

Detroit Community Schools

Financial Statements

June 30, 2023



YEO & YEO

**BUSINESS SUCCESS
PARTNERS**

Table of Contents

<u>Section</u>		<u>Page</u>
1	Members of the Board of Directors and Administration	1 - 1
2	Independent Auditors' Report	2 - 1
3	Management's Discussion and Analysis	3 - 1
4	Basic Financial Statements	
	Academy-wide Financial Statements	
	Statement of Net Position	4 - 1
	Statement of Activities	4 - 2
	Fund Financial Statements	
	Governmental Funds	
	Balance Sheet	4 - 3
	Reconciliation of the Balance Sheet of	
	Governmental Funds to the Statement of Net Position	4 - 4
	Statement of Revenues, Expenditures and Changes in Fund Balances	4 - 5
	Reconciliation of the Statement of Revenues, Expenditures and	
	Changes in Fund Balances of Governmental Funds to the Statement of Activities	4 - 7
	Notes to the Financial Statements	4 - 8
5	Required Supplementary Information	
	Budgetary Comparison Schedule – General Fund	5 – 1
6	Other Supplementary Information	
	Nonmajor Governmental Funds	
	Combining Balance Sheet	6 – 1
	Combining Statement of Revenues, Expenditures and Changes in Fund Balances	6 – 2

Detroit Community Schools
Members of the Board of Directors and Administration
June 30, 2023

Members of the Board of Directors

President

Patrick Devlin

Vice President

Nicholas Tobier

Treasurer

Sheryl Thomas Mathews

Secretary

Marie Hocker



Independent Auditors' Report

Management and the Board of Directors
Detroit Community Schools, A Michigan Public School Academy
Detroit, Michigan

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Detroit Community Schools, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Detroit Community Schools' basic financial statements as listed in the table of contents.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Detroit Community Schools, as of June 30, 2023, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Detroit Community Schools, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Detroit Community Schools' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Detroit Community Schools' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Detroit Community Schools' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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, identified in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Detroit Community Schools' basic financial statements. The other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The other supplementary information, as identified in the table of contents, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information, as identified in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2023, on our consideration of Detroit Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Detroit Community Schools' 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 Detroit Community Schools' internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Ann Arbor, MI
October 24, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

Detroit Community Schools
Management's Discussion and Analysis
June 30, 2023

Detroit Community Schools, a Michigan Public School Academy, has the legal standing of a "School District", but will be referred to as "The Academy". This section of the Academy's annual financial report represents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2023. Please read it in conjunction with the Academy's financial statements that immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy as a whole, financially. The Academy's financial statements provide information about the activities of the Academy, and present both an aggregate view of the Academy's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, the statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Academy's operations in more detail than the Academy's financial statements by providing information about the major funds; the General Fund and the Debt Retirement Fund with all other funds presented in one column as non-major funds.

Management's Discussion and Analysis (MD&A)
(Required Supplementary Information)

Academy-wide Financial Statements
Fund Financial Statements

Notes to Financial Statements

Budgetary Information for the General Fund
(Required Supplementary Information)

Reporting the Academy as a Whole - Academy-wide Financial Statements

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Detroit Community Schools
Management's Discussion and Analysis
June 30, 2023

These two statements report the Academy's net position, the difference between assets and liabilities, as reported in the statement of net position, as one way to measure the Academy's financial health or financial position. Over time, increases and decreases in the Academy's net position, as reported in the statement of activities, are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results.

The Academy experienced an increase in net position of \$53,311 for the current year. The Academy considers this significant. This is attributed to the excess of revenues over expenditures in the General Fund and Cafeteria Fund for the year and a reduction in MDE assessments. The Academy received additional Federal revenues to offset additional costs incurred due to COVID19 and resumed student transportation as it transitioned away from remote learning. This penalty resulted in a decrease of state revenue in the amount of \$33,969 during 2022-2023 which is equal to the penalties in 2021-2022.

The State of Michigan uses a blended student count to fund the Academy, so as the enrollment increases and/or decreases, there is a timing lag in the amount of funds provided. We may have more students, but we are not funded 100% for those students. The Academy's goal is to provide services to our students, not to generate profit as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the Academy.

The statement of net position and statement of activities report the governmental activities for the Academy, which encompass all of the Academy's services, including instruction, support services, food services, athletics, community services, and interest on long-term debt. Unrestricted State Aid (foundation allowance revenue), and State and Federal grants finance most of these activities.

Reporting the Academy's Most Significant Funds - Fund Financial Statements

The Academy's fund financial statements provide detailed information about the most significant funds, not the Academy as a whole. Some funds are required to be established by State law. However, the Academy establishes other funds to help it control and manage money or to show it is meeting legal responsibilities for using certain grants, or other money. The governmental funds of the Academy use the following accounting approach:

Governmental funds - All of the Academy's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Academy and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in a reconciliation.

**Detroit Community Schools
Management's Discussion and Analysis
June 30, 2023**

The Academy as Trustee - Reporting the Academy's Fiduciary Responsibilities

The Academy is the trustee, or fiduciary, for its student activity funds. All of the Academy's fiduciary activities are reported in the separate statement of fiduciary net position. We exclude these activities from the Academy's other financial statements because the Academy cannot use these assets to finance its operations. The Academy is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The Academy as a Whole

Recall that the statement of net position provides the perspective of the Academy as a whole. Table I provides a summary of the Academy's net position as of June 30, 2023 and 2022. For comparative purposes, the Academy has provided the net position as of June 30:

Table I

	Governmental Activities	
	2023	2022
Assets		
Current and other assets	\$ 4,092,584	\$ 2,978,170
Capital assets, net of accumulated depreciation	5,507,334	5,763,290
Total assets	<u>9,599,918</u>	<u>8,741,460</u>
Liabilities		
Current liabilities	1,852,933	1,163,828
Long-term liabilities	8,441,042	8,325,000
Total liabilities	<u>10,293,975</u>	<u>9,488,828</u>
Net position		
Net deficit investment in capital assets	(2,818,841)	(2,561,710)
Restricted for Food service	320,448	239,594
Restricted for Debt service	901,240	876,701
Unrestricted	903,096	698,047
Total net position	<u>\$ (694,057)</u>	<u>\$ (747,368)</u>

**Detroit Community Schools
Management's Discussion and Analysis
June 30, 2023**

The above analysis focuses on the net position (see Table I). The change in net position (see Table II) of the Academy's governmental activities is discussed below. The Academy's net position increased by \$53,311 at June 30, 2023. Capital assets, net of related debt, compares the original cost, less depreciation of the Academy's capital assets to long-term obligations which were used to finance the acquisition of those assets.

The \$(694,057) in total net position represents the accumulated results of all past years' operations. The operating results of the funds will have a significant impact on the change in unrestricted net position from year to year. The \$2,818,841 deficit in net capital assets is a function of the net book value of capital assets less the outstanding bonded debt.

