

Inkster Preparatory Academy

Financial Statements

June 30, 2017



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Inkster Preparatory Academy
Members of the Board of Directors and Administration
June 30, 2017

Members of the Board of Directors

Garnet Green	President
Delphine Oden	Vice President
Ernestine Williams	Secretary
Tonia Jenkins	Treasurer
Ayana Walls	Board Director

Administration

Shawn Hurt	Principal
Letonja Stephens	Director of Academics
Jerome Townsend	Curriculum Specialist



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Independent Auditors' Report

Management and the Board of Directors
Inkster Preparatory Academy
Inkster, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Inkster Preparatory Academy, as of and for the year ended June 30, 2017, 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.

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Inkster Preparatory Academy, as of June 30, 2017, 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 the budgetary comparison information 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 31, 2017 on our consideration of Inkster Preparatory Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 Inkster Preparatory Academy's internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Flint, Michigan
October 31, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS



MANAGEMENT'S DISCUSSION AND ANALYSIS

INKSTER PREPARATORY ACADEMY

Inkster Preparatory Academy, a K-2 Academy located in Wayne County, Michigan, has completed its first year with the enclosed financial statements. In addition to the statements, a comparative analysis of government-wide data is also provided.

The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be Inkster Preparatory Academy's discussion and analysis of the financial results for the fiscal year ended June 30, 2017. Generally Accepted Accounting Principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District-wide Financial Statements and Fund Financial Statements.

Using this Annual Report

The accompanying financial statements are presented in accordance with the reporting model as prescribed in GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis for State & Local Governments. The following components are required:

- Management's Discussion and Analysis
- Basic Financial Statements, including *Statement of Net Position*, *Statement of Activities* and *Fund Financial Statements*
- Notes to the Financial Statements
- Required Supplementary Information

Management's Discussion and Analysis is a narrative insight to the past and present financial condition of Inkster Preparatory Academy. This summary does not take the place of the comprehensive financial statements and other supplemental information following this narrative.

Reporting the School District as a Whole

The financial statements provide information about the activities of Inkster Preparatory Academy, presenting both an aggregate view of the finances and a longer-term view of those finances. These statements use the full accrual basis of accounting similar to that used by companies in the private sector. The two statements are the Statement of Net Position and the Statement of Activities, which appear first in the financial statements. The

Statement of Net Position includes all of Inkster Preparatory Academy's assets and liabilities, regardless if they are short-term or long-term. The Statement of Activities includes all of the current's year's revenues and expenses, regardless of when cash is received or paid.

These two statements report Inkster Preparatory Academy's net position - the difference between assets and liabilities - as one way to measure financial health or financial position. Over time, increases or decreases in the net position - as reported in the Statement of Activities - are indicators of whether financial health is improving or deteriorating. The relationship between revenues and expenses is the operating results. However, Inkster Preparatory Academy's goal is to provide exceptional student service, not to generate profits. One must also consider non-financial factors, such as the quality of the education provided and the condition of the Academy's facilities, to assess the overall health of Inkster Preparatory Academy.

Reporting Inkster Preparatory Academy's Most Significant Funds - Fund Financial Statements

The fund statements for Inkster Preparatory Academy focus on major funds rather than on fund types. The fund statements are reported using the modified accrual method of accounting. Under this basis of accounting, revenues are recorded when received except where they are measurable and available, and thus represent resources that may be appropriated. Expenditures are accounted for in the period that goods and services are used in school programs. In addition, capital asset purchases are expensed and not recorded as an asset. Debt payments are recorded as expenditures in the current year, and future debt obligations are not recorded.

Inkster Preparatory Academy's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Funds are accounting devices that Inkster Preparatory Academy uses to keep track of specific sources of funding and spending for particular purposes. The fund financial statements tell how services were financed in the short-term as well as what remains for future spending. The statements provide information about Inkster Preparatory Academy's most significant fund - the General Fund. The other fund includes the Special Revenue Fund, which is presented as a Non-major fund. The Special Revenue Fund accounts for revenues and expenditures related to the student breakfast and lunch program at Inkster Preparatory Academy. The General Fund will continue to be used primarily to account for the general education requirements of Inkster Preparatory Academy. The revenues for Inkster Preparatory Academy are derived primarily from State Aid, as well as from federal, state, and local grants.

