

**JALEN ROSE LEADERSHIP ACADEMY**

**FINANCIAL REPORT  
WITH  
SUPPLEMENTAL INFORMATION**

**JUNE 30, 2016**

# JALEN ROSE LEADERSHIP ACADEMY

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Jalen Rose Leadership Academy  
Detroit, MI

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

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

### **Management's Responsible for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

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

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

### **Opinions**

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

### **Other Matters**

#### ***Required Supplement Information***

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

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

In accordance with Government Auditing Standards, we have also issued our report dated October 11, 2016 on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Academy's internal control over financial reporting and compliance.

*Alan C. Young, Assoc.*

Detroit, Michigan  
October 11, 2016

# JALEN ROSE LEADERSHIP ACADEMY

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

Jalen Rose Leadership Academy (the Academy) is a Public School Academy located in Detroit, Michigan. The Academy began its first academic year in September 2011 with an inaugural class (9<sup>th</sup> grade) of 120 students. An additional freshman class will be added each subsequent year. As management of the Academy, we offer the readers of the Academy's financial statements this narrative overview and analysis of the financial activities of the Academy for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

## FINANCIAL HIGHLIGHTS

- Enrollment was met with the maximum number of 414 students in the 2015-2016 school years.
- The General Fund had \$3,926,240 in revenue, which primarily consisted of State funding (83%), followed by Federal Sources (9%) and Local Sources (8%).

## OVERVIEW OF 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 comprise three components: 1) academy-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

**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, using the accrual basis of accounting, on all of the Academy's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Academy is improving or deteriorating.

The statement of activities presents information showing how the Academy's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Academy-wide financial statements outline functions of the Academy that are principally supported by State Aid and intergovernmental revenues (Federal grants) and operations and management.

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

# JALEN ROSE LEADERSHIP ACADEMY

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

### OVERVIEW OF 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. This is a state mandated uniform system and chart of accounts for all Michigan public school districts utilizing Bulletin 1022. The Academy uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Academy can be divided into three categories: governmental, proprietary and fiduciary funds. All activities of the Academy are included in the governmental funds. The Academy does not maintain any proprietary or fiduciary funds.

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

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

### FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Academy, assets exceeded liabilities by \$688,236 as of June 30, 2016.

The Academy's financial position is the product of several financial transactions including the net results of activities, the acquisition of capital assets, and the depreciation of capital assets.

### Net Position as of June 30, 2016 and 2015

The following shows a summary of the Academy's Statement of Net Position as of June 30, 2016 and 2015:

|                                  | <u>2016</u>       | <u>2015</u>       |
|----------------------------------|-------------------|-------------------|
| <b>Assets</b>                    |                   |                   |
| Current Assets                   | \$ 1,109,361      | \$ 1,009,154      |
| Noncurrent Assets                | 148,559           | 157,515           |
| <b>Total Assets</b>              | <u>1,257,920</u>  | <u>1,166,669</u>  |
| <b>Liabilities</b>               |                   |                   |
| Current Liabilities              | 529,331           | 575,894           |
| Noncurrent Liabilities           | 40,353            | -                 |
| <b>Total Liabilities</b>         | <u>569,684</u>    | <u>575,894</u>    |
| <b>Net Position</b>              |                   |                   |
| Net Investment in Capital Assets | 108,206           | 157,515           |
| Unrestricted                     | 580,030           | 433,260           |
| <b>Total Net Position</b>        | <u>\$ 688,236</u> | <u>\$ 590,775</u> |