The results of this year's operations for the Academy as a whole are reported in the statement of activities (see Table II), which shows the changes in net assets for year ended June 30, 2023. For comparative purposes, the Academy has provided the statement of activities as of June 30, 2022:

Table II	Governmental Activities	
	2023	2022
Revenue		
Program revenue		
Charges for services	\$ 31,488	\$ 37,556
Grants and contributions	2,457,228	3,098,230
General revenue		
State foundation allowance	5,343,458	5,203,451
Interest and investment earnings	29,096	190
Other	209,725	2,000
Total revenue	8,070,995	8,341,427
Functional/Program Expense		
Instruction	3,079,748	3,113,959
Support services	3,842,224	3,903,141
Student and school activities	29,829	19,204
Food services	413,659	203,812
Athletics	119,855	104,923
Community services	88,792	92,359
Interest on long-term obligations	443,577	774,163
Total expenses	8,017,684	8,211,561
Increase in net position	\$ 53,311	\$ 129,866

Detroit Community Schools
Management's Discussion and Analysis
June 30, 2023

As reported in the statement of activities, the cost of all of our governmental activities this year were \$8,017,684 compared to \$8,211,561 in the prior year. Certain activities were partially funded from those individuals that benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions (\$2,457,228 current and \$3,098,230 prior). We paid for the remaining "public benefit" portion of our government activities with \$5,343,458 in 2023 and \$5,203,451 in 2022 in State Foundation Allowance, and with our other revenues.

The Academy's Funds

As we noted earlier, the Academy uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Academy is being accountable for the resources taxpayers, via the State Foundation, and others provide to it and may provide more insight into the Academy's overall financial health.

In the General Fund, our principal operating fund, the fund balance increased by \$238,299 to a \$887,848 surplus. The change is primarily due to the reduction in bussing for the academy and a reduction in the overall capital outlay expenditures expected being less than the final budget.

The Academy maintains a debt retirement fund to account for the resources to retire its bonds. The Academy's bond issuances feature a savings account be held as a reserve fund of approximately \$840,000. The Academy does not receive local property tax revenues to assist in paying its principal and interest obligations. Therefore, the Academy relies on transfers from the General Fund to the Debt Retirement Fund to pay amounts due under the bond agreement.

The Academy maintains two nonmajor governmental funds. The Academy's Cafeteria Fund provides meals to students and is responsible for all food service claims and all food service-related costs. The Academy had food sales of \$468,040 before expenditures of \$387,186 which resulted in an increase in food service fund balance of \$320,448. The Academy's Student and School Activities Fund maintains revenue and pays expenditures related to certain activities benefiting students and families and the Academy. The Student and School Activities Fund had revenue of \$28,326 before expenditures of \$27,920 which resulted in an increase in fund balance of \$406.

General Fund Budgetary Highlights

Over the course of the year, the Academy can revise its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure the expenditures do not exceed appropriations. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in the required supplementary information of these financial statements. There were significant changes to the original budget because of decreases in revenues and decreases in expenditures due to controlled spending.

There were significant revisions made to the 2022-2023 General Fund original budget.

Budgeted revenue was increased by \$1,259,337 due to increases in foundation allowance and Federal award spending.

**Detroit Community Schools
Management's Discussion and Analysis
June 30, 2023**

Budgeted expenditures were increased by \$851,150, primarily due to increased employment, occupancy and capital outlay costs associated with equipment and improvements. The academy had an increase in capital outlay expenditures from 2021-2022 to 2022-2023. The overall transportation increased from the previous fiscal year as well.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2023 the Academy had \$15,135,121 invested in a broad range of capital assets, including land and building, furniture and equipment, computers and vehicles.

	2023	2022
Land	\$ 132,754	\$ 132,754
Building and improvements	12,308,656	12,246,559
Land improvements	130,720	130,720
Furniture and equipment	2,231,118	2,184,702
Vehicles	163,296	109,296
Right to use asset - equipment and furniture	30,786	30,786
Right to use asset - buses and other vehicles	137,791	-
	15,135,121	14,834,817
	Less accumulated depreciation	Less accumulated depreciation
	9,512,920	9,082,286
	\$ 5,622,201	\$ 5,752,531

We present more detailed information about our capital assets in the notes to the financial statements.

Debts

The Academy had \$53,007 and \$0 as current debt and \$8,441,042 and \$8,325,000 in long-term debt obligations as of June 30, 2023 and 2022, respectively. The general obligation bond was refunded in 2022 which will reduce the Academy's debt service needs until principal payments resume in fiscal year 2025. State aid anticipation notes totaling \$960,000 were issued to help fund current activities.

**Detroit Community Schools
Management's Discussion and Analysis
June 30, 2023**

Economic Factors and Next Year's Budgets and Rates

The Academy's preliminary budget for the year end June 30, 2023 was based on 564 blended student count. The projection was based on the decreasing enrollment trends which the Academy expects to level out at 565 students. Once the final student count and related pupil funding is validated, the budget will be amended. State law requires the Academy to amend the budget if actual Academy resources are not sufficient to fund the 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 revenues to fund its appropriation to school districts.

Contingency

Bay Mills Community College entered into a Charter School authorized contract with Detroit Community Schools. The charter school authorized contract is effective through June 30, 2026.

Contacting the Academy's Financial Management

This financial report is designed to provide the Academy's customers, investors and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Business Office, 12675 Burt Rd, Detroit, MI 48223.

BASIC FINANCIAL STATEMENTS

Detroit Community Schools
Statement of Net Position
June 30, 2023

	Governmental Activities
Assets	
Cash	\$ 2,324,612
Due from other governmental units	1,651,525
Prepaid items	1,580
Right to use assets - net of amortization	114,867
Capital assets not being depreciated	132,754
Capital assets - net of accumulated depreciation	5,374,580
Total assets	9,599,918
Liabilities	
Accounts payable	440,027
State aid anticipation note payable	171,531
Accrued expenditures	577,581
Unearned revenue	663,794
Long-term liabilities	
Debt due within one year	53,007
Debt due in more than one year	8,388,035
Total liabilities	10,293,975
Net Position	
Net deficit investment in capital assets	(2,818,841)
Restricted for	
Food service	320,448
Debt service	901,240
Unrestricted	903,096
Total net position	\$ (694,057)

See Accompanying Notes to the Financial Statements

Detroit Community Schools
Governmental Funds
Balance Sheet
June 30, 2023

	General Fund	Debt Retirement Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash	\$ 1,361,675	\$ 962,937	\$ -	\$ 2,324,612
Due from other funds	-	-	335,989	335,989
Due from other governmental units	1,625,063	-	26,462	1,651,525
Prepaid items	1,580	-	-	1,580
Total assets	<u>\$ 2,988,318</u>	<u>\$ 962,937</u>	<u>\$ 362,451</u>	<u>\$ 4,313,706</u>
Liabilities				
Accounts payable	\$ 413,272	\$ -	\$ 26,755	\$ 440,027
State aid anticipation note payable	171,531	-	-	171,531
Due to other funds	335,989	-	-	335,989
Accrued expenditures	515,884	-	-	515,884
Unearned revenue	663,794	-	-	663,794
Total liabilities	<u>2,100,470</u>	<u>-</u>	<u>26,755</u>	<u>2,127,225</u>
Fund Balances				
Non-spendable				
Prepaid items	1,580	-	-	1,580
Restricted for				
Food service	-	-	320,448	320,448
Debt service	-	962,937	-	962,937
Community services	19,059	-	-	19,059
Committed for Student Activities	-	-	15,248	15,248
Unassigned	867,209	-	-	867,209
Total fund balances	<u>887,848</u>	<u>962,937</u>	<u>335,696</u>	<u>2,186,481</u>
Total liabilities and fund balances	<u>\$ 2,988,318</u>	<u>\$ 962,937</u>	<u>\$ 362,451</u>	<u>\$ 4,313,706</u>