Reporting Inkster Preparatory Academy's Fiduciary Responsibilities – Inkster Preparatory Academy as Trustee

Inkster Preparatory Academy is the trustee, or fiduciary, for its student activity funds. All of the fiduciary activities are reported in separate statements of fiduciary assets and liabilities. Inkster Preparatory Academy is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Agency funds are custodial in nature – assets equal liabilities – and do not involve measurement of results of operations. These activities are excluded from Inkster Preparatory Academy's other financial statements since Inkster Preparatory Academy cannot use these assets to finance its operations.

Financial Analysis of Inkster Preparatory Academy as a Whole

The statement of fund balance provides the perspective of Inkster Preparatory Academy as a whole. Table 1 provides a summary of Inkster Preparatory Academy's net position as of fiscal years ending June 30, 2017.

Table 1 - Summary of Fund Balance:

Assets	<u>Fiscal 2017</u>
Current and other assets	\$ 386,352
Capital assets - net of accumulated depreciation	<u>0</u>
Total Assets	<u>\$ 386,352</u>
Total assets	<u>\$ 386,352</u>
Liabilities	
Accounts payable	\$ 275,653
Due to other funds	16,700
Accrued expenditures	56,560
Unearned Revenue	<u>27,116</u>
Total Liabilities	<u>\$ 376,029</u>
Total liabilities	<u>\$ 376,029</u>
Fund Balance	
Non-spendable	\$ 547
Assigned for Board of Directors discretion	9,776
Total fund balance	<u>10,323</u>
Total liabilities and fund balance	<u>\$ 386,352</u>

Net position is a combination of funds available for capital assets, plus capital assets at original cost, less accumulated depreciation and related debt. The accumulated depreciation is the accumulation of depreciation expense since acquisition. As of June 30, 2017, Inkster Preparatory Academy's net capital assets were \$27,080, the restricted amount for the Board discretionary fund was \$9,776, and the remaining amount of \$547 was unrestricted. Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The unrestricted net position represents the accumulated results of all past year's operations. The operating results of the General Fund will have a significant impact on change in unrestricted net position from year to year.

Statement of Activities

The results of this year's operations for Inkster Preparatory Academy are reported in the statement of activities, and in a more condensed format in Table 2.

Table 2 - Results of Activities:

Fiscal Year:	<u>Fiscal 2017</u>
<u>Net Revenues:</u>	
General Revenues:	
Local Sources	\$ 953
State Sources	788,324
Federal Sources	112,630
Other	<u>0</u>
Total	<u>\$ 901,907</u>
<u>Net Expenses:</u>	
Instruction	\$ 460,512
Supporting Services	759,837
Food Services	122,819
Community Services	2,600
Capital Outlay	<u>35,780</u>
Total	<u>\$ 1,381,548</u>
<u>Other Financing Sources:</u>	
Contributions from management company	<u>\$ 489,964</u>
Change in net position	\$ 10,323
Net Position - beginning	<u>0</u>
Net Position - ending	<u>\$ 10,323</u>

Analysis of Financial Position

A few significant factors affecting the net position of the year are as follows:

Capital Outlay

Actual acquisitions totaled \$35,780.

Depreciation Expense

Depreciation expense is recorded on a straight-line basis over the estimated useful life of the asset. In accordance with generally accepted accounting principles, depreciation expense is recorded based on the original cost of the asset less an estimated salvage value. For the fiscal year ended June 30, 2017, the net depreciation expense was \$8,700.

Inkster Preparatory Academy's Funds

As Inkster Preparatory Academy completed this year, the governmental funds reported a combined fund balance of \$386,352, with the General Fund accounting for \$349,845 and the Special Revenue Fund accounting for \$36,507.

A couple of significant factors affecting the total governmental fund balance are the following:

General Operating Fund

Inkster Preparatory Academy's revenues from General Fund operations were lower than expenditures by \$411,628 for the fiscal year ended June 30, 2017.

