

The Dearborn Academy

**Financial Report
with Supplemental Information
June 30, 2014**

The Dearborn Academy

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Independent Auditor's Report

To the Board of Directors
The Dearborn Academy

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the remaining fund information of The Dearborn Academy (the "Academy"), as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise The Dearborn Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

To the Board of Directors
The Dearborn Academy

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the remaining fund information of The Dearborn Academy as of June 30, 2014 and the respective changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Required Supplemental Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2014 on our consideration of The Dearborn Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Dearborn Academy's internal control over financial reporting and compliance.

Plante & Moran, PLLC

September 29, 2014

The Dearborn Academy

Management's Discussion and Analysis

This section of The Dearborn Academy's (the "Academy") annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2014. Please read it in conjunction with the Academy's financial statements, which 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 Dearborn Academy financially as a whole. The government-wide financial statements provide information about the activities of the whole Academy, presenting 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, these 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 government-wide financial statements by providing information about the Academy's most significant fund - the General Fund, with the nonmajor Food Service Fund presented in one column as a nonmajor fund.

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

Basic Financial Statements

Government-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for the General Fund

The Dearborn Academy

Management's Discussion and Analysis (Continued)

Reporting the Academy as a Whole - Government-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 used by most private sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. 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 or 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 revenue and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits 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 the statement of activities report the governmental activities for the Academy, which encompass all of the Academy's services, including instruction, support services, community services, athletics, and food services. 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 maintains another fund to help it control and manage money for particular purposes (the Food Service Fund). 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.

The Dearborn Academy

Management's Discussion and Analysis (Continued)

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, 2014 and 2013:

Table I

	Governmental Activities	
	June 30	
	2014	2013
	(in thousands)	
Assets		
Current and other assets	\$ 2,395.4	\$ 2,604.7
Capital assets	330.8	353.2
Total assets	2,726.2	2,957.9
Liabilities - Current	782.5	760.4
Net Position		
Net investment in capital assets	330.8	353.2
Unrestricted	1,612.9	1,844.3
Total net position	<u>\$ 1,943.7</u>	<u>\$ 2,197.5</u>

The above analysis focuses on the net position (see Table I). The change in net position (see Table 2) of the Academy's governmental activities is discussed below. The Academy's net position was \$1.9 million at June 30, 2014. Capital assets totaling \$330,800 is the original cost less depreciation of the Academy's capital assets.

The \$1.6 million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The unrestricted net position balance enables the Academy to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the Academy as a whole are reported in the statement of activities (Table 2), which shows the changes in net position for fiscal years 2014 and 2013.

The Dearborn Academy

Management's Discussion and Analysis (Continued)

Table 2

	Governmental Activities	
	Year Ended June 30	
	2014	2013
	(in thousands)	
Revenue		
Program revenue:		
Charges for services	\$ 6.3	\$ 1.2
Operating grants and contributions	1,286.4	1,370.0
General revenue:		
State foundation allowance	3,635.1	3,271.2
Other	7.0	9.6
Total revenue	<u>4,934.8</u>	<u>4,652.0</u>
Functions/Program Expenses		
Instruction	2,107.0	1,888.4
Support services	2,568.7	2,633.9
Athletics	61.1	56.8
Food services	407.6	330.5
Community services	21.8	71.0
Depreciation expense (unallocated)	22.4	22.5
Total functions/program expenses	<u>5,188.6</u>	<u>5,003.1</u>
Decrease in Net Position	<u>\$ (253.8)</u>	<u>\$ (351.1)</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$5.2 million. Certain activities were partially funded by other governments and organizations that subsidized certain programs with grants and contributions (\$1.3 million). We paid for the remaining "public benefit" portion of our governmental activities with \$3.6 million in state foundation allowance and with our other revenue (i.e., interest and general entitlements).

The Academy experienced a decrease in net position of \$253,800. The key reason for the change in net position was the additional funding provided to support educational programming based on the needs of the Academy, as well as the rise in operational expenses related to the facility.

As discussed above, the net cost shows the financial burden that was placed on the State by each of these functions. Since unrestricted state aid constitutes the vast majority of the Academy's operating revenue sources, the board of directors and administration must annually evaluate the needs of the Academy and balance those needs with state-prescribed available unrestricted resources.

The Dearborn Academy

Management's Discussion and Analysis (Continued)

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 the State and others provide to it and may provide more insight into the Academy's overall financial health.