See Accompanying Notes to the Financial Statements

Detroit Community Schools
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2023

Total fund balances for governmental funds	\$ 2,186,481
Total net position for governmental activities in the statement of net position is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Right to use assets - net of amortization	114,867
Capital assets not being depreciated	132,754
Capital assets - net of accumulated depreciation	5,374,580
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(61,697)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities.	
Bonds payable	(8,325,000)
Other loans payable and liabilities	<u>(116,042)</u>
Net position of governmental activities	<u>\$ (694,057)</u>

Detroit Community Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2023

	General Fund	Debt Retirement Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Local sources	\$ 105,546	\$ -	\$ 28,442	\$ 133,988
State sources	5,341,921	-	-	5,341,921
Federal sources	1,851,500	-	467,924	2,319,424
Interdistrict sources	343,287	-	-	343,287
 Total revenues	 7,642,254	 -	 496,366	 8,138,620
Expenditures				
Current				
Education				
Instruction	2,882,652	-	-	2,882,652
Supporting services	3,628,124	-	-	3,628,124
Student and school activities	-	-	27,920	27,920
Food services	-	-	387,186	387,186
Community services	83,109	-	-	83,109
Athletic activities	112,184	-	-	112,184
Capital outlay	326,571	-	-	326,571
Debt service				
Principal	41,155	-	-	41,155
Interest and other expenditures	31,525	418,400	-	449,925
 Total expenditures	 7,105,320	 418,400	 415,106	 7,938,826
 Excess (deficiency) of revenues over expenditures	 536,934	 (418,400)	 81,260	 199,794

See Accompanying Notes to the Financial Statements

Detroit Community Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2023

	General Fund	Debt Retirement Fund	Nonmajor Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)				
Proceeds from issuance of leases	137,791	-	-	137,791
Transfers in	-	436,426	-	436,426
Transfers out	(436,426)	-	-	(436,426)
 Total other financing sources (uses)	 (298,635)	 436,426	 -	 137,791
 Net change in fund balances	 238,299	 18,026	 81,260	 337,585
Fund balances - beginning	649,549	944,911	254,436	1,848,896
Fund balances - ending	<u>\$ 887,848</u>	<u>\$ 962,937</u>	<u>\$ 335,696</u>	<u>\$ 2,186,481</u>

See Accompanying Notes to the Financial Statements

Detroit Community Schools
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2023

Net change in fund balances - Total governmental funds	\$ 337,585
Total change in net position reported for governmental activities in the statement of activities is different because:	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Operating grants	(67,625)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation and amortization expense	(460,634)
Capital outlay	300,304
Expenses are recorded when incurred in the statement of activities.	
Interest	6,348
MDE Assessments	33,969
Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are recorded as liabilities and amortized in the statement of activities. When debt refunding occurs, the difference in the carrying value of the refunding debt and the amount applied to the new debt is reported the same as regular debt proceeds or repayments, as a financing source or expenditure in the governmental funds. However, in the statement of net position, debt refunding may result in deferred inflows of resources or deferred outflows of resources, which are then amortized in the statement of activities.	
Debt issued	(137,791)
Repayments of long-term debt	<u>41,155</u>
Change in net position of governmental activities	<u>\$ 53,311</u>

See Accompanying Notes to the Financial Statements

Detroit Community Schools
Notes to the Financial Statements
June 30, 2023

Note 1 - Summary of Significant Accounting Policies

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

Reporting Entity

The Academy is authorized to operate as a Public School Academy under a 6 year contract with Bay Mills Community College which expires on June 30, 2026. The Academy is governed by a Board of Directors (the Board) appointed by the College. The Academy paid authorizer fees of \$180,074 to Bay Mills Community College for the year ended June 30, 2023.

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

Academy-Wide Financial Statements

The Academy's basic financial statements include both academy-wide (reporting for the Academy as a whole) and fund financial statements (reporting the Academy's major funds). The academy-wide financial statements categorize all nonfiduciary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of net position presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term

assets and receivables as well as long-term debt and obligations. The Academy's net position is reported in three parts (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

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

The net costs (by function) are normally covered by general revenue (state sources and federal sources, interest income, etc.). In creating the academy-wide financial statements the Academy has eliminated interfund transactions.

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

Fund Financial Statements

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt

Detroit Community Schools
Notes to the Financial Statements
June 30, 2023

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

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

The Academy reports the following major governmental funds:

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

Debt Retirement Fund – The Debt Retirement Fund is used to record interest and other revenue and the payment of interest, principal, and other expenditures on long-term debt.

Additionally, the Academy reports the following fund type:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Academy's Special Revenue Funds include the Cafeteria Fund and Student and School Activities Fund.

Assets, Liabilities and Net Position or Equity

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

All trade receivables are shown net of an allowance for uncollectible amounts. The Academy considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

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

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The Academy defines capital assets as assets with an initial individual cost in excess of \$500. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The Academy does not have infrastructure assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Site improvements	10-20 years
Equipment and furniture	5-10 years
Buses and other vehicles	5-10 years

Long-term Obligations – In the Academy-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period.

Detroit Community Schools
Notes to the Financial Statements
June 30, 2023

In the Academy's fund financial statements, the face amount of the debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses.

Fund Balance – In the fund financial statements, governmental funds report fund balance in the following categories:

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

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

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

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

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

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

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the Academy's policy

is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

Use of Estimates

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

Eliminations and Reclassifications

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

Adoption of New Accounting Standards

Statement No. 96, *Subscription-Based Information Technology Arrangements*, is based on the standards established in Statement No. 87 *Leases*. This statement (1) defines a SBITA as a contract that conveys control of the right to use a SBITA vendor's IT software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction (2) requires governments with SBITAs to recognize a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability, and (3) provides guidance related to outlays other than subscription payments, including implementation costs, and requirements for note disclosures related to a SBITA. This statement is effective for the year ending June 30, 2023.

Detroit Community Schools
Notes to the Financial Statements
June 30, 2023

Upcoming Accounting and Reporting Changes

Statement No. 100, *Accounting Changes and Error Corrections*, improves the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. More understandable, reliable, relevant, consistent and comparable information will be provided to financial statement users for making decisions or assessing accountability. Additionally, the display and note disclosure requirements will result in more consistent, decision useful, understandable and comprehensive information for users about accounting changes and error corrections. This statement is effective for the year ending June 30, 2024.

Statement No. 101, *Compensated Absences*, updates the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This statement is effective for the year ending June 30, 2025.

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

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

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

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the Academy to have its budget in

place by July 1. An academy is not considered in violation of the law if reasonable procedures are in use by the Academy to detect violations.

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

Budgeted amounts are as originally adopted or as amended by the Board of Directors throughout the year. Individual amendments were not material in relation to the original appropriations.