# JALEN ROSE LEADERSHIP ACADEMY

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

## FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (Continued)

Change in Net Position for the years ending June 30, 2016 and 2015:

|   | <u>2016</u>      | <u>2015</u>       |
|---|------------------|-------------------|
| <b>Revenue</b>                            |                  |                   |
| State Aid Formula Grants                  | \$ 3,037,355     | \$ 2,990,812      |
| Other Revenue                             | 313,469          | 331,845           |
| Operating Grants and Contributions        | <u>575,416</u>   | <u>639,247</u>    |
| <b>Total Revenue</b>                      | <u>3,926,240</u> | <u>3,961,904</u>  |
| <b>Expenditures</b>                       |                  |                   |
| Basic Instruction                         | 1,292,353        | 1,352,933         |
| Added Needs                               | 408,934          | 298,203           |
| Support Services                          |                  |                   |
| Pupil Support Services                    | 309,811          | 299,544           |
| Instructional Staff Services              | 76,189           | 89,376            |
| General/Executive Administration Services | 488,209          | 472,538           |
| School Administration Services            | 251,930          | 229,626           |
| Business Services                         | 108,428          | 46,468            |
| Operations and Maintenance                | 629,596          | 780,661           |
| Pupil Transportation Services             | 873              | 2,895             |
| Central Services                          | 92,207           | 88,006            |
| Support Services - Other                  | 107,123          | 92,942            |
| Interest on Long-term Debt                | 1,533            | -                 |
| Depreciation                              | <u>61,593</u>    | <u>71,439</u>     |
| <b>Total Expenditures</b>                 | <u>3,828,779</u> | <u>3,824,631</u>  |
| <b>Change in Net Position</b>             | <u>\$ 97,461</u> | <u>\$ 137,273</u> |

## Financial Analysis of the School's Funds

The performance of the Academy as a whole is reflected in the governmental funds. As the Academy completed its year, its governmental funds reported an unassigned General Fund balance of \$571,030.

## 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 \$10,343 more than budget or approximately 1%.
- The total budgeted expenses compared to actual expenses varied slightly from line item to line item with the ending actual expenses of \$42,614 less than budget or approximately 1%.

# **JALEN ROSE LEADERSHIP ACADEMY**

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

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

By the end of 2016 the Academy had \$148,559 invested in capital assets net of depreciation, including leasehold improvements, furniture, computers and other equipment. Total depreciation for the year was \$61,593.

### **Economic Factors and Next Year's Budgets and Rates**

The Academy considers many factors when setting the Academy's 2016-2017 fiscal year budgets. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2016-17 fiscal years is 90 percent of the current school year October count and 10 percent of the prior February count. The all-inclusive budget was adopted in June 2016 based on an enrollment estimate of 410 students in the Fall of 2016-17.

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 410 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.

## **CONTACTING THE ACADEMY'S MANAGEMENT**

This financial report is designed to provide our citizens and taxpayers with a general overview of the Academy's finances. If you have questions about this report or need additional information, contact the Administration Office, Jalen Rose Leadership Academy, 15000 Trojan Drive, Detroit, Michigan 48235.

# JALEN ROSE LEADERSHIP ACADEMY

## Statement of Net Position June 30, 2016

|   | <u>Governmental<br/>Activities</u> |
|---|------------------------------------|
| <b>Assets</b>   |                                    |
| Cash and Cash Equivalents (Note 3)                      | \$ 291,214                         |
| Due From Other Governmental Units (Note 4)              | 798,085                            |
| Accounts Receivable                                     | 11,062                             |
| Prepaid Expenses  | 9,000                              |
| Capital Assets, Net (Note 5)                            | <u>148,559</u>                     |
| <b>Total Assets</b>                                     | <u>1,257,920</u>                   |
| <b>Liabilities</b>                                      |                                    |
| Accounts Payable  | 292,253                            |
| Loan Payable (Note 8)                                   | 50,000                             |
| Accrued Payroll   | 187,078                            |
| Capital Lease Payable, Current Portion (Note 10)        | 17,277                             |
| Capital Lease Payable, Net of Current Portion (Note 10) | <u>23,076</u>                      |
| <b>Total Liabilities</b>                                | <u>569,684</u>                     |
| <b>Net Position</b>                                     |                                    |
| Net Investment in Capital Assets                        | 108,206                            |
| Unrestricted  | <u>580,030</u>                     |
| <b>Total Net Position</b>                               | <u>\$ 688,236</u>                  |