Special Revenue Fund

The student meal program accounted for by the Special Revenue Fund is subsidized by the General Fund operations; any shortfalls, if required, are transferred in from this fund. This year, the revenue from the Special Revenue Fund were lower than expenditures by \$16,700 for the fiscal year ended June 30, 2017. This amount was transferred to subsidize this fund.

Revenues by Sources - All Funds

State of Michigan Unrestricted Aid (State Foundation Grant)

The foundation allowance is determined annually by the State of Michigan using the following variables:

- State of Michigan State Aid Act per student foundation allowance
- Student enrollment blended at 90% of the current year fall count and 10% of the prior year spring count, plus Section 25e transfer adjustments

Per Student Foundation Allowance

Inkster Preparatory Academy's blended student enrollment (State Aid Membership) for the 2016 - 2017 school year was 99.61. Preliminary total student enrollment for the 2017 – 2018 school year is projected to be approximately 165 students.

Changes from Original to Final Budget

The Uniform Budget Act of the State of Michigan requires that the Inkster Preparatory Academy Board of Directors approve the original budget prior to July 1st, the start of the fiscal year. A schedule showing Inkster Preparatory Academy's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

General Fund

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Change</u>
Revenues	\$1,170,598	\$ 915,403	(\$255,195)
Expenditures	\$1,458,650	\$1,307,605	(\$151,045)

The variation from original to final budgeted revenues is primarily due to: 1. a decrease to actual over the budgeted student enrollment, and 2. additional state and Federal restricted grant funding versus original estimates, along with overall general increased levels of funding for these grants. Expenditures were increased to allow for the additional costs allowed as a result of this additional funding available.

Economic Factors and Next Year's Budgets and Rates

The administration considered many factors when determining Inkster Preparatory Academy's 2017 - 2018 fiscal year budget. One of the most important factors is the student count, since the state foundation revenue is determined by the blended student count that was discussed earlier. Approximately 89% of total General Fund revenues are from State Sources. Revenues are thus heavily dependent on the State's ability to fund local

operations. When the fall student count is completed and the related per pupil funding is validated, the budget for Inkster Preparatory Academy is amended to reflect the revised numbers.

Since Inkster Preparatory Academy's revenue depends on State funding and the health of the State School Aid fund, the actual revenue received therefore depends on the State's ability to collect revenues to fund its appropriations to Districts. The State periodically holds revenue-estimating conferences to evaluate its ability to fund obligations. Should state revenues fall below previous estimates, a statewide proration of the Foundation Allowance to Districts could occur. If a reduction in State Aid funding resulted, an appropriate budget adjustment would be made to reflect the revised financial situation.

Contacting Inkster Preparatory Academy's Financial Management

This financial report is designed to provide a general overview of Inkster Preparatory Academy's finances, and to demonstrate Inkster Preparatory Academy's accountability for the money it receives. If there are any questions about this report, or if additional financial information is needed, contact Inkster Preparatory Academy's Finance Department at 27355 Woodsfield St., Inkster, MI 48141.

BASIC FINANCIAL STATEMENTS

Inkster Preparatory Academy
Statement of Net Position
June 30, 2017

	Governmental Activities
Assets	
Cash	\$ 162,033
Due from other governmental units	207,072
Prepaid items	547
Capital assets - net of accumulated depreciation	<u>27,080</u>
 Total assets	 <u>396,732</u>
Liabilities	
Accounts payable	275,653
Accrued expenditures	56,560
Unearned revenue	<u>27,116</u>
 Total liabilities	 <u>359,329</u>
Net Position	
Net investment in capital assets	27,080
Unrestricted	<u>10,323</u>
 Total net position	 <u>\$ 37,403</u>

See Accompanying Notes to the Financial Statements

Inkster Preparatory Academy
Statement of Activities
For the Year Ended June 30, 2017

		<u>Program Revenues</u>	
Functions/Programs	<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
Governmental activities			
Instruction	\$ 465,785	\$ 168,493	\$ (297,292)
Supporting services	763,264	371,563	(391,701)
Food services	122,819	99,234	(23,585)
Community services	<u>2,600</u>	<u>941</u>	<u>(1,659)</u>
Total governmental activities	<u>\$ 1,354,468</u>	<u>\$ 640,231</u>	<u>(714,237)</u>
		General revenues	
		State aid - unrestricted	750,687
		Other	<u>953</u>
		Total general revenues	<u>751,640</u>
		Change in net position	37,403
		Net position - beginning	<u>-</u>
		Net position - ending	<u>\$ 37,403</u>

