

JALEN ROSE LEADERSHIP ACADEMY

**FINANCIAL REPORT
WITH
SUPPLEMENTAL INFORMATION**

JUNE 30, 2017

JALEN ROSE LEADERSHIP ACADEMY

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INDEPENDENT AUDITOR'S REPORT

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

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, 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.

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 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 of 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.

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, 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 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 17, 2017 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 17, 2017

JALEN ROSE LEADERSHIP ACADEMY

Management Discussion and Analysis (MD&A)

June 30, 2017

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 (9th grade) of 120 students. An additional freshman class was 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, 2017. 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 413 students in the 2016-2017 school years.
- The General Fund had \$4,434,033 in revenue, which primarily consisted of State funding (76%), followed by Local Sources (16%), and Federal 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, 2017

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 15 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 \$1,375,009 as of June 30, 2017.

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, 2017 and 2016

The following shows a summary of the Academy's Statement of Net Position as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets	\$ 1,366,435	\$ 1,109,361
Noncurrent Assets	1,775,135	148,559
Total Assets	<u>3,141,570</u>	<u>1,257,920</u>
Liabilities		
Current Liabilities	441,044	529,331
Noncurrent Liabilities	1,325,517	40,353
Total Liabilities	<u>1,766,561</u>	<u>569,684</u>
Net Position		
Net Investment in Capital Assets	372,499	108,206
Restricted	113,454	-
Unrestricted	89,056	580,030
Total Net Position	<u>\$ 1,375,009</u>	<u>\$ 688,236</u>

JALEN ROSE LEADERSHIP ACADEMY

Management Discussion and Analysis (MD&A) (Continued)
June 30, 2017

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (Continued)

Change in Net Position for the years ending June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenue		
State Aid Formula Grants	\$ 3,070,983	\$ 3,037,355
Other Revenue	707,659	313,469
Operating Grants and Contributions	692,305	575,416
Total Revenue	<u>4,470,947</u>	<u>3,926,240</u>
Expenditures		
Basic Instruction	1,270,269	1,292,353
Added Needs	363,879	408,934
Support Services		
Pupil Support Services	360,703	309,811
Instructional Staff Services	127,877	76,189
General/Executive Administration Services	466,134	488,209
School Administration Services	320,176	251,930
Business Services	69,772	108,428
Operations and Maintenance	508,610	629,596
Pupil Transportation Services	5,610	873
Central Services	61,010	92,207
Support Services - Other	137,217	107,123
Interest	38,012	1,533
Depreciation	54,905	61,593
Total Expenditures	<u>3,784,174</u>	<u>3,828,779</u>
Change in Net Position	<u>\$ 686,773</u>	<u>\$ 97,461</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 \$762,151.

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 \$112,488 less than budget or approximately 8%.
- The total budgeted expenses compared to actual expenses varied from line item to line item with the ending actual expenses being \$271,270 less than budget or approximately 5%.

JALEN ROSE LEADERSHIP ACADEMY

Management Discussion and Analysis (MD&A) (Continued)
June 30, 2017

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2017 the Academy had \$1,775,135 invested in capital assets net of depreciation, including building, building improvements, furniture, computers and other equipment. Total depreciation for the year was \$54,905. The Academy purchased their school building in Fiscal 2017 that they had previously been renting.

Long-Term Debt

At June 30, 2016, the Academy had \$1,379,560 in long-term debt. The debt was taken in order to purchase the building the Academy is housed in. The debt is scheduled to be paid through 2032.

Economic Factors and Next Year's Budgets and Rates

The Academy considers many factors when setting the Academy's 2017-2018 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 2017-18 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 2017 based on an enrollment estimate of 410 students in the Fall of 2017-18.

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, 2017

	Governmental Activities
Assets	
Cash and Cash Equivalents (Note 3)	\$ 608,927
Restricted Cash (Note 1)	19,454
Due From Other Governmental Units (Note 4)	657,875
Accounts Receivable	40,188
Inventory	3,995
Prepaid Expenses	35,996
Capital Assets, Net of Accumulated Depreciation (Note 5)	<u>1,775,135</u>
Total Assets	<u>3,141,570</u>
Liabilities	
Accounts Payable	69,949
Accrued Payroll	224,584
Unearned Revenue (Note 1)	19,392
Loan Payable (Note 8)	50,000
Long-Term Debt, Current Portion (Note 9)	63,557
Capital Lease Payable, Current Portion (Note 11)	13,562
Capital Lease Payable, Net of Current Portion (Note 11)	9,514
Long-Term Debt, Net of Current Portion (Note 9)	<u>1,316,003</u>
Total Liabilities	<u>1,766,561</u>
Net Position	
Net Investment in Capital Assets	372,499
Restricted	113,454
Unrestricted	<u>889,056</u>
Total Net Position	<u>\$ 1,375,009</u>