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

# JALEN ROSE LEADERSHIP ACADEMY

## Statement of Activities Year Ended June 30, 2016

| Functions/Programs                          | Expenses         | Program Revenues        |                                     | Governmental       |
|---|------------------|-------------------------|-------------------------------------|--------------------|
|   |                  | Charges for             | Operating                           | Activities         |
|   |                  | Services                | Grants and                          | Net (Expenses)     |
|   |                  |                         | Contributions                       | Revenues and       |
|   |                  |                         |                                     | changes in         |
|   |                  |                         |                                     | Net Position       |
| <b>Governmental Activities</b>              |                  |                         |                                     |                    |
| Basic Instructions                          | \$ 1,292,353     | \$ -                    | \$ 292,734                          | \$ (999,619)       |
| Added Needs                                 | 408,934          | -                       | 239,779                             | (169,155)          |
| Supporting Services                         |                  |                         |                                     |                    |
| Pupil Support Services                      | 309,811          | -                       | -                                   | (309,811)          |
| Instructional Staff Services                | 76,189           | -                       | 42,903                              | (33,286)           |
| General / Executive Administration Services | 488,209          | -                       | -                                   | (488,209)          |
| School Administration Services              | 251,930          | -                       | -                                   | (251,930)          |
| Business Services                           | 108,428          | -                       | -                                   | (108,428)          |
| Operations and Maintenance                  | 629,596          | -                       | -                                   | (629,596)          |
| Pupil Transportation Services               | 873              | -                       | -                                   | (873)              |
| Central Services                            | 92,207           | -                       | -                                   | (92,207)           |
| Support Services - Other                    | 29,388           | -                       | -                                   | (29,388)           |
| Athletic Activities                         | 75,310           | 1,308                   | -                                   | (74,002)           |
| Community Services                          | 2,425            | -                       | -                                   | (2,425)            |
| Interest on Capital Leases                  | 1,533            | -                       | -                                   | (1,533)            |
| Depreciation (Unallocated)                  | 61,593           | -                       | -                                   | (61,593)           |
| <b>Total Governmental Activities</b>        | <b>3,828,779</b> | <b>1,308</b>            | <b>575,416</b>                      | <b>(3,252,055)</b> |
|   |                  | <u>General Revenues</u> |                                     |                    |
|   |                  |                         | State Aid - Formula Grants          | 3,037,355          |
|   |                  |                         | Other Revenue                       | 312,161            |
|   |                  |                         | <b>Total General Revenues</b>       | <b>3,349,516</b>   |
|   |                  |                         | Change in Net Position              | 97,461             |
|   |                  |                         | <b>Net Position - July 1, 2015</b>  | <b>590,775</b>     |
|   |                  |                         | <b>Net Position - June 30, 2016</b> | <b>\$ 688,236</b>  |

The accompanying notes are an integral part of these financial statements

# JALEN ROSE LEADERSHIP ACADEMY

Governmental Funds  
Balance Sheet  
June 30, 2016

|  | <u>General<br/>Fund</u>    |
|--|----------------------------|
| <b>ASSETS</b>                              |                            |
| Cash and Cash Equivalents (Note 3)         | \$ 291,214                 |
| Due From Other Governmental Units (Note 4) | 798,085                    |
| Accounts Receivable                        | 11,062                     |
| Prepaid Expense                            | <u>9,000</u>               |
| <b>Total Assets</b>                        | <u><u>\$ 1,109,361</u></u> |
| <b>LIABILITIES AND FUND BALANCES</b>       |                            |
| <b>Liabilities</b>                         |                            |
| Accounts Payable                           | \$ 292,253                 |
| Accrued Payroll                            | 187,078                    |
| Loan Payable (Note 8)                      | <u>50,000</u>              |
| <b>Total Liabilities</b>                   | <u>529,331</u>             |
| <b>Fund Balance</b>                        |                            |
| Nonspendable                               | 9,000                      |
| Unassigned                                 | <u>571,030</u>             |
| <b>Total Fund Balance</b>                  | <u>580,030</u>             |
| <b>Total Liabilities and Fund Balances</b> | <u><u>\$ 1,109,361</u></u> |