See Accompanying Notes to the Financial Statements

Inkster Preparatory Academy
Governmental Funds
Balance Sheet
June 30, 2017

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash	\$ 142,226	\$ 19,807	\$ 162,033
Due from other funds	-	16,700	16,700
Due from other governmental units	207,072	-	207,072
Prepaid items	<u>547</u>	<u>-</u>	<u>547</u>
Total assets	<u>\$ 349,845</u>	<u>\$ 36,507</u>	<u>\$ 386,352</u>
Liabilities			
Accounts payable	\$ 249,002	\$ 26,651	\$ 275,653
Due to other funds	16,700	-	16,700
Accrued expenditures	46,704	9,856	56,560
Unearned revenue	<u>27,116</u>	<u>-</u>	<u>27,116</u>
Total liabilities	<u>339,522</u>	<u>36,507</u>	<u>376,029</u>
Fund Balance			
Non-spendable			
Prepaid items	547	-	547
Assigned for Board of Directors discretion	<u>9,776</u>	<u>-</u>	<u>9,776</u>
Total fund balance	<u>10,323</u>	<u>-</u>	<u>10,323</u>
Total liabilities and fund balance	<u>\$ 349,845</u>	<u>\$ 36,507</u>	<u>\$ 386,352</u>

See Accompanying Notes to the Financial Statements

Inkster Preparatory Academy
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2017

Total fund balances for governmental funds	\$ 10,323
Total net position for governmental activities in the statement of net position is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	
Capital assets - net of accumulated depreciation	<u>27,080</u>
Net position of governmental activities	<u>\$ 37,403</u>

Inkster Preparatory Academy
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2017

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Local sources	\$ 953	\$ -	\$ 953
State sources	788,324	-	788,324
Federal sources	<u>57,824</u>	<u>54,806</u>	<u>112,630</u>
Total revenues	<u>847,101</u>	<u>54,806</u>	<u>901,907</u>
Expenditures			
Current			
Education			
Instruction	460,512	-	460,512
Supporting services	759,837	-	759,837
Food services	-	122,819	122,819
Community services	2,600	-	2,600
Capital outlay	<u>35,780</u>	<u>-</u>	<u>35,780</u>
Total expenditures	<u>1,258,729</u>	<u>122,819</u>	<u>1,381,548</u>
Deficiency of revenues over expenditures	<u>(411,628)</u>	<u>(68,013)</u>	<u>(479,641)</u>

See Accompanying Notes to the Financial Statements

Inkster Preparatory Academy
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2017

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Other Financing Sources (Uses)			
Contributions from management company	489,964	-	489,964
Transfers in	-	68,013	68,013
Transfers out	(68,013)	-	(68,013)
 Total other financing sources (uses)	<u>421,951</u>	<u>68,013</u>	<u>489,964</u>
 Net change in fund balance	10,323	-	10,323
 Fund balance - beginning	-	-	-
 Fund balance - ending	<u>\$ 10,323</u>	<u>\$ -</u>	<u>\$ 10,323</u>

See Accompanying Notes to the Financial Statements

Inkster Preparatory Academy
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2017

Net change in fund balances - Total governmental funds \$ 10,323

Total change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(8,700)
Capital outlay	<u>35,780</u>

Change in net position of governmental activities \$ 37,403

Inkster Preparatory Academy
Notes to the Financial Statements
June 30, 2017

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Inkster Preparatory Academy conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the Academy's significant accounting policies:

Reporting Entity

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

On August 1, 2016, the Academy entered into a contract with Central Michigan University to charter a public school academy through June 30, 2021. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. CMU is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays CMU three percent of the state aid foundation as administrative fees. The total administrative fees for the year to CMU was approximately \$23,087.

The Academy is governed by an appointed Board of Directors. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Academy's reporting entity, and which organizations are legally separate component units of the Academy. The Academy has no component units.

