

Education Achievement Authority

**Financial Report
with Supplemental Information
June 30, 2015**

Education Achievement Authority

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Independent Auditor's Report

To the Board of Directors
Education Achievement Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Education Achievement Authority (the "School District", the "Authority", or the "EAA"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Education Achievement Authority'