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

# JALEN ROSE LEADERSHIP ACADEMY

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

**Total Fund Balances - Governmental Funds** \$ 580,030

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

Capital Assets used in Governmental Activities are not Financial Resources and therefore, not Reported as Assets in Governmental Funds.

|                          |                  |         |
|--------------------------|------------------|---------|
| Cost of Capital Assets   | 439,969          |         |
| Accumulated Depreciation | <u>(291,410)</u> | 148,559 |

Capital Leases used in Governmental Activities are not Financial Resources and therefore, not Reported as Liabilities in Governmental Funds.

(40,353)

**Total Net Position - Governmental Activities**

\$ 688,236

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

# JALEN ROSE LEADERSHIP ACADEMY

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

|   | <u>General<br/>Fund</u> |
|---|-------------------------|
| <b>Revenue</b>                              |                         |
| Federal Sources                             | \$ 364,425              |
| State Sources                               | 3,277,134               |
| Local Sources                               | 284,681                 |
| <b>Total Revenue</b>                        | <u>3,926,240</u>        |
| <b>Expenditures</b>                         |                         |
| Basic Instruction                           | 1,344,990               |
| Added Needs                                 | 408,934                 |
| Supporting Services:                        |                         |
| Pupil Support Services                      | 309,811                 |
| Instructional Staff Services                | 76,189                  |
| General / Executive Administration Services | 488,209                 |
| School Administration Services              | 251,930                 |
| Business Services                           | 108,428                 |
| Operations and Maintenance                  | 629,596                 |
| Pupil Transportation Services               | 873                     |
| Central Services                            | 92,207                  |
| Support Services - Other                    | 29,388                  |
| Athletic Activities                         | 75,310                  |
| Community Services                          | 2,425                   |
| Payment on Capital Leases                   | 13,817                  |
| <b>Total Expenditures</b>                   | <u>3,832,107</u>        |
| <b>Excess of Revenue over Expenditures</b>  | 94,133                  |
| <b>Other Financing Sources (Note 10)</b>    | <u>52,637</u>           |
| <b>Net Change in Fund Balance</b>           | 146,770                 |
| <b>Fund Balance - July 1, 2015</b>          | <u>433,260</u>          |
| <b>Fund Balance - June 30, 2016</b>         | <u>\$ 580,030</u>       |

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

# JALEN ROSE LEADERSHIP ACADEMY

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

**Net Change in Fund Balances - Total Governmental Funds** \$ 146,770

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               | (61,593)      |         |
| Capitalized Capital Outlay Expense | <u>52,637</u> | (8,956) |

Governmental Funds record Capital Leases as other Financing Sources at inception Capital Leases are recorded as a Liability on the Statement of Net Position

|  |          |  |
|--|----------|--|
|  | (52,637) |  |
|--|----------|--|

Payments on Capital Leases are expensed in the Governmental Funds, but are used to reduce Capital Lease Liability in the Statement of Net Position

|  |               |                 |
|--|---------------|-----------------|
|  | <u>12,284</u> | <u>(40,353)</u> |
|--|---------------|-----------------|

**Change in Net Position - Governmental Activities** \$ 97,461

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

## 1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Jalen Rose Leadership Academy (the Academy) conform to generally accepted accounting principles as applicable to schools. The following is a summary of the significant policies:

### Reporting Entity

Jalen Rose Leadership Academy is a nonprofit corporation and a public school academy corporation organized under the Michigan Nonprofit Corporation Act, as amended, Act No. 162 of the Public Acts of 1982, being Sections 450.2101 to 450.3192 of the Michigan Compiled Laws. Notwithstanding any provision of the Michigan Nonprofit Corporation Act, as amended, the Academy shall not take any action inconsistent with the provisions of Part 6A of the Code or other Applicable Law.