Entity-wide Financial Statements

The Academy's basic financial statements include both Entity-wide (reporting for the academy as a whole) and fund financial statements

(reporting the Academy's major funds). The entity-wide financial statements categorize all nonfiduciary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of net position presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net position is reported in three parts (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

The statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues, including certain intergovernmental revenues. The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (state and federal sources, interest income, etc.). The Academy does not allocate indirect costs. In creating the entity-wide financial statements the Academy has eliminated interfund transactions.

The entity-wide focus is on the sustainability of the Academy as an entity and the change in the Academy's net position resulting from current year activities.

Fund Financial Statements

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis

Inkster Preparatory Academy
Notes to the Financial Statements
June 30, 2017

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. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The Academy reports the following major governmental funds:

General Fund – The General Fund is used to record the general operations of the Academy pertaining to education and those operations not required to be provided for in other funds.

Additionally, the Academy reports the following fund type:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Academy's Special Revenue Fund is the Food Service Fund. Operating deficits generated by these activities are generally covered by a transfer from the General Fund.

Assets, Liabilities and Net Position or Equity

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits. The Academy considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Prepaid Items – Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the Academy follows the consumption method, and they therefore are capitalized as prepaid items in both entity-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The Academy defines capital assets as assets with an initial individual cost in excess of \$3,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The Academy does not have infrastructure assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives.

Equipment	3-10 years
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Fund Equity – In the fund financial statements, governmental funds report fund balance in the following categories:

Non-spendable – amounts that are not available in a spendable form.

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Inkster Preparatory Academy
Notes to the Financial Statements
June 30, 2017

Committed – amounts that have been formally set aside by the Board of Directors for specific purposes. A fund balance commitment may be established, modified, or rescinded by a resolution of the Board of Directors.

Assigned – amounts intended to be used for specific purposes, as determined by the Board of Directors. The Board of Directors has granted the Chief Administrative Officer the authority to assign funds. Residual amounts in governmental funds other than the General Fund are automatically assigned by their nature.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Academy's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the Academy's policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as well as deferred inflows and deferred outflows of resources at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Eliminations and Reclassifications

In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Upcoming Accounting and Reporting Changes

Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services. It also requires additional note disclosures and required supplementary information. Statement No. 75 is effective for the fiscal year ending June 30, 2018.

Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Statement No. 81 is effective for the fiscal year ending June 30, 2018.

Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Inkster Preparatory Academy
Notes to the Financial Statements
June 30, 2017

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the criteria includes the following: (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable are: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

Statement No. 85, *Omnibus 2017* addresses practice issues that were identified during implementation and application of certain GASB Statements. This statement covers issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits), which is effective for the fiscal year ending June 30, 2018.

Statement No. 86, *Certain Debt Extinguishment Issues* is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The statement provides uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irremovable trust for the purpose of extinguishing that debt were acquired. The effective date is for the fiscal year ending June 30, 2018.

The Academy is evaluating the impact that the above pronouncements will have on its financial reporting.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end, thereby canceling all encumbrances. These appropriations are reestablished at the beginning of the year.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the Academy to have its budget in place by July 1. An academy is not considered in violation of the law if reasonable procedures are in use by the Academy to detect violations.

The Chief Administrative Officer is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Directors.

Budgeted amounts are as originally adopted or as amended by the Board of Directors throughout the year.

Inkster Preparatory Academy
Notes to the Financial Statements
June 30, 2017

Excess of Expenditures over Appropriations

During the year, the Academy incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
Basic programs	\$ 298,645	\$ 319,055	\$ 20,410
School administration	243,797	261,660	17,863
Business	3,000	4,471	1,471
Central	29,360	29,960	600
Community services	-	2,600	2,600
Capital outlay	30,170	35,780	5,610

Note 3 - Deposits

The Academy's deposits were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>
Cash	<u>\$ 162,033</u>

Interest rate risk – The Academy does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

Credit risk – State statutes authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office 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 has no investment policy that would further limit its investment choices.