The accompanying notes are an integral part of these financial statements

JALEN ROSE LEADERSHIP ACADEMY

Statement of Activities Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues		Governmental
		Charges for Services	Operating Grants and Contributions	Activities Net (Expenses) Revenues and changes in Net Assets
Governmental Activities				
Basic Instructions	\$ 1,270,269	\$ -	\$ 357,874	\$ (912,395)
Added Needs	363,879	-	309,931	(53,948)
Supporting Services				
Pupil Support Services	360,703	-	-	(360,703)
Instructional Staff Services	127,877	-	24,500	(103,377)
General / Executive Administration Services	466,134	-	-	(466,134)
School Administration Services	320,176	-	-	(320,176)
Business Services	69,772	-	-	(69,772)
Operations and Maintenance	508,610	-	-	(508,610)
Pupil Transportation Services	5,610	-	-	(5,610)
Central Services	61,010	-	-	(61,010)
Support Services - Other	69,006	-	-	(69,006)
Athletic Activities	68,211	6,319	-	(61,892)
Interest Expense	38,012	-	-	(38,012)
Depreciation (unallocated)	54,905	-	-	(54,905)
Total Governmental Activities	3,784,174	6,319	692,305	(3,085,550)
		<u>General Revenues</u>		
			State Aid - Formula Grants	3,070,983
			Other Revenue	701,340
			Total General Revenues	3,772,323
			Change in Net Position	686,773
			Net Position - July 1, 2016	688,236
			Net Position - June 30, 2017	\$ 1,375,009

The accompanying notes are an integral part of these financial statements

JALEN ROSE LEADERSHIP ACADEMY

Governmental Funds Balance Sheet June 30, 2017

	General Fund
ASSETS	
Cash and Cash Equivalents (Note 3)	\$ 608,927
Restricted Cash	19,454
Due From Other Governmental Units (Note 4)	657,875
Accounts Receivable	40,188
Inventory	3,995
Prepaid Expense	35,996
Total Assets	\$ 1,366,435
LIABILITIES AND FUND BALANCES	
Liabilities	
Accounts Payable	\$ 69,949
Accrued Payroll	224,584
Unearned Revenue (Note 1)	19,392
Loan Payable (Note 8)	50,000
Total Liabilities	363,925
Deferred Inflow of Resources	
Unavailable Revenue (Note 1)	36,914
Total Liabilities and Deferred Inflow of Resources	400,839
Fund Balance (Note 1)	
Nonspendable	39,991
Restricted	113,454
Assigned	50,000
Unassigned	762,151
Total Fund Balance	965,596
Total Liabilities and Fund Balances	\$ 1,366,435

The accompanying notes are an integral part of these financial statements

JALEN ROSE LEADERSHIP ACADEMY

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

Total Fund Balances - Governmental Funds \$ 965,596

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	2,121,450	
Accumulated Depreciation	<u>(346,315)</u>	1,775,135

Resources not available to pay current year expenditures, therefore deferred in the governmental funds, but recorded as revenue in governmental activities	36,914
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Long-term Liabilities are not due and payable in the current period and are not reported in the governmental funds	(1,379,560)
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Capital leases used in governmental activities are not financial resources and therefore, not reported as liabilities in governmental funds	(23,076)
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Total Net Position - Governmental Activities \$ 1,375,009

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, 2017

	<u>General Fund</u>
Revenue	
Federal Sources	\$ 350,771
State Sources	3,382,156
Local Sources	701,106
Total Revenue	<u>4,434,033</u>
Expenditures	
Basic Instruction	1,278,600
Added Needs	374,304
Supporting Services:	
Pupil Support	360,703
Instructional Staff	127,877
General / Executive Administration	466,134
School Administration	327,390
Business Services	82,837
Operations and Maintenance	508,610
Pupil Transportation	5,610
Central Support	61,010
Other Services	69,006
Athletic Activities	68,211
Facilities Acquisition, Construction, and Improvements	1,655,511
Payment on Capital Leases	17,277
Principal and Interest Payment on Building Loan	45,387
Total Expenditures	<u>5,448,467</u>
Excess (Deficiency) of Revenue Over Expenditures	(1,014,434)
Other Financing Sources (Uses)	
Proceeds from Loan	<u>1,400,000</u>
Net Change in Fund Balance	385,566
Fund Balance - July 1, 2016	<u>580,030</u>
Fund Balance - June 30, 2017	<u>\$ 965,596</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, 2017

Net Change in Fund Balances - Total Governmental Funds \$ 385,566

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	(54,905)	
Capitalized capital outlay expense	<u>1,681,481</u>	1,626,576

Governmental funds record capital leases as other financing sources at inception, these capital leases are recorded as a liability on the statement of net position.