On July 1, 2016 the Academy renewed and entered a three year contract with the Central Michigan University Board of Trustees to Charter a Public School Academy. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive State school aid funds pursuant to the State Constitution. The Central Michigan University Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the Contract and all applicable laws and other related activities for which compensation is permissible. By agreement between Central Michigan University and the Academy, the University may charge additional fees beyond the administrative fees for services rendered. The Academy pays the Central Michigan University Board of Trustees 3 percent of the Academy's State School Aid Payments as an administrative fee. The total administrative fees paid in 2015 - 2016 to Central Michigan University were approximately \$90,000.

### 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 Academy-wide 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.

Depreciation on the capital assets is unallocated in the Statement of Activities.

# JALEN ROSE LEADERSHIP ACADEMY

Notes to Financial Statements (Continued)  
June 30, 2016

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

### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

**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.

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

**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.

### 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 and Payables** – 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.

# JALEN ROSE LEADERSHIP ACADEMY

Notes to Financial Statements (Continued)  
June 30, 2016

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

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

**Capital Assets** – Capital assets, which include school equipment and leasehold improvements, 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 \$1,000. Such assets are recorded at historical cost or estimated historical cost. 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:

|                         |          |
|-------------------------|----------|
| Furniture and Equipment | 5 years  |
| Leasehold Improvements  | 30 years |

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

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

**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, 2016, the Academy had \$0 in unearned revenue.

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

# JALEN ROSE LEADERSHIP ACADEMY

Notes to Financial Statements (Continued)  
June 30, 2016

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

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

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

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

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

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

## 2) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

**Budgetary Information** – 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. Expenditures in excess of amounts budgeted is a violation of Michigan Law. The Academy is required by law to adopt general and special revenue fund budgets. During the year ended June 30, 2016 the budget was amended in a legally permissible manner.

# JALEN ROSE LEADERSHIP ACADEMY

Notes to Financial Statements (Continued)  
June 30, 2016

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

**Budgetary Information (Continued)** - The Academy had expenditures in certain budgetary functions that were in excess of the amounts appropriated for the year ended June 30, 2016. The following are the significant budget variances:

|                                     | <u>Final Budget</u> | <u>Actual</u> | <u>Variance</u> |
|-------------------------------------|---------------------|---------------|-----------------|
| Pupil Support Services              | \$ 252,006          | \$ 309,811    | \$ 57,805       |
| Payment on Capital Leases           | -                   | 13,817        | 13,817          |
| Pupil Activities                    | 100,766             | 104,698       | 3,932           |
| General / Executive Admin. Services | 487,769             | 488,209       | 440             |

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

## 3) DEPOSITS AND INVESTMENTS

State statutes and the Academy's investment policy authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan; the Academy is allowed to invest in U.S. Treasury or Agency obligations, U.S. government 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 statutory authority.

The Academy has designated one bank for deposit of its funds.

The investment policy adopted by the Board has authorized investments as listed in the State statutory authority as listed above.

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

### Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of bank failure, the Academy's deposits may not be returned to it. The Academy's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the Academy's deposit for custodial credit risk. At June 30, 2016, the Academy had a deposit balance of \$327,447, of which \$77,447 was uninsured.

# JALEN ROSE LEADERSHIP ACADEMY

Notes to Financial Statements (Continued)  
June 30, 2016

## 3) DEPOSITS AND INVESTMENTS (Continued)

### 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's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. The Academy's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby, avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with Academy's cash requirements. 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's investment policy does not further limit its investment choices, the Academy held no such investment at June 30, 2016.