As the Academy completed this year, the governmental funds reported a combined fund balance of \$1.6 million, which is a decrease of \$0.2 million from last year. The primary reason for the decrease is due to the additional funding provided to support educational programming based on the needs of the Academy, as well as the rise in the operational expenses related to the facility.

General Fund fund balance is available to fund costs related to allowable school operating purposes.

General Fund Budgetary Highlights

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

There were significant revisions made to the 2013-2014 General Fund original budget resulting from the Academy's revised operating plan due to the fluctuations in revenue and grant program activities.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2014, the Academy had \$0.3 million invested in capital assets, which include a modular building, furniture, and equipment.

There were no current year additions to capital assets.

No major capital projects are planned for the 2014-2015 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

The Academy has no outstanding long-term debt at June 30, 2014.

The Dearborn Academy

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

Our appointed officials and administration consider many factors when setting the Academy's 2014-2015 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2015 fiscal year is expected to be 10 percent and 90 percent of the February 2015 and October 2014 student counts, respectively. The 2015 budget was adopted in June 2014, based on an estimate of students that will be enrolled in September 2014. Approximately 77 percent of total General Fund revenue is from the foundation allowance. As a result, the Academy's funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2015 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2015 budget. Once the final student count and related per-pupil funding are validated, state law requires the Academy to amend the budget if actual Academy resources are not sufficient to fund original appropriations.

Since the Academy's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenue to fund its appropriation to academies. The State periodically holds a revenue-estimating conference to estimate revenue. If the State estimates funds are not sufficient to fund the appropriation, the legislature must revise the appropriation or pro ration of state aid will occur.

The Dearborn Academy

Statement of Net Position June 30, 2014

	Governmental Activities
Assets	
Cash (Note 3)	\$ 1,476,507
Receivables from other governmental units	854,093
Prepaid costs	39,871
Other current assets	25,000
Capital assets - Net (Note 5)	<u>330,776</u>
Total assets	2,726,247
Liabilities	
Accounts payable	711,670
Accrued payroll and other liabilities	269
Other current liabilities	41,842
Unearned revenue (Note 4)	<u>28,741</u>
Total liabilities	<u>782,522</u>
Net Position	
Net investment in capital assets	330,776
Unrestricted	<u>1,612,949</u>
Total net position	<u><u>\$ 1,943,725</u></u>

The Dearborn Academy

Statement of Activities Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenue		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
Primary government - Governmental activities:				
Instruction	\$ 2,106,994	\$ -	\$ 847,098	\$ (1,259,896)
Support services	2,568,728	-	31,736	(2,536,992)
Athletics	61,096	-	-	(61,096)
Food services	407,618	-	407,618	-
Community services	21,746	6,268	-	(15,478)
Depreciation expense (unallocated)	22,415	-	-	(22,415)
Total primary government	<u>\$ 5,188,597</u>	<u>\$ 6,268</u>	<u>\$ 1,286,452</u>	(3,895,877)
General revenue:				
State aid not restricted to specific purposes				3,635,102
Interest and investment earnings				1,556
Other				5,480
Total general revenue				<u>3,642,138</u>
Change in Net Position				(253,739)
Net Position - Beginning of year				<u>2,197,464</u>
Net Position - End of year				<u>\$ 1,943,725</u>

The Dearborn Academy

Governmental Funds Balance Sheet June 30, 2014

	General Fund	Nonmajor Food Service Fund	Total Governmental Funds
Assets			
Cash (Note 3)	\$ 1,476,507	\$ -	\$ 1,476,507
Receivables from other governmental units	821,051	33,042	854,093
Due from other funds (Note 6)	7,675	-	7,675
Prepaid costs	39,871	-	39,871
Other current assets	25,000	-	25,000
	<u>\$ 2,370,104</u>	<u>\$ 33,042</u>	<u>\$ 2,403,146</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 686,303	\$ 25,367	\$ 711,670
Accrued payroll and other liabilities	269	-	269
Other current liabilities	41,842	-	41,842
Due to other funds (Note 6)	-	7,675	7,675
Unearned revenue (Note 4)	28,741	-	28,741
	<u>757,155</u>	<u>33,042</u>	<u>790,197</u>
Fund Balances			
Nonspendable - Prepaid assets	39,871	-	39,871
Unassigned	1,573,078	-	1,573,078
	<u>1,612,949</u>	<u>-</u>	<u>1,612,949</u>
Total liabilities and fund balances	<u>\$ 2,370,104</u>	<u>\$ 33,042</u>	<u>\$ 2,403,146</u>

