance Year Ended June 30, 2020

	<u>General Fund</u>	<u>Non-Major Fund School Service Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUE</b>			
Federal Sources	\$ 373,282	\$ 245,631	\$ 618,913
State Sources	3,379,877	-	3,379,877
Local Sources	10,417	-	10,417
<b>Total Revenue</b>	<u>3,763,576</u>	<u>245,631</u>	<u>4,009,207</u>
<b>EXPENDITURES</b>			
Basic Instruction	1,172,996	-	1,172,996
Instruction - Added Needs	230,387	-	230,387
<u>Supporting Services:</u>			
Pupil Support Services	296,881	-	296,881
Instructional Staff Services	179,449	-	179,449
General Administration Services	146,020	-	146,020
School Administration Services	247,926	-	247,926
Business Services	410,996	-	410,996
Operations and Maintenance	591,983	-	591,983
Central Services	156,769	-	156,769
Transportation	116,493	-	116,493
Other Support Services	2,356	-	2,356
Community Services	2,368	-	2,368
Food Service	-	242,182	242,182
<b>Total Expenditures</b>	<u>3,554,624</u>	<u>242,182</u>	<u>3,796,806</u>
<b>Net Change in Fund Balance</b>	208,952	3,449	212,401
<b>Fund Balance - July 1, 2019</b>	<u>739,191</u>	<u>-</u>	<u>739,191</u>
<b>Fund Balance - June 30, 2020</b>	<u>\$ 948,143</u>	<u>\$ 3,449</u>	<u>\$ 951,592</u>

*The accompanying notes are an integral part of these financial statements*

# MACDOWELL PREPARATORY ACADEMY

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## Reconciliation of the Governmental Funds Statement of Revenue, Expenditures and Changes in Fund Balance to the Statement of Activities Year Ended June 30, 2020

**Net Change in Fund Balances - Total Governmental Funds** \$ 212,401

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

Governmental funds report capital outlays as expenditures. In the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	(42,340)	
Capitalized capital outlay expense	<u>3,304</u>	<u>(39,036)</u>

**Change in Net Position - Governmental Activities** \$ 173,365

*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, 2020 to DPSCD was approximately \$91,000.

### **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 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.

**School Service Fund** – The School Service Fund is used to account for the food service operation. Its revenues are derived primarily from a federal grant and student charges.

### 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.

**Inventories** – Inventories are valued at cost, on a first-in, first-out basis. Inventories are recorded as expenditures when consumed rather than when purchased.

**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.

# MACDOWELL PREPARATORY ACADEMY

Notes to Financial Statements (Continued)  
June 30, 2020

## 1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Assets, Liabilities and Net Position or Equity (Continued)

**Capital Assets** – Capital assets, which include building improvements, 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 represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. The Academy has no deferred outflows of resources at June 30, 2020.

**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 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, 2020.

**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, 2020, the Academy had \$66,262 of unearned revenue for at risk funds not yet utilized.

# MACDOWELL PREPARATORY ACADEMY

Notes to Financial Statements (Continued)

June 30, 2020

## 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, 2020.

**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. The Academy's school service fund balance of \$3,449 is restricted for food service operations.
- 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 non-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.

# MACDOWELL PREPARATORY ACADEMY

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Notes to Financial Statements (Continued)  
June 30, 2020

## 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. 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. For the year ended June 30, 2020, expenditures for other support services exceeded the budget by \$2,356.

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, 2020.

## 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, 2020, 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:

# MACDOWELL PREPARATORY ACADEMY

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Notes to Financial Statements (Continued)  
June 30, 2020

## 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 \$781,579, out of which \$531,579 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, 2020.

### 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 \$548,824 from the State of Michigan and \$101,948 from Federal grants.

# MACDOWELL PREPARATORY ACADEMY

Notes to Financial Statements (Continued)  
June 30, 2020

## 5) CAPITAL ASSETS

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

	<u>Balance</u> <u>July 1, 2019</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2020</u>
Capital Assets Being Depreciated:			
Buildings & Improvements	\$ 100,176	\$ -	\$ 100,176
IT Equipment	251,524	3,304	254,828
Furniture and Equipment	37,202	-	37,202
Subtotal	<u>388,902</u>	<u>3,304</u>	<u>392,206</u>
Accumulated Depreciation:			
Buildings & Improvements	43,521	3,877	47,398
IT Equipment	185,340	34,400	219,740
Furniture and Equipment	23,552	4,063	27,615
Subtotal	<u>252,413</u>	<u>42,340</u>	<u>294,753</u>
Net Governmental Capital Assets	<u>\$ 136,489</u>	<u>\$ (39,036)</u>	<u>\$ 97,453</u>

Total depreciation expense was \$42,340 for the year ended June 30, 2020. 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, 2020 was \$338,156.