### Foreign Currency Risk

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

## 4) DUE FROM OTHER GOVERNMENTAL UNITS

Receivables as of June 30, 2016 for the Academy include \$600,958 in State Aid receivable and \$197,127 in Federal grant receivable.

## 5) CAPITAL ASSETS

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

|  | <u>Balance</u><br><u>July 1, 2015</u> | <u>Additions</u>  | <u>Disposals</u> | <u>Balance</u><br><u>June 30, 2016</u> |
|--|---------------------------------------|-------------------|------------------|--|
| <b>Leasehold Improvement</b>           | \$ 125,000                            | \$ -              | \$ -             | \$ 125,000                             |
| Less: Accumulated Depreciation         | (26,708)                              | (5,000)           | -                | (31,708)                               |
|  | <u>98,292</u>                         | <u>(5,000)</u>    | <u>-</u>         | <u>93,292</u>                          |
| <b>School Equipment</b>                | 262,332                               | 52,637            | -                | 314,969                                |
| Less: Accumulated Depreciation         | (203,109)                             | (56,593)          | -                | (259,702)                              |
|  | <u>59,223</u>                         | <u>(3,956)</u>    | <u>-</u>         | <u>55,267</u>                          |
| <b>Net Governmental Capital Assets</b> | <u>\$ 157,515</u>                     | <u>\$ (8,956)</u> | <u>\$ -</u>      | <u>\$ 148,559</u>                      |

Depreciation is unallocated in the Statement of Activities.

# JALEN ROSE LEADERSHIP ACADEMY

Notes to Financial Statements (Continued)  
June 30, 2016

## 6) MANAGEMENT COMPANY AGREEMENT

The Academy has entered into a contract with American Promise Schools effective July 1, 2013 and going through June 30, 2016. The agreement has been extended through June 30, 2019. 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% of the State school aid the Academy receives from the State of Michigan less the administrative fees paid to Central Michigan University.

The annual compensation for American Promise Schools shall not be less than \$135,000 and not more than \$318,280. Compensation for the year ended June 30, 2016 was \$318,280.

## 7) DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS

**Plan Description** – The Academy currently does not participate in the Michigan Public School Employees' Retirement System (MPERS), 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.

## 8) LOAN PAYABLE

The Academy entered into an agreement with Comerica Bank on behalf of the Academy for a State Aid Note in the amount of \$700,000, this note is guaranteed by the Academy's State Aid Payments. This note has an interest rate of 3% and the balance on this note is \$50,000 at June 30, 2016. The note was paid off in full on July 29, 2016.

## 9) OPERATING LEASE

The Academy has entered into a lease agreement with Operation Graduation (a Michigan nonprofit corporation) for a facility to house the Academy. The lease ran through June 30, 2016, and was subsequently extended through June 30, 2019. Rent expense for the year ended June 30, 2016 was \$334,560. The terms of the lease called for monthly payments of \$27,880. The subsequent lease extension includes a monthly rent expense of \$25,000. Future minimum lease payments are \$300,000 annually for the years ended June 30, 2017 through 2019.

# JALEN ROSE LEADERSHIP ACADEMY

Notes to Financial Statements (Continued)  
June 30, 2016

## 10) CAPITAL LEASE

The Academy entered into two capital leases for computer equipment. One lease was through GE Finance in August, 2015 and requires 3 annual payments of \$12,776. The second lease was entered into in April, 2016 and requires 36 monthly payments of \$520. The value of the assets obtained under the capital leases was \$52,637. This amount is reflected as capital outlay and as other financing sources in the statement of revenue, expenditures and changes in fund balance. Maturities of the capital leases are as follows:

|      |    |               |
|------|----|---------------|
| 2017 | \$ | 17,277        |
| 2018 |    | 13,562        |
| 2019 |    | 9,514         |
|      | \$ | <u>40,353</u> |

## 11) SUBSEQUENT EVENTS

The Academy has evaluated all subsequent events through October 11, 2016 the date the financial statements were available to be issued. On July 17, 2015, the Academy took out a \$500,000 State Aid anticipation note, bearing interest at the Daily Adjusting LIBOR rate, plus the applicable margin. The note is payable in 10 monthly principal payments of \$50,000, with the final payment due July 29, 2016.