Excess of Expenditures over Appropriations

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

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
Basic programs	\$ 2,536,519	\$ 2,643,833	\$ 107,314
Added needs	214,423	238,819	24,396
Instructional staff	139,696	204,262	64,566
General administration	906,126	961,917	55,791
Community services	82,195	83,109	914
Athletic activities	93,075	112,184	19,109
Debt - interest and fiscal charges	3,101	31,525	28,424
Student and School Activities Fund	-	27,920	27,920

Detroit Community Schools
Notes to the Financial Statements
June 30, 2023

Note 3 - Deposits and Investments

The breakdown between deposits and investments for the Academy is as follows:

Deposits (checking, savings accounts,
 money markets, certificates of deposit) \$ 2,324,612

Concentration of credit risk – The Academy has no policy that would limit the amount that may be invested with any one issuer. The Academy maintains a policy that types of authorized securities may be made with the provision that no more than 50% of the total current investment portfolio consists of one type of security.

Custodial credit risk – deposits – In the event of deposits, this is the risk that in the event of a bank failure, the Academy’s deposits may not be returned to it. The Academy does not have a deposit policy for custodial credit risk. As of year-end, \$750,000 of the Academy’s bank balance of \$1,599,353 was exposed to custodial credit risk because they were uninsured and uncollateralized.

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

Note 4 - Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 132,754	\$ -	\$ -	\$ 132,754
Capital assets being depreciated				
Land improvements	130,720	-	-	130,720
Buildings, additions and improvements	12,246,559	62,097	-	12,308,656
Machinery, equipment and furniture	2,184,702	46,416	-	2,231,118
Buses and other vehicles	109,296	54,000	-	163,296
Right to use asset - equipment and furniture	30,786	-	-	30,786
Right to use asset - buses and other vehicles	-	137,791	-	137,791
Total capital assets being depreciated	14,702,063	300,304	-	15,002,367
Less accumulated depreciation for				
Land improvements	126,655	3,712	-	130,367
Buildings, additions and improvements	6,683,163	382,536	-	7,065,699
Machinery, equipment and furniture	2,121,627	23,221	-	2,144,848
Buses and other vehicles	109,296	9,000	-	118,296
Right to use asset - equipment and furniture	11,545	11,545	-	23,090
Right to use asset - buses and other vehicles	-	30,620	-	30,620
Total accumulated depreciation	9,052,286	460,634	-	9,512,920
Net capital assets being depreciated	5,649,777	(160,330)	-	5,489,447
Net capital assets	\$ 5,782,531	\$ (160,330)	\$ -	\$ 5,622,201

Detroit Community Schools
Notes to the Financial Statements
June 30, 2023

Depreciation expense of capital assets and amortization expense of right to use assets were charged to activities of the Academy as follows:

Governmental activities

Instruction	\$ 186,464
Supporting services	234,686
Athletics	7,257
Student and school activities	1,806
Food services	25,045
Community services	<u>5,376</u>
 Total governmental activities	 <u>\$ 460,634</u>

Note 5 - Interfund Receivables, Payables and Transfers

Individual interfund receivable and payable balances at year end were:

Payable Fund	Receivable Fund	Amount
General Fund	Nonmajor Governmental Funds	\$ <u>335,989</u>

The outstanding balances between funds result from a pooled cash account maintained in the General Fund and paid to other funds as cash needs demand.

Interfund transfers consist of the following:

Transfers In	Transfers Out
	General Fund
Debt Retirement Fund	\$ <u>436,426</u>

Transfers from the General Fund to Debt Retirement Fund were made to cover the Academy's debt needs that could not be provided by Debt Retirement Fund revenue.

Note 6 - Unearned Revenue

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

Grant and categorical aid payments received prior to meeting all eligibility requirements	<u>\$ 663,794</u>
---	-------------------

Note 7 - Leases

At June 30, 2023, the Academy has the following multi-year lease agreements:

	<u>Right to Use Asset</u>	<u>Right to Use Liability</u>
<p>Three buses with an initial lease liability of \$137,791 due in monthly installments of \$4,050 at a discount rate of 3.92%. Payments begin November 2022 and continue for 36 months until the final payment in October 2025.</p>	\$ 107,171	\$ 108,200
<p>Two copiers with an initial lease liability of \$30,786 due in monthly installments of \$988 at a discount rate of 2.07%. Payments begin November 2018 and continue for 63 months until the final payment in February 2024.</p>	<u>7,696</u>	<u>7,842</u>
Total	<u>\$ 114,867</u>	<u>\$ 116,042</u>

Detroit Community Schools
Notes to the Financial Statements
June 30, 2023

At June 30, 2023, the Academy has the following minimum lease payments:

	Principal	Interest
Year ending June 30,		
2024	\$ 53,007	\$ 3,497
2025	46,967	1,633
2026	16,068	131
Total	\$ 116,042	\$ 5,261

Note 8 - State Aid Anticipation Note

The Academy issues state aid anticipation notes in advance of state aid collections, depositing the proceeds in the General Fund. These notes are necessary because the Academy receives state aid from October through the following August for its fiscal year ending June 30th.

Short-term debt activity for the year was as follows:

	Beginning Balance	Proceeds	Repayments	Ending Balance
State Aid Note Payable dated September 2022 bearing interest at 5.40%, due August 2023	\$ -	\$ 960,000	\$ 788,469	\$ 171,531
State Aid Note Payable dated September 2021 bearing interest at 3.30%, due September 2022	168,845	-	168,845	-
	\$ 168,845	\$ 960,000	\$ 957,314	\$ 171,531

The state aid anticipation note agreement includes an irrevocable set-aside of \$788,469 at year end that is considered defeased debt and not included in the ending balance.

Note 9 - Long-Term Debt

The Academy issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the Academy. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Bonds and notes payable					
General obligation bonds	\$ 8,325,000	\$ -	\$ -	\$ 8,325,000	\$ -
Other liabilities					
Leases	19,406	137,791	41,155	116,042	53,007
Total	\$ 8,344,406	\$ 137,791	\$ 41,155	\$ 8,441,042	\$ 53,007

General obligation bonds payable at year end, consist of the following:

\$8,325,000 2021 refunding bond due in annual installments of \$470,000 to \$1,635,000 through November 2036, interest at 5.0%	\$ 8,325,000
--	--------------

Detroit Community Schools
Notes to the Financial Statements
June 30, 2023

Future principal and interest requirements for bonded debt are as follows:

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ -	\$ 416,250	\$ 416,250
2025	470,000	416,250	886,250
2026	495,000	392,750	887,750
2027	520,000	368,000	888,000
2028	545,000	342,000	887,000
2029 - 2033	3,165,000	1,272,500	4,437,500
2034 - 2036	<u>3,130,000</u>	<u>358,250</u>	<u>3,488,250</u>
Total	<u>\$ 8,325,000</u>	<u>\$ 3,566,000</u>	<u>\$ 11,891,000</u>

The general obligation bonds are payable from the Debt Retirement Fund. As of year end, the fund had a balance of \$962,937 to pay this debt. Future debt and interest will be payable from set-asides withheld from general fund state aid revenues. Set-asides for interest began in fiscal year 2022; set-asides for principal will begin November 2023.