The Dearborn Academy

Governmental Funds **Reconciliation of the Balance Sheet of Governmental Funds to the** **Statement of Net Position** **June 30, 2014**

Fund Balance Reported in Governmental Funds \$ 1,612,949

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

Capital assets used in governmental activities are not financial resources and are not reported in the funds:

Cost of capital assets	\$ 577,339	
Accumulated depreciation	<u>(246,563)</u>	<u>330,776</u>

Net Position of Governmental Activities **\$ 1,943,725**

The Dearborn Academy

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2014

	General Fund	Nonmajor Food Service Fund	Total Governmental Funds
Revenue			
Local sources	\$ 15,304	\$ -	\$ 15,304
State sources	3,926,430	11,453	3,937,883
Federal sources	611,178	396,165	1,007,343
Total revenue	4,552,912	407,618	4,960,530
Expenditures - Current			
Instruction	2,106,994	-	2,106,994
Support services	2,568,728	-	2,568,728
Athletics	61,096	-	61,096
Food services	-	407,618	407,618
Community services	21,746	-	21,746
Total expenditures	4,758,564	407,618	5,166,182
Net Change in Fund Balances	(205,652)	-	(205,652)
Fund Balances - Beginning of year	1,818,601	-	1,818,601
Fund Balances - End of year	\$ 1,612,949	\$ -	\$ 1,612,949

The Dearborn Academy

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2014

Net Change in Fund Balances - Total Governmental Funds	\$ (205,652)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation -	
Depreciation expense	(22,415)
Revenue is reported in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end	<u>(25,672)</u>
Change in Net Position of Governmental Activities	<u>\$ (253,739)</u>

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Notes to Financial Statements June 30, 2014

Note I - Summary of Significant Accounting Policies

The accounting policies of The Dearborn Academy (the "Academy") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy:

Reporting Entity

The Academy was formed as a charter school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy provides education for students grades K through 8.

In July 2007, the Academy entered into a five-year contract with Central Michigan University to charter a public school academy, which was extended for another two years, expiring on June 30, 2015. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive State School Aid funds pursuant to the State Constitution.

The Central Michigan University Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Central Michigan University Board of Trustees 3.0 percent of state aid foundation allowance as administrative fees. The total administrative fees for the year ended June 30, 2014 were approximately \$105,000.

The Academy will undergo a reauthorization process to extend the charter beyond June 30, 2015. Management intends to fully pursue reauthorization with Central Michigan University. Management believes that the Academy's academic and financial performance is strong, both of which are considered important factors in the reauthorization process.

The accompanying basic 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 or financial relationships with the Academy. Based on the application of the criteria, the entity does not contain component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy's government-wide activities are considered governmental activities.

Note I - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Intergovernmental payments and other items not properly included among program revenues are reported instead as general revenue.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

When an expense is incurred for purposes for which both restricted and unrestricted net position or fund balance are available, the Academy's policy is to first apply restricted resources. When an expense is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the Academy's policy to spend funds in this order: committed fund balance, assigned fund balance, and unassigned fund balance.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all unrestricted state aid.

Note I - Summary of Significant Accounting Policies (Continued)

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. Revenue not meeting this definition is classified as a deferred inflow of resources. For this purpose, the Academy considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The Academy reports the following major governmental fund:

General Fund - The General Fund is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

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 expenditure for specified purposes. The Academy's Special Revenue Fund includes the Food Service Fund. Revenue sources for the Food Service Fund are derived primarily from grants received from state and federal sources. Any operating deficit generated by these activities is the responsibility of the General Fund.

Assets, Liabilities, and Net Position or Equity

Cash - Cash and investments include cash on hand and demand deposits.

Receivables - 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 Costs and Other Assets - Certain payments to vendors and security deposits reflect costs applicable to future fiscal years and deposits that the Academy is eligible to receive when leases expire. These are recorded as prepaid costs and other assets in both government-wide and fund financial statements.

Note I - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure-type assets.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and building additions	29 years
Furniture and other equipment	20 years

Fund Balance - Fund balance classifications comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications are comprised of the following - nonspendable, restricted, committed, assigned, and unassigned.