Concentration of credit risk – The Academy has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy does not have a deposit policy for custodial credit risk. As of year-end, all of the Academy's bank balance of \$190,450 was insured and collateralized.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Inkster Preparatory Academy
Notes to the Financial Statements
June 30, 2017

Note 4 - Capital Assets

A summary of the changes in governmental capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets being depreciated				
Equipment	\$ -	\$ 35,780	\$ -	\$ 35,780
Less accumulated depreciation for				
Equipment	-	8,700	-	8,700
Net capital assets being depreciated	-	27,080	-	27,080
Net capital assets	<u>\$ -</u>	<u>\$ 27,080</u>	<u>\$ -</u>	<u>\$ 27,080</u>

Depreciation expense was charged to activities of the Academy as follows:

Governmental activities	
Instruction	\$ 5,273
Supporting services	<u>3,427</u>
Total governmental activities	<u>\$ 8,700</u>

Note 5 - Interfund Receivables, Payables, and Transfers

Individual interfund receivable and payable balances at year end were:

Due From Fund	Due to Fund	Amount
General Fund	Food Service Fund	<u>\$ 16,700</u>

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

Interfund transfers were made during the year, from the General Fund to the Food Service Fund totaling \$68,013. These transfers were made to cover the costs of the Academy's programs that were in excess of revenues generated from those activities.

Note 6 - Unearned Revenue

Governmental funds report unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the components of unearned revenue are as follows:

	Unearned
Grant and categorical aid payments received prior to meeting all eligibility requirements	<u>\$ 27,116</u>

Inkster Preparatory Academy
Notes to the Financial Statements
June 30, 2017

Note 7 - Leases

Operating Leases

The Academy leases office equipment under non-cancelable operating leases. Total costs for such leases were \$24,368 for the year. These costs include maintenance and usage. The future minimum lease payments for these leases are as follows:

Year ending June 30,	
2017	\$ 5,281
2018	5,281
2019	<u>5,281</u>
Total	<u>\$ 15,843</u>

Additionally, the Academy leases space from a related party. See Note 11 for further information.

Note 8 - Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, and errors and omissions. The Academy has purchased commercial insurance for general liability and property and casualty claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the year.

Note 9 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time, although the Academy expects such amounts, if any, to be immaterial.

Note 10 – Management Company

The Academy has a management agreement with ACCEL Schools Michigan, LLC. Under the terms of this agreement, ACCEL provides a variety of services including management, curriculums, education programs and teacher training. ACCEL receives all revenues as its services fee, from which it shall pay all operating costs of the Academy. ACCEL is then entitled to retain as compensation for the services provided, any residual income in the event of a yearly surplus. In the event of a yearly deficit, ACCEL shall contribute an amount to the Academy. As of June 30, 2017, ACCEL had contributed \$489,964 to the Academy. As of June 30, 2017, \$275,653 was due to ACCEL from the Academy.

Note 11 – Related Parties

The Academy leases a building under a 5 year non-cancelable operating lease with Pansophic Learning, a subsidiary of ACCEL. Total costs for the lease were \$103,477. Lease terms include monthly installments equal to 15% of the total estimated annual state funding based on the enrollments projected for the first day of school and is updated based on actual state funding received periodically throughout the school year.

REQUIRED SUPPLEMENTARY INFORMATION

Inkster Preparatory Academy
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Local sources	\$ -	\$ -	\$ 953	\$ 953
State sources	1,126,650	827,503	788,324	(39,179)
Federal sources	43,948	87,900	57,824	(30,076)
Total revenues	<u>1,170,598</u>	<u>915,403</u>	<u>847,101</u>	<u>(68,302)</u>
Expenditures				
Instruction				
Basic programs	467,647	298,645	319,055	20,410
Added needs	50,500	160,710	141,457	(19,253)
Supporting services				
Pupil	-	31,807	31,807	-
Instructional staff	110,342	80,298	68,683	(11,615)
General administration	71,558	44,915	29,982	(14,933)
School administration	240,692	243,797	261,660	17,863
Business	500	3,000	4,471	1,471
Operations and maintenance	362,601	262,537	241,444	(21,093)
Pupil transportation services	100,000	94,366	90,950	(3,416)
Central	54,810	29,360	29,960	600
Other	-	28,000	880	(27,120)
Community services	-	-	2,600	2,600
Capital outlay	-	30,170	35,780	5,610
Total expenditures	<u>1,458,650</u>	<u>1,307,605</u>	<u>1,258,729</u>	<u>(48,876)</u>
Excess (deficiency) of revenues over expenditures	<u>(288,052)</u>	<u>(392,202)</u>	<u>(411,628)</u>	<u>(19,426)</u>