The Academy is bound to two covenants related to the outstanding bond debt. The first covenant, operating reserve balance covenant, requires that the Academy maintain at least 60 days cash on hand as measured on the last day of each fiscal year. The second covenant, debt service coverage ratio covenant, further requires the Academy to maintain 90 days cash on hand and a debt service coverage ratio that will be at least 1.0 times during the fiscal year or, if the Academy maintains fewer than 90 days cash on hand, the Academy will maintain a debt service coverage ratio that will be at least 1.1 times during the fiscal year. The Academy is required to provide a certification to the Trustee for both covenants by December 31 of each fiscal year. As of June 30, 2023, the Academy meets both covenant tests.

Note 10 - Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) and certain medical benefits provided to employees. The Academy has purchased commercial insurance for general liability, property and casualty claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

Note 11 - MDE Assessments

Penalties assessed by the Michigan Department of Education (MDE) in August 2016 and March 2019 for employing an administrator who has not been properly certified under Michigan Compiled Law (MCL) 380.1233 and MCL 380.1246.

Assessments paid to MDE during the year ended June 30, 2023 amounted to \$33,969.

Note 12 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time, although the Academy expects such amounts, if any, to be immaterial. A separate report on federal compliance has been issued for the year ended June 30, 2023.

REQUIRED SUPPLEMENTARY INFORMATION

Detroit Community Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2023

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Local sources	\$ 25,000	\$ 127,383	\$ 105,546	\$ (21,837)
State sources	5,065,431	5,789,925	5,341,921	(448,004)
Federal sources	2,021,162	2,243,348	1,851,500	(391,848)
Interdistrict sources	-	210,274	343,287	133,013
	<u>7,111,593</u>	<u>8,370,930</u>	<u>7,642,254</u>	<u>(728,676)</u>
Total revenues				
Expenditures				
Instruction				
Basic programs	2,323,949	2,536,519	2,643,833	107,314
Added needs	320,377	214,423	238,819	24,396
Supporting services				
Pupil	516,055	403,659	372,281	(31,378)
Instructional staff	327,042	139,696	204,262	64,566
General administration	362,073	906,126	961,917	55,791
School administration	332,063	320,955	319,590	(1,365)
Business	463,321	140,459	111,724	(28,735)
Operations and maintenance	1,085,422	1,105,656	1,084,462	(21,194)
Pupil transportation services	239,470	410,501	301,265	(109,236)
Central	339,859	335,131	272,623	(62,508)
Community services	70,036	82,195	83,109	914
Athletic activities	101,834	93,075	112,184	19,109
Capital outlay	-	600,000	326,571	(273,429)
Debt service				
Principal	-	41,155	41,155	-
Interest and fiscal charges	-	3,101	31,525	28,424
	<u>6,481,501</u>	<u>7,332,651</u>	<u>7,105,320</u>	<u>(227,331)</u>
Total expenditures				
Excess of revenues over expenditures				
	<u>630,092</u>	<u>1,038,279</u>	<u>536,934</u>	<u>(501,345)</u>

Detroit Community Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2023

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources (Uses)				
Proceeds from issuance of leases	-	-	137,791	137,791
Transfers out	<u>(421,047)</u>	<u>(438,371)</u>	<u>(436,426)</u>	<u>(1,945)</u>
Total other financing sources (uses)	<u>(421,047)</u>	<u>(438,371)</u>	<u>(298,635)</u>	<u>135,846</u>
Net change in fund balance	209,045	599,908	238,299	(365,499)
Fund balance - beginning	<u>649,549</u>	<u>649,549</u>	<u>649,549</u>	<u>-</u>
Fund balance - ending	<u>\$ 858,594</u>	<u>\$ 1,249,457</u>	<u>\$ 887,848</u>	<u>\$ (365,499)</u>

OTHER SUPPLEMENTARY INFORMATION

**Detroit Community Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2023**

	Special Revenue Funds		Total Nonmajor Governmental Funds
	Cafeteria	Student and School Activities Fund	
Assets			
Due from other funds	\$ 320,741	\$ 15,248	\$ 335,989
Due from other governmental units	26,462	-	26,462
Total assets	\$ 347,203	\$ 15,248	\$ 362,451
Liabilities			
Accounts payable	\$ 26,755	\$ -	\$ 26,755
Fund Balance			
Restricted for			
Food service	320,448	-	320,448
Committed	-	15,248	15,248
Total fund balance	320,448	15,248	335,696
Total liabilities and fund balance	\$ 347,203	\$ 15,248	\$ 362,451

Detroit Community Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2023

	Special Revenue Funds		Total Nonmajor Governmental Funds
	Cafeteria	Student and School Activities Fund	
Revenues			
Local sources	\$ 116	\$ 28,326	\$ 28,442
Federal sources	467,924	-	467,924
	<u>468,040</u>	<u>28,326</u>	<u>496,366</u>
Total revenues			
	<u>468,040</u>	<u>28,326</u>	<u>496,366</u>
Expenditures			
Current			
Education			
School and student activities	-	27,920	27,920
Food services	387,186	-	387,186
	<u>387,186</u>	<u>27,920</u>	<u>415,106</u>
Total expenditures			
	<u>387,186</u>	<u>27,920</u>	<u>415,106</u>
Net change in fund balance	80,854	406	81,260
Fund balance - beginning	239,594	14,842	254,436
Fund balance - ending	<u>\$ 320,448</u>	<u>\$ 15,248</u>	<u>\$ 335,696</u>

Detroit Community Schools

Single Audit

June 30, 2023



YEO & YEO

**BUSINESS SUCCESS
PARTNERS**

Table of Contents

	Page
Single Audit	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	3
Schedule of Expenditures of Federal Awards	6
Notes to the Schedule of Expenditures of Federal Awards	8
Schedule of Findings and Questioned Costs	10
Summary Schedule of Prior Audit Findings	12
Corrective Action Plan	13

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditors' Report

Management and the Board of Directors
Detroit Community Schools
Detroit, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Detroit Community Schools, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Detroit Community Schools' basic financial statements, and have issued our report thereon dated October 24, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Detroit Community Schools' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinions on the effectiveness of Detroit Community Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Detroit Community Schools' internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2023-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Detroit Community Schools' 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2023-001.

Detroit Community Schools' Response to Findings and Corrective Action Plan

Government Auditing Standards requires the auditor to perform limited procedures on Detroit Community Schools' response to the finding identified in our audit and described in the accompanying schedule of findings and questioned costs and corrective action plan. Detroit Community Schools' response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

Yeo & Yeo, P.C.

Ann Arbor, MI
October 24, 2023

Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditors' Report

Management and the Board of Directors
Detroit Community Schools
Detroit, Michigan

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Detroit Community Schools' compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Detroit Community Schools' major federal programs for the year ended June 30, 2023. Detroit Community Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Detroit Community Schools complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Detroit Community Schools and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Detroit Community Schools' compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or agreements applicable to Detroit Community Schools' federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Detroit Community Schools' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Detroit Community Schools' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Detroit Community Schools' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Detroit Community Schools' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Detroit Community Schools' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal

program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of each major fund and the aggregate remaining fund information of Detroit Community Schools, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Detroit Community Schools' basic financial statements. We issued our report thereon dated October 24, 2023, which contained unmodified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Yeo & Yeo, P.C.