In the fund financial statements, governmental funds report the following components of fund balance:

- **Nonspendable** - Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted** - Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed** - Amounts that have been formally set aside by the board of directors for use for specific purposes. Commitments are made and can be rescinded only via resolution of the board of directors.
- **Assigned** - Intent to spend resources on specific purposes expressed by the board of directors.
- **Unassigned** - Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

The Dearborn Academy

Notes to Financial Statements June 30, 2014

Note 1 - Summary of Significant Accounting Policies (Continued)

Comparative Data - Comparative data is not included in the Academy's financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund and Food Service Fund. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits academies to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The Academy adjusted budgeted amounts during the year in response to actual and projected activity.

Encumbrance accounting is employed in governmental funds. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - The Academy did not have significant expenditures in excess of amounts budgeted.

Note 3 - Deposits and Investments

State statutes and the Academy's investment policy authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Academy is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Academy's deposits are in accordance with statutory authority.

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

The investment policy adopted by the board of directors in accordance with state statutes has authorized investment in bonds and securities of the United States government; agency obligations of the State; certificates of deposit issued by financial institutions organized and authorized to operate in this state; commercial paper rated prime 1 or prime 2 at the time of purchase and maturing not more than 270 days after the date of purchase; and Michigan Investment Liquid Asset Fund Plus (MILAF) investment pools, but not the remainder of state statutory authority as listed above.

The Dearborn Academy

Notes to Financial Statements June 30, 2014

Note 3 - Deposits and Investments (Continued)

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the Academy's deposits for custodial credit risk. At year end, the Academy's deposit balance of \$1,518,900 included \$1,182,703 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Academy evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 4 - Unavailable/Unearned Revenue

Governmental funds report unavailable revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of unearned and unavailable revenue are as follows:

	<u>Governmental Funds</u>
	<u>Liability - Unearned</u>
Grant and categorical aid payment received prior to meeting all eligibility requirements	<u>\$ 28,741</u>

The Dearborn Academy

Notes to Financial Statements June 30, 2014

Note 5 - Capital Assets

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

Governmental Activities	Balance July 1, 2013	Additions	Disposals	Balance June 30, 2014
Capital assets:				
Buildings and building improvements	\$ 490,028	\$ -	\$ -	\$ 490,028
Furniture and equipment	87,311	-	-	87,311
Total capital assets	577,339	-	-	577,339
Accumulated depreciation:				
Buildings and building improvements	178,197	17,820	-	196,017
Furniture and equipment	45,951	4,595	-	50,546
Total accumulated depreciation	224,148	22,415	-	246,563
Net capital assets	\$ 353,191	\$ (22,415)	\$ -	\$ 330,776

Depreciation expense was not charged to activities, as the Academy considers its assets to impact multiple activities and allocation is not practical.

Note 6 - Interfund Receivables and Payables

The composition of interfund balances is as follows:

Interfund balances include amounts due from the Food Service Fund to the General Fund of \$7,675. These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Note 7 - Operating Lease

The Academy has entered into an operating lease agreement for its facility. The lease expires on June 30, 2017 and contains five successive options to renew for an additional five years each after the expiration. Total payments for such lease was \$414,000 for the current year. The future minimum lease payments for this lease are as follows:

Years Ending June 30	Amount
2015	\$ 468,000
2016	486,000
2017	504,000
Total	\$ 1,458,000

The Dearborn Academy

Notes to Financial Statements June 30, 2014

Note 8 - Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. Employee-related claims for management company staff are covered by insurance policies held by the management company. The Academy has purchased commercial insurance for all other claims. There have been no claims brought against the Academy during the year ended June 30, 2014.

Note 9 - Management Agreement

In July 1997, the Academy entered into a management agreement with a for-profit corporation. The management company is responsible for substantially all of the management, operation, administration, education, and food services at the Academy. The Academy subcontracts most employees from the management company and reimburses the management company for operating costs. A majority of the accounts payable balance at June 30, 2014 is owed to the management company. The operating costs charged to the Academy by the management company were approximately \$4,115,000 for the year ended June 30, 2014. The agreement expires at the end of the Academy's 2014-2015 school year.

Note 10 - Defined Benefit Pension Plan and Postemployment Benefits

Plan Description - The Academy participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the Academy. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The system also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the pension and postemployment healthcare plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement Services at 7150 Harris Drive, P.O. Box 30171, Lansing MI 48909.