# MACDOWELL PREPARATORY ACADEMY

Notes to Financial Statements (Continued)  
June 30, 2020

## 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 9 percent of total state aid revenue received by the Academy. Rent expense for the year was \$298,000. 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:

<u>Year</u>	<u>Amount</u>
2021	\$ 6,732
2022	1,122
<b>Total</b>	<b>\$ 7,854</b>

## 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 2019, the Academy borrowed \$306,000 at 3.65 percent annual interest on a state aid anticipation note. Proceeds from the note were used to fund school operations. The unpaid balance totals \$54,896 at June 30, 2020. The note was fully paid subsequent to year end.

## 10) SUBSEQUENT EVENTS

The Academy has evaluated all subsequent events through October 21, 2020, the date the financial statements were available to be issued. No items were noted requiring disclosure in this report.

In early March 2020, the COVID-19 virus was declared a global pandemic, and it unfortunately continues to spread rapidly. Business continuity, including supply chains and consumer demand across a broad range of industries and countries, could be severely impacted for months or more, as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. Management is carefully monitoring the situation and evaluating its options during this time. No adjustments have been made to these financial statements as a result of this uncertainty.

# **MACDOWELL PREPARATORY ACADEMY**

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**Notes to Financial Statements (Continued)**  
**June 30, 2020**

## **11) SUBSEQUENT EVENTS (CONTINUED)**

On September 3, 2020, the Academy obtained a state aid anticipation note in the amount of \$288,000. The note carries interest of 3.45% and the final payment is due August 20, 2021.

The Academy received Coronavirus Relief Funds of \$132,003 in August, 2020. The expenditure period for these funds is March 1, 2020 through December 30, 2020, although all of the revenue will be recorded for the year ended June 30, 2021.



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## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of  
MacDowell Preparatory Academy  
Detroit, 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 remaining fund information of MacDowell Preparatory Academy (the Academy) as of and for the year ended June 30, 2020, 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 21, 2020.

### 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.

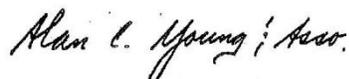
Report on Internal Control over Financial Reporting  
And on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards*  
(Continued)

Compliance and Other Matters

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

Purpose of this Report

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



Detroit, Michigan  
October 21, 2020

**REQUIRED SUPPLEMENTAL INFORMATION**

# MACDOWELL PREPARATORY ACADEMY

## Budgetary Comparison Schedule General Fund Year Ended June 30, 2020

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Revenue</b>				
Federal Sources	\$ 357,223	\$ 405,252	\$ 373,282	\$ (31,970)
State Sources	3,596,798	3,508,442	3,379,877	(128,565)
Local Sources	2,500	2,500	10,417	7,917
<b>Total Revenue</b>	<b>3,956,521</b>	<b>3,916,194</b>	<b>3,763,576</b>	<b>(152,618)</b>
<b>Expenditures</b>				
<u>Instructional Services</u>				
Basic Programs	1,333,472	1,255,613	1,172,996	(82,617)
Added Needs	284,964	275,045	230,387	(44,658)
<u>Supporting Services:</u>				
Pupil Support Services	275,777	299,262	296,881	(2,381)
Instructional Staff Services	234,948	228,175	179,449	(48,726)
General Administration Services	151,014	150,989	146,020	(4,969)
School Administration Services	294,228	281,445	247,926	(33,519)
Business Services	447,913	427,598	410,996	(16,602)
Operation and Maintenance	599,578	610,730	591,983	(18,747)
Other Central Support	148,957	165,555	156,769	(8,786)
Pupil Transportation Services	179,771	179,771	116,493	(63,278)
Other Support Service	-	-	2,356	2,356
Community Services	5,500	5,500	2,368	(3,132)
Welfare Activities	400	400	-	(400)
<b>Total Expenditure</b>	<b>3,956,522</b>	<b>3,880,083</b>	<b>3,554,624</b>	<b>(325,459)</b>
<b>Net Change in Fund Balance</b>	<b>(1)</b>	<b>36,111</b>	<b>208,952</b>	<b>172,841</b>
<b>Fund Balance - July 1, 2019</b>	<b>739,191</b>	<b>739,191</b>	<b>739,191</b>	<b>-</b>
<b>Fund Balance - June 30, 2020</b>	<b>\$ 739,190</b>	<b>\$ 775,302</b>	<b>\$ 948,143</b>	<b>\$ 172,841</b>