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## **INDEPENDENT AUDITOR'S 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  
Jalen Rose Leadership Academy  
Detroit, MI

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Jalen Rose Leadership Academy (the Academy) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated October 11, 2016.

### Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses, however material weaknesses may exist that were not identified.

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

Compliance and Other Matters

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

Purpose of this Report

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

*Alan C. Young, Assoc.*

Detroit, Michigan  
October 11, 2016

**REQUIRED SUPPLEMENTAL INFORMATION**

# JALEN ROSE LEADERSHIP ACADEMY

## Budgetary Comparison Schedule General Fund Year Ended June 30, 2016

|   | Original<br>Budget | Final<br>Budget   | Actual            | Over (Under)<br>Final Budget |
|---|--------------------|-------------------|-------------------|------------------------------|
| <b>Revenue</b>                              |                    |                   |                   |                              |
| Federal Sources                             | \$ 348,882         | \$ 378,401        | \$ 364,425        | \$ (13,976)                  |
| State Sources                               | 3,277,930          | 3,269,719         | 3,277,134         | 7,415                        |
| Local Sources                               | 266,400            | 267,777           | 284,681           | 16,904                       |
| <b>Total Revenue</b>                        | <u>3,893,212</u>   | <u>3,915,897</u>  | <u>3,926,240</u>  | <u>10,343</u>                |
| <b>Expenditures</b>                         |                    |                   |                   |                              |
| Instruction:                                |                    |                   |                   |                              |
| Basic Instructions                          | 1,453,747          | 1,370,306         | 1,344,990         | (25,316)                     |
| Added Needs                                 | 444,777            | 418,312           | 408,934           | (9,378)                      |
| Supporting Services:                        |                    |                   |                   |                              |
| Pupil Support Services                      | 279,750            | 252,006           | 309,811           | 57,805                       |
| Instructional Staff Services                | 87,500             | 122,971           | 76,189            | (46,782)                     |
| General / Executive Administration Services | 453,696            | 487,769           | 488,209           | 440                          |
| School Administration Services              | 261,756            | 267,278           | 251,930           | (15,348)                     |
| Business Services                           | 114,613            | 116,632           | 108,428           | (8,204)                      |
| Operations and Maintenance                  | 635,254            | 641,063           | 629,596           | (11,467)                     |
| Pupil Transportation Services               | 5,000              | 1,633             | 873               | (760)                        |
| Central Services                            | 69,827             | 92,660            | 92,207            | (453)                        |
| Pupil Activities                            | 74,500             | 100,766           | 104,698           | 3,932                        |
| Community Services                          | -                  | 3,325             | 2,425             | (900)                        |
| Payment on Capital Leases                   | -                  | -                 | 13,817            | 13,817                       |
| <b>Total Expenditure</b>                    | <u>3,880,420</u>   | <u>3,874,721</u>  | <u>3,832,107</u>  | <u>(42,614)</u>              |
| <b>Excess of Revenue over Expenditures</b>  | 12,792             | 41,176            | 94,133            | 52,957                       |
| <b>Other Financing Sources</b>              | -                  | -                 | 52,637            | 52,637                       |
| <b>Net Change in Fund Balance</b>           | 12,792             | 41,176            | 146,770           | 105,594                      |
| <b>Fund Balance - July 1, 2015</b>          | <u>433,260</u>     | <u>433,260</u>    | <u>433,260</u>    | <u>-</u>                     |
| <b>Fund Balance - June 30, 2016</b>         | <u>\$ 446,052</u>  | <u>\$ 474,436</u> | <u>\$ 580,030</u> | <u>\$ 105,594</u>            |