Note 10 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)

Pension Benefits - Employer contributions to the pension system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. For the period from July 1, 2013 through September 30, 2013 employees had the following plan options with the corresponding employer contribution rates:

	Basic MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus PHF*	Pension Plus to DC with PHF*	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
Pension contributions	15.21 %	15.02 %	15.02 %	12.78 %	12.78 %	12.78 %	15.21 %
Health contributions	9.11 %	9.11 %	8.18 %	8.18 %	9.11 %	8.18 %	8.18 %
Defined contribution plan employer contributions:							
DC employer contributions	0.00 %	1.00 %	1.00 %	3.00 %	4.00 %	4.00 %	0.00 %
Personal Healthcare Fund	0.00 %	0.00 %	2.00 %	2.00 %	0.00 %	2.00 %	2.00 %

* First worked September 4, 2012 or later

For the period from October 1, 2013 through June 30, 2014 employees had the following plan options with the corresponding employer contribution rates:

	Basic MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus PHF*	Pension Plus to DC with PHF*	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
Pension contributions	18.34 %	18.11 %	18.11 %	15.44 %	15.44 %	15.44 %	18.34 %
Health contributions	6.45 %	6.45 %	5.52 %	5.52 %	6.45 %	5.52 %	5.52 %
Defined contribution plan employer contributions:							
DC employer contributions	0.00 %	1.00 %	1.00 %	3.00 %	4.00 %	4.00 %	0.00 %
Personal Healthcare Fund	0.00 %	0.00 %	2.00 %	2.00 %	0.00 %	2.00 %	2.00 %

* First worked September 4, 2012 or later

Note 10 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)

Depending on the plan selected, plan member contributions range from 0 percent up to 7.0 percent of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

The Academy's required and actual contributions to the plan for the years ended June 30, 2014, 2013, and 2012 were \$10,467, \$10,683, and \$8,702, respectively.

Postemployment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent or 20 percent for those not Medicare eligible of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate ranged from 8.18 percent to 9.11 percent of covered payroll for the period from July 1, 2013 through September 30, 2013, and from 5.52 percent to 6.45 percent of covered payroll for the period October 1, 2013 through June 30, 2014 dependent upon the employee's date of hire and plan election as noted above. Members can choose to contribute 3 percent of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit, or they can elect not to pay the 3 percent contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date and create a 2 percent employer match into the employee's 401(k) account.

The Academy's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2014, 2013, and 2012 were \$6,269, \$6,215, and \$4,969, respectively.

Note 11 - Upcoming Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Academy is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the year ending June 30, 2015.

Required Supplemental Information

The Dearborn Academy

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Over (Under) <u>Final Budget</u>
Revenue				
Local sources	\$ 18,900	\$ 15,100	\$ 15,304	\$ 204
State sources	2,965,050	3,876,789	3,926,430	49,641
Federal sources	<u>683,601</u>	<u>653,606</u>	<u>611,178</u>	<u>(42,428)</u>
Total revenue	3,667,551	4,545,495	4,552,912	7,417
Expenditures - Current				
Instruction:				
Basic program	1,251,825	1,340,300	1,359,906	19,606
Added needs	655,832	867,622	747,088	(120,534)
Support services:				
Pupil	161,341	210,305	197,921	(12,384)
Instructional staff	210,083	290,325	253,818	(36,507)
General administration	559,452	566,095	581,092	14,997
School administration	275,432	186,211	171,454	(14,757)
Business	249,398	290,290	303,566	13,276
Operations and maintenance	852,995	1,022,501	936,675	(85,826)
Pupil transportation services	80,162	75,669	66,558	(9,111)
Central	55,080	57,489	57,644	155
Athletics	60,000	60,000	61,096	1,096
Community services	<u>45,361</u>	<u>43,462</u>	<u>21,746</u>	<u>(21,716)</u>
Total expenditures	<u>4,456,961</u>	<u>5,010,269</u>	<u>4,758,564</u>	<u>(251,705)</u>
Net Change in Fund Balance	(789,410)	(464,774)	(205,652)	259,122
Fund Balance - Beginning of year	<u>1,818,601</u>	<u>1,818,601</u>	<u>1,818,601</u>	-
Fund Balance - End of year	<u>\$ 1,029,191</u>	<u>\$ 1,353,827</u>	<u>\$ 1,612,949</u>	<u>\$ 259,122</u>