Inkster Preparatory Academy
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources (Uses)				
Contributions from management company	288,052	392,202	489,964	97,762
Transfers out	-	-	(68,013)	(68,013)
Total other financing sources (uses)	<u>288,052</u>	<u>392,202</u>	<u>421,951</u>	<u>29,749</u>
Net change in fund balance	-	-	10,323	10,323
Fund balance - beginning	-	-	-	-
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,323</u>	<u>\$ 10,323</u>

OTHER REPORTS



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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*

Independent Auditors' Report

Management and the Board of Directors
Inkster Preparatory Academy
Inkster, 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 Inkster Preparatory Academy, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Inkster Preparatory Academy's basic financial statements, and have issued our report thereon dated October 31, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Inkster Preparatory 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Inkster Preparatory Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of Inkster Preparatory Academy's internal control.

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

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

deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be a material weakness as item 2017-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Inkster Preparatory Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2017-002.

Inkster Preparatory Academy's Response to Findings and Corrective Action Plan

Inkster Preparatory Academy's response to the finding identified in our audit is described in the accompanying schedule of findings and responses and corrective action plan. Inkster Preparatory Academy's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Yeo & Yeo, P.C.

Flint, Michigan
October 31, 2017

**Inkster Preparatory Academy
Schedule of Findings and Responses
June 30, 2017**

Government Auditing Standards Findings

Finding 2017-001 - Material Weakness

- Criteria:** Michigan Department of Education Bulletin 1022 Michigan Public School Accounting Manual states that financial statements and records should be free of errors that could change the users' overall assessment of the entity's finances.
- Condition:** A material adjustment was required during the audit to reduce State Aid receivables to the appropriate amount.
- Cause and Effect:** The adjustment was posted as a result of audit procedures in order to fairly state the balance. This adjustment had a material effect on the financial statements.
- Recommendation:** We recommend all reconciliations are reviewed by someone separate from the individual who records the transactions to limit the possibility of a misstatement in the future.
- Views of Responsible Officials:** Management agrees with this finding. See corrective action plan on page 6 - 5

**Inkster Preparatory Academy
Schedule of Findings and Responses
June 30, 2017**

Finding 2017-002 - Noncompliance

Criteria:	Certain policies and procedures are to be developed and documented as required by the Michigan Department of Education Bulletin 1022.
Condition:	Certain policies and procedures were not available or provided to the auditors. Although these policies or procedures may exist, management was unable to locate them. After several requests, a manual was provided, but lacked those applicable policies and procedures.
Cause and Effect:	The Academy first came into existence during the 16-17 fiscal year. As such, the written policies and procedures are either in the process of being developed or are unavailable at this time.
Recommendation:	We recommend that the Academy develop and or maintain documentation of the various policies and procedures required of local education agencies in Michigan. Those policies and procedures include, but are not limited to, the following: investment of funds, budget preparation, cash management, allowability of costs, conflict of interest, procurement, method for conducting technical evaluations, and travel reimbursement.
Views of Responsible Officials:	Management agrees with this finding. See corrective action plan on page 6 - 5



October 31, 2017

Inkster Preparatory Academy submits the following corrective action plan concerning findings 2017-001 and 2017-002 on the schedule of findings and responses:

2017-001 Material Weakness

Corrective Action

The management of Inkster Preparatory Academy will implement, effective immediately, a stronger oversight and review process of all transactions recorded in the financial statements. The VP of Accounting, who currently reviews and approves all transactions, will require more thorough explanation and reconciliations of transactions prior to approving activity for the financial statements.

2017-002 Noncompliance

Corrective Action

The management of Inkster Preparatory Academy will implement a plan over the course of the next six-months to draft and implement missing policies and procedures. We will designate an individual with knowledge and opportunity to effectively put this plan into action. We will send drafts to auditors for review and recommendation.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Anna Olfieriev', is written over the typed name and title.

Anna Olfieriev
VP Accounting