Governmental funds record proceeds from loan as other financing sources at inception, these loans are recorded as a liability on the statement of net position.	(1,400,000)
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Revenue reported in the statement of activities that does not provide current financial resources and are not reported as revenue in governmental fund.	36,914
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Repayment of loan principal is an expenditure governmental funds, but not in the statement of activities (where it reduces the long-term debt).	20,440
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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>17,277</u>
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Change in Net Position - Governmental Activities \$ 686,773

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 (CMU) 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 CMU Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract, all applicable laws and other related activities for which compensation is permissible. By agreement between CMU and the Academy, CMU may charge additional fees beyond the administrative fees for services rendered. The Academy pays the CMU Board of Trustees 3 percent of the Academy's State School Aid Payments as an administrative fee. The total administrative fee paid in 2016 - 2017 to CMU was 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.

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 position 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 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 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 – 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, 2017

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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

Inventory and Prepaid Costs – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed. Certain payment to vendors reflect cost applicable to future fiscal years and are recorded as prepaid costs in both academy-wide and fund financial statements.

Restricted Cash – The Academy entered into a custody and control agreement between Lakeside Bank, the Academy, and IFF, an Illinois not for profit corporation. The Academy's deposit account at the bank is held as a lien and security interest against loan obtained from IFF. The amount in this deposit account has been classified as restricted cash. At June 30, 2017, the Academy had \$19,454 in restricted cash.

Capital Assets – Capital assets, which include building, 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.

Academy's assets are depreciated using the straight-line method over the following useful lives:

Furniture and Equipment	5 years
Building Improvements	25 years
Building	25 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 reported deferred inflows of \$36,914 related to Title I funds not received within 60 days of the end of the current fiscal year.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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

Unearned Revenue – Unearned revenue is reported in connection to funds that have been received for services which have not been performed, and is therefore not yet earned. At June 30, 2017, the Academy had \$19,492 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 2017, and no such funding was made for the year.

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.

At June 30, 2017, the Academy had \$113,454 in restricted fund balance (\$19,454 restricted cash related to loan payable and \$94,000 for contributions restricted for scholarships) and \$50,000 in assigned fund balance for site improvements.

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.

JALEN ROSE LEADERSHIP ACADEMY

Notes to Financial Statements (Continued)
June 30, 2017

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, 2017 the budget was amended in a legally permissible manner.

The Academy had expenditures in certain budgetary functions that were in excess of the amounts appropriated for the year ended June 30, 2017. The following are the budget variances:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Athletic Activities	\$ -	\$ 68,211	\$ 68,211
Other Support Services	\$ -	\$ 69,006	\$ 69,006
Payment on Capital Leases	\$ -	\$ 17,277	\$ 17,277

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, 2017.

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 two banks 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.

JALEN ROSE LEADERSHIP ACADEMY

Notes to Financial Statements (Continued)
June 30, 2017

3) DEPOSITS AND INVESTMENTS (Continued)

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, 2017, the Academy had a deposit balance of \$699,814, of which \$430,360 was uninsured.

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, 2017.

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, 2017 for the Academy include \$614,706 in State Aid receivable and \$43,169 in Federal grant receivable.

JALEN ROSE LEADERSHIP ACADEMY

Notes to Financial Statements (Continued)
June 30, 2017

5) CAPITAL ASSETS

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

	Balance July 1, 2016	Additions	Disposals	Balance June 30, 2017
Leasehold Improvement	\$ 125,000	\$ -	\$ -	\$ 125,000
Less: Accumulated Depreciation	(31,708)	(5,000)	-	(36,708)
	<u>93,292</u>	<u>(5,000)</u>	<u>-</u>	<u>88,292</u>
Building	-	1,655,511	-	1,655,511
Less: Accumulated Depreciation	-	(27,592)	-	(27,592)
	<u>-</u>	<u>1,627,919</u>	<u>-</u>	<u>1,627,919</u>
School Equipment	314,969	25,970	-	340,939
Less: Accumulated Depreciation	(259,702)	(22,313)	-	(282,015)
	<u>55,267</u>	<u>3,657</u>	<u>-</u>	<u>58,924</u>
Net Governmental Capital Assets	<u>\$ 148,559</u>	<u>\$ 1,626,576</u>	<u>\$ -</u>	<u>\$ 1,775,135</u>

Depreciation is unallocated in the Statement of Activities.

6) MANAGEMENT COMPANY AGREEMENT

The Academy has entered into a contract with American Promise Schools effective July 1, 2016 and going 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 \$200,000 and not more than \$330,847. Compensation for the year ended June 30, 2017 was \$330,847.

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.

JALEN ROSE LEADERSHIP ACADEMY

Notes to Financial Statements (Continued)
June 30, 2017

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 \$500,000, this note is guaranteed by the Academy's State Aid Payments. This note has an interest rate of 2.5% per annum and the balance on this note is \$50,000 at June 30, 2017. The note was paid off in full on July 28, 2017.