Ann Arbor, MI
October 24, 2023

Detroit Community Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Federal Grantor Pass-Through Grantor Program or Cluster Title	Grant/ Project Number	Federal AL Number	Approved Grant Amount	Accrued (Unearned) Revenue July 1, 2022	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts	Accrued (Unearned) Revenue June 30, 2023
U.S. Department of Agriculture								
Passed through Michigan Department of Education								
Child Nutrition Cluster								
Non-cash assistance (commodities)								
National School Lunch Program								
Entitlement Commodities	N/A	10.555	\$ 18,013	\$ -	\$ -	\$ 18,013	\$ 18,013	\$ -
Bonus Commodities	N/A	10.555	33	-	-	33	33	-
Total non-cash assistance				<u>-</u>	<u>-</u>	<u>18,046</u>	<u>18,046</u>	<u>-</u>
Cash assistance								
National School Breakfast Program								
COVID-19 - Seamless Summer Option	231970	10.553	124,043	-	-	124,043	116,001	8,042
COVID-19 - Seamless Summer Option	221971	10.553	73,984	6,971	61,443	12,541	19,512	-
Total National School Breakfast Program				<u>6,971</u>	<u>61,443</u>	<u>136,584</u>	<u>135,513</u>	<u>8,042</u>
National School Lunch Program								
Supply Chain Assistance	230910	10.555	9,919	-	-	9,919	9,919	-
Supply Chain Assistance	231960	10.555	248,557	-	-	248,557	230,138	18,419
COVID-19 - Supply Chain Assistance	220910	10.555	49,360	-	24,494	24,866	24,866	-
COVID-19 - Supply Chain Assistance	221961	10.555	150,619	14,814	121,295	29,324	44,138	-
Total National School Lunch Program				<u>14,814</u>	<u>145,789</u>	<u>312,666</u>	<u>309,061</u>	<u>18,419</u>
Total Child Nutrition Cluster				<u>21,785</u>	<u>207,232</u>	<u>467,296</u>	<u>462,620</u>	<u>26,461</u>
Passed through Michigan Department of Education								
Child and Adult Care Food Program - cash in lieu								
Child and Adult Care Food Program	222010	10.558	702	69	702	-	69	-
Child and Adult Care Food Program	221920	10.558	9,878	970	9,878	-	970	-
Total Child and Adult Care Food Program				<u>1,039</u>	<u>10,580</u>	<u>-</u>	<u>1,039</u>	<u>-</u>
COVID-19 Pandemic EBT Local Level Costs	220980-2022	10.649	628	-	-	628	628	-
Total U.S. Department of Agriculture				<u>22,824</u>	<u>217,812</u>	<u>467,924</u>	<u>464,287</u>	<u>26,461</u>
U.S. Department of Education								
Passed through Wayne RESA								
Special Education Cluster								
Special Education - Grants to States	n/a	84.027	87,248	-	-	87,248	87,248	-
Special Education - Grants to States	n/a	84.027	141,775	28,368	141,775	-	28,368	-
Total Special Education Cluster				<u>28,368</u>	<u>141,775</u>	<u>87,248</u>	<u>115,616</u>	<u>-</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Detroit Community Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Federal Grantor Pass-Through Grantor Program or Cluster Title	Grant/ Project Number	Federal AL Number	Approved Grant Amount	Accrued (Unearned) Revenue July 1, 2022	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts	Accrued (Unearned) Revenue June 30, 2023
Passed through Calhoun County ISD								
Title I, Part A - Grants to Local Educational Agencies - Technical Assistance Grant (TAG)	231580	84.010	20,000	-	-	19,017	-	19,017
Passed through Michigan Department of Education								
Title I, Part A - Grants to Local Educational Agencies	231530-2223	84.010	522,884	-	-	304,867	255,353	49,514
Title I, Part A - Grants to Local Educational Agencies	221530-2122	84.010	460,694	60,835	350,299	52,179	113,014	-
				<u>60,835</u>	<u>350,299</u>	<u>357,046</u>	<u>368,367</u>	<u>49,514</u>
Total Title I, Part A - Grants to Local Educational Agencies				<u>60,835</u>	<u>350,299</u>	<u>376,063</u>	<u>368,367</u>	<u>68,531</u>
Title II, Part A - Supporting Effective Instruction State Grants	230520-2223	84.367	81,786	-	-	48,842	33,391	15,451
Title II, Part A - Supporting Effective Instruction State Grants	220520-2122	84.367	82,280	1,247	4,207	6,837	8,084	-
				<u>1,247</u>	<u>4,207</u>	<u>55,679</u>	<u>41,475</u>	<u>15,451</u>
Title IV, Part A - Student Support and Academic Enrichment Program								
Title IV, Part A - Student Support and Academic Enrichment Program	230750-2223	84.424A	63,865	-	-	56,185	43,179	13,006
Title IV, Part A - Student Support and Academic Enrichment Program	220750-2122	84.424A	66,248	3,506	6,139	11,796	15,302	-
				<u>3,506</u>	<u>6,139</u>	<u>67,981</u>	<u>58,481</u>	<u>13,006</u>
Education Stabilization Fund								
COVID-19 Governor's Emergency Education Relief	201200-2021	84.425C	63,317	-	-	1,279	1,279	-
COVID-19 Governor's Emergency Education Relief II - Benchmark Assessments	211222-2022	84.425C	3,513	-	-	1,950	1,950	-
				<u>-</u>	<u>-</u>	<u>3,229</u>	<u>3,229</u>	<u>-</u>
COVID-19 Elementary and Secondary School Emergency Relief Fund (Formula Funds II)								
COVID-19 Elementary and Secondary School Emergency Relief Fund (Education Equity Funds)	213712-2021	84.425D	1,363,228	189,796	956,064	368,734	512,529	46,001
COVID-19 Elementary and Secondary School Emergency Relief Fund (Formula Funds)	203720-1920	84.425D	76,352	-	-	1	1	-
COVID-19 Elementary and Secondary School Emergency Relief Fund (Formula Funds)	203710-1920	84.425D	381,759	-	1,376	475	475	-
				<u>189,796</u>	<u>957,440</u>	<u>369,210</u>	<u>513,005</u>	<u>46,001</u>
COVID-19 American Rescue Plan - Elementary and Secondary School Emergency Relief Fund (ARP/ESSER III)								
COVID-19 American Rescue Plan - Elementary and Secondary School Emergency Relief Fund (ARP/ESSER III)	213713-2122	84.425U	3,063,795	317,778	1,054,109	824,465	827,236	315,007
Total Education Stabilization Fund				<u>507,574</u>	<u>2,011,549</u>	<u>1,196,904</u>	<u>1,343,470</u>	<u>361,008</u>
Total Passed through Michigan Department of Education				<u>573,162</u>	<u>2,372,194</u>	<u>1,677,610</u>	<u>1,811,793</u>	<u>438,979</u>
Total U.S. Department of Education				<u>601,530</u>	<u>2,513,969</u>	<u>1,783,875</u>	<u>1,927,409</u>	<u>457,996</u>
Total Federal awards				<u>\$ 624,354</u>	<u>\$ 2,731,781</u>	<u>\$ 2,251,799</u>	<u>\$ 2,391,696</u>	<u>\$ 484,457</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Detroit Community Schools
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2023

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Detroit Community Schools under programs of the federal government for the year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Detroit Community Schools, it is not intended to and does not present the financial position or changes in financial position of Detroit Community Schools.

Note 2 - Summary of Significant Accounting Policies

Expenditures

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in the Uniform Guidance where certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate

Detroit Community Schools has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 - Reconciliation to the Financial Statements

The federal revenues per the financial statements are in agreement with the schedule of expenditures of federal awards as follows:

Expenditures per the schedule of expenditures of federal awards	\$ 2,251,799
ARP/ESSER III funds not received within 60 days of June 30, 2022 year end	<u>67,625</u>
Federal revenues per the financial statements	<u>\$ 2,319,424</u>

Detroit Community Schools
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2023

Note 4 - Michigan Department of Education (MDE) Disclosures

The federal amounts reported on the grant auditor report are in agreement with the schedule of expenditures of federal awards except for the following timing differences of when the deposits were made:

Program	Federal Assistance Listing Number	Grant Number	Reported on Grant Auditor Report	Reported on Schedule of Expenditures of Federal Awards	Difference due to timing of cash receipts
COVID-19 Governor's Emergency Education Relief COVID-19 Elementary and Secondary School Emergency Relief Fund (Education Equity Funds)	84.425C	201200-2021	\$ -	\$ 1,279	\$ 1,279
COVID-19 Elementary and Secondary School Emergency Relief Fund (Formula Funds)	84.425D	203720-1920	-	1	1
COVID-19 Elementary and Secondary School Emergency Relief Fund (Formula Funds II)	84.425D	203710-1920	-	475	475
COVID-19 Elementary and Secondary School Emergency Relief Fund (Formula Funds II)	84.425D	213712-2021	412,449	512,529	100,080
COVID-19 American Rescue Plan - Elementary and Secondary School Emergency Relief Fund (ARP/ESSER III)	84.425U	213713-2122	627,684	827,236	199,552
Title I, Part A - Grants to Local Educational Agencies	84.010	221530-2122	70,454	113,014	42,560

The amounts reported on the recipient entitlement balance report agree with the schedule of expenditures of federal awards for U.S.D.A. donated food commodities.

Note 5 - Subrecipients

No amounts were provided to subrecipients.

Detroit Community Schools
Schedule of Findings and Questioned Costs
June 30, 2023

Section I – Summary of Auditors’ Results

Financial Statements

Type of report the auditor issued on whether the financial statements were prepared in accordance with Generally Accepted Accounting Principles:
 Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified yes X none reported
- Noncompliance material to financial statements noted? X yes no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified yes X none reported

Type of auditors’ report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes X no

Identification of major federal programs:

CFDA Number(s) *Name of Federal Program or Cluster*

84.425C, 84.425D, 84.425U Education Stabilization Fund

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? yes X no

**Detroit Community Schools
Schedule of Findings and Questioned Costs
June 30, 2023**

Section II – Government Auditing Standards Findings

**Finding 2023-001 – Material Weakness in Internal Control Over Financial Reporting and Material Noncompliance –
Unfavorable Budget Variances**

- Criteria:** The Uniform Budgeting and Accounting Act (the Act) requires the Academy to adopt a budget for the General Fund and special revenue funds. Additionally, the Act also requires the Academy to amend the original adopted budget “as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined”. The Act also states that “an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body”.
- Condition:** During our review of the Academy’s compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated in certain areas within the Student and School Activities Fund. Additionally, there was no board approved budget as required by the Act.
- Cause/Effect:** The Academy did not adopt a budget nor sufficiently amend the budget when it became apparent spending was going to exceed the amounts appropriated in the over budget areas. The Academy has not maintained adequate control over budgetary compliance in accordance with State law in the certain areas where the overages occurred.
- Recommendation:** We recommend the Academy develop and appropriately amend a comprehensive budget to be approved by the Board of Education sufficient to cover expected expenditures at year-end.
- Views of Responsible Officials:** Management agrees with the finding.
- Corrective Action Plan:** See attached corrective action plan.

Section III – Federal Award Findings and Questioned Costs

There were no findings or questioned costs for Federal Awards for the year ended June 30, 2023.

**Detroit Community Schools
Summary Schedule of Prior Audit Findings
June 30, 2023**

Section IV – Government Auditing Standards Findings

Finding 2022-001, 2021-001 – Material Weakness in Internal Control Over Financial Reporting and Material Noncompliance – Unfavorable Budget Variances

Criteria: The Uniform Budgeting and Accounting Act requires the Academy to amend the original adopted budget “as soon as it become apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined”. The Act also states that “an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body”.

Status: Finding has not been corrected. See finding 2023-001.

Section V - Federal Award Findings and Questioned Costs

There were no findings or questioned costs for Federal Awards for the year ended June 30, 2022.



Detroit Community Schools

EDUCATION IS POWER

Corrective Action Plan FY 2023 Single Audit: Finding 2023-001

The academy will provide the board of directors budgets for each fund the academy uses during the fiscal year. The academy will monitor the expenditures in the board approved budget to ensure that expenditures do not go over the budgeted amounts. The academy maintains that it adopts three budgetary amendments during the fiscal the year.

Responsible Party:

Carletta Counts 10/27/23

Carletta Counts, Executive Director

MM1, Inc.

Management Company/ESP

Detroit Community Schools Board of Directors



800.968.0010 | YEOANDYEO.COM

October 24, 2023

Management and the Board of Directors
Detroit Community Schools
Detroit, Michigan

We have audited the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Detroit Community Schools (the Academy) as of and for the year ended June 30, 2023. We are required to communicate certain matters to you in accordance with generally accepted auditing standards that are related to internal control and the audit.

Our communication includes the following appendices:

- I. Auditors' Communication of Significant Matters with Those Charged with Governance
- II. Matters for Management's Consideration

Matters for management's consideration are not required to be communicated but we believe are valuable for management.

We discussed these matters with various personnel in the Academy during the audit including management. We would also be pleased to meet with you to discuss these matters at your convenience.

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

Yeo & Yeo, P.C.

Ann Arbor, Michigan

Appendix I

Auditors' Communication of Significant Matters with Those Charged with Governance

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, and *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated May 19, 2023. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Academy are described in the footnotes of the financial statements. The Academy has adopted the following Governmental Accounting Standards Board Statement effective July 1, 2022:

- Statement No. 96, *Subscription-Based Information Technology Arrangements* is based on the standards established in Statement No. 87 *Leases*. This statement (1) defines a SBITA as a contract that conveys control of the right to use a SBITA vendor's IT software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction (2) requires governments with SBITAs to recognize a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability, and (3) provides guidance related to outlays other than subscription payments, including implementation costs, and requirements for note disclosures related to a SBITA.

We noted no transactions entered into by the Academy during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Academy's financial statements were:

- The useful lives of its capital assets. Useful lives are estimated based on the expected length of time during which the asset is able to deliver a given level of service.
- Right of use assets and lease arrangement liabilities. The estimate is based on management's assessment of the likelihood of exercising renewal options and utilizing reasonable interest and discount rates.

We have evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Disclosures in the financial statements are neutral, consistent and clear.

A significant risk is an identified and assessed risk of material misstatement that, in the auditors' professional judgment, requires special audit consideration. Within our audit, we focused on the following areas.

- Management override of controls
- Improper revenue recognition

- Implementation of new accounting standard
- Information Technology General Controls (ITGC)
- QuickBooks as accounting software

Accounting Standards and Regulatory Updates

The Governmental Accounting Standards Board has released additional Statements. Details regarding these Statements are described in the footnotes of the financial statements.

Implementation Guide No 2021-1, *Implementation Guidance Update-2021* has an amended response related to the capitalization of assets purchased as a group. Under the amended guidance, governments *should* capitalize individual items when the purchase in the aggregate is considered significant, even if the individual items are less than the capitalization threshold of the government. The effective date for implementation is for reporting periods beginning after June 15, 2023 (effectively, for the first year ended June 30, 2024 or later) and requires retroactive implementation.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial and communicate them to the appropriate level of management. Management has corrected all such misstatements except as discussed below.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Management has determined that the effects of the uncorrected misstatements affecting the net position at June 30, 2022 (summarized below) was immaterial both individually and, in the aggregate, to the June 30, 2022 financial statements taken as a whole. For the year ended June 30, 2023, management correctly recorded material leases related to GASB 87 and have presented the required footnotes. Those footnotes related to GASB 87 Leases have been updated to reflect these lease assets and liabilities as if they were implemented at June 30, 2022.

June 30, 2022 Description	Over (Under) Stated					
	Total Assets	Total Liabilities	Total Net Assets	Revenues	Expenditures	Change in Net Assets
Government-Wide Leases, beginning of year	\$ (19,241)	\$ (19,406)	\$ 165	\$ -	\$ -	\$ -

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management’s Consultations with Other Accountants

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

Other Audit Findings or Issues

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

Other Reports

Other information that is required to be reported to you is included in the: Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*; Independent Auditors’ Report on Compliance for Each Major Federal Program; Independent Auditors’ Report on Internal Control Over Compliance; Independent Auditors’ Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance and the Schedule of Findings and Questioned Costs. Please read all information included in those reports to ensure you are aware of relevant information.

Report on Required Supplementary Information

We applied certain limited procedures to management’s discussion and analysis and the remaining required supplementary information (RSI) as described in the table of contents of the financial statements that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Report on Other Supplementary Information

We were engaged to report on other supplementary information as described in the table of contents of the financial statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Appendix II Matters for Management’s Consideration

In planning and performing our audit of the financial statements of the Academy as of and for the year ended June 30, 2023, we considered the Academy’s internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion 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.

However, during our audit we became aware of the following matters for management’s consideration that are opportunities for strengthening internal controls. This letter does not affect our report dated October 24, 2023, on the financial statements of the Academy:

QuickBooks Accounting Software

Unlike most other accounting software packages, QuickBooks does not provide for an irreversible closing of fiscal years. Instead, QuickBooks provides an option to password protect the accounting records up through a specific date. We encourage all users of QuickBooks to implement this option and password protect those years which have been audited, after ensuring that QuickBooks records match the audited financial statements. This password protection however does still allow changes to prior periods once the password is entered. The importance of not making changes to password protected periods needs to be instilled in all who know the password. In addition, QuickBooks does not void checks per se. When the void check option is chosen in QuickBooks it is in effect deleting the check as of the date the check was written rather than voiding the check as of the date you choose to void it. This poses problems when the check issue date and the void date are in different fiscal years.

There are broad categories of permissions which should be reviewed and set for each particular user, based on their needs. One of these categories is the ability to change or delete transactions and the ability to change or delete transactions before the closing date. Remember that the Administrator user automatically has rights to all broad categories, and therefore may not be the correct user set-up for some users. These categories however are very broad. Anyone given access to input accounts receivable invoices has access to record the receipt of accounts receivable monies and create write-offs of accounts receivable. Therefore, QuickBooks cannot be relied upon to enforce segregation of duties.

Budget Monitoring and Variances

The Uniform Budgeting and Accounting Act requires the Academy to amend the original adopted budget “as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined”. The Act also states that “an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body”. During our review of the Academy’s compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated in certain areas within the General Fund. Although the amounts were not significant the Academy should strive to adopt a complete budget to ensure compliance with the Uniform Budgeting and Accounting Act.

Net Cash Resources

As a result of the COVID-19 pandemic and flexibilities awarded related to eligibility and food distribution, meal claim revenues were in excess of anticipated amounts. A proportional increase to expenditures did not occur, resulting in the continuation of net cash resources exceeding the three-month average expenditure requirement included in the federal regulations. The noncompliance has not been determined to be material to the federal program or the financial statements, as it has not resulted in questioned costs, or negatively impacted the program; as the Academy is actively working on using the funds to enhance the program and has adopted a spend down plan with Michigan Department of Education (MDE). However, the Academy must continue to take action to return to compliance. The Academy may reduce lunch prices in a manner that is consistent with the paid lunch equity provisions, improve food quality, or take other action designated to improve the program. We

recommend that the Academy look at possible enhancements to the program in order to continue or amend its spend down plan to return to compliance with this requirement.

Final Expenditure Reports and Federal Reimbursements

The Academy reports federal awards on the schedule of expenditures of federal awards (SEFA). Many of these awards are funded on a reimbursement basis; once expenses are incurred and paid, the Academy is reimbursed by the appropriate government agency. We noted on the SEFA cash receipts and revenue for \$3,705 that could not be agreed to nor reconciled to expenditures to support the request for reimbursement. The awards that make up that amount are as follows:

Federal Grantor Program or Cluster Title	Grant/ Project Number	Federal AL Number	Current Year Revenue and Receipts
Education Stabilization Fund			
COVID-19 Governor's Emergency Education Relief	201200-2021	84.425C	\$ 1,279
COVID-19 Governor's Emergency Education Relief II - Benchmark Assessments	211222-2022	84.425C	1,950
COVID-19 Elementary and Secondary School Emergency Relief Fund (Education Equity Funds)	203720-1920	84.425D	1
COVID-19 Elementary and Secondary School Emergency Relief Fund (Formula Funds)	203710-1920	84.425D	<u>475</u>
			<u>\$ 3,705</u>

These amounts were included in the final expenditure reports (FER) filed by the Academy but, similarly, there were no expenditures provided to support the FER. We recommend the Academy ensure expenditures and revenues are appropriately coded to the correct funding source and appropriate support is maintained for reimbursements and filing of each FER.

Michigan Chart of Accounts

The Michigan School Accounting Manual outlines specific funds, functions and object codes that should be maintained in the Academy's chart of accounts. Transactions should adhere to the required chart of accounts to ensure consistent recording of transactions within the Academy and compared to grand budgets. During our audit we noted several immaterial transactions that were coded for the wrong object code (such as a salary object code where a purchased service object code would have been more appropriate) and wrong function code (such as middle school function where high school function would have been more appropriate). We recommend the Academy disable function and/or object codes it no longer uses or rename accounts to offer more clarity when transactions are posted to QuickBooks.