9) LONG-TERM DEBT

On January 25, 2017, The Academy signed a loan agreement with IFF, an Illinois Not-for-profit corporation. According to the agreement the Academy received \$1,400,000 to purchase the school building that it has been leasing in the past. The loan has an initial interest rate of 5.375% per annum until January 31, 2022, after which it will be recalculated twice until February 1, 2032, the maturity date. The monthly installments of \$11,347, including interest, began on March 1, 2017. The loan is secured by the mortgage on the building, and a security lien on the deposit account held by the Academy at Lakeside Bank. The deposit account had a balance of \$19,454 at June 30, 2017.

Principal maturities of the long-term liability is as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 63,557
2019	67,059
2020	70,754
2021	74,652
2022	78,765
2023-2027	463,899
2028-2032	560,874
	<u>\$ 1,379,560</u>

10) OPERATING LEASE

The Academy had entered into a lease agreement with Operation Graduation (a Michigan nonprofit corporation) for a facility to house the Academy. The original lease ran through June 30, 2016, and was subsequently extended through June 30, 2019. Effective January 25, 2017, the Academy purchased this facility for a consideration of approximately \$1,600,000. Rent expense for the year ended June 30, 2017 was \$175,000.

JALEN ROSE LEADERSHIP ACADEMY

Notes to Financial Statements (Continued)
June 30, 2017

11) CAPITAL LEASE

The Academy has 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. Maturities of the capital leases are as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 13,562
2019	9,514
	<u>\$ 23,076</u>

12) SUBSEQUENT EVENTS

The Academy has evaluated all subsequent events through October 17, 2017, the date the financial statements were available to be issued. On September 27, 2017 the Department of Treasury approved the Academy to issue a short-term municipal security, 2017 State Aid Note, in an amount not to exceed \$500,000, which matures no later than July 20, 2018.



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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, 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, 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, 2017, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated October 17, 2017.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than 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 or significant deficiencies. However, material weaknesses and significant deficiencies may exist that have not been 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 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 did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Detroit, Michigan
October 17, 2017

REQUIRED SUPPLEMENTARY INFORMATION

JALEN ROSE LEADERSHIP ACADEMY

Budgetary Comparison Schedule General Fund Year Ended June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>	<u>Percentage Over (Under) Final Budget</u>
Revenue					
Federal Sources	\$ 366,494	\$ 444,268	\$ 350,771	\$ (93,497)	-21.0%
State Sources	3,349,681	3,401,551	3,382,156	(19,395)	-0.6%
Local Sources	261,000	700,702	701,106	404	0.1%
Total Revenue	<u>3,977,175</u>	<u>4,546,521</u>	<u>4,434,033</u>	<u>(112,488)</u>	<u>-2.5%</u>
Expenditures					
Instruction:					
Basic Instruction	1,576,499	1,347,960	1,278,600	(69,360)	-5.1%
Added Needs	320,589	413,082	374,304	(38,778)	-9.4%
Supporting Services:					
Pupil Support	293,604	380,782	360,703	(20,079)	-5.3%
Instructional Staff	107,000	160,000	127,877	(32,123)	-20.1%
General / Executive Administration	462,938	469,122	466,134	(2,988)	-0.6%
School Administration	273,575	341,558	327,390	(14,168)	-4.1%
Business Services	127,723	95,917	82,837	(13,080)	-13.6%
Operations and Maintenance	635,020	577,418	508,610	(68,808)	-11.9%
Pupil Transportation	6,000	6,000	5,610	(390)	-6.5%
Central Support	95,200	227,387	61,010	(166,377)	-73.2%
Athletic Activities	45,000	-	68,211	68,211	100.0%
Other Support Services	26,000	-	69,006	69,006	100.0%
Facilities Acquisition, Construction, and Improvements	-	1,655,511	1,655,511	-	0.0%
Payment on Capital Leases	-	-	17,277	17,277	100.0%
Principal and Interest Payment on Long-Term Debt	-	45,400	45,387	(13)	100.0%
Total Expenditure	<u>3,969,148</u>	<u>5,720,137</u>	<u>5,448,467</u>	<u>(271,670)</u>	<u>-4.7%</u>
Excess of Revenue over Expenditures	8,027	(1,173,616)	(1,014,434)	159,182	-13.6%
Other Financing Sources (Uses)	-	1,400,000	1,400,000	-	100.0%
Net Change in Fund Balance	8,027	226,384	385,566	159,182	70.3%
Fund Balance - July 1, 2016	580,030	580,030	580,030	-	0.0%
Fund Balance - June 30, 2017	<u>\$ 588,057</u>	<u>\$ 806,414</u>	<u>\$ 965,596</u>	<u>\$ 159,182</u>	<u>19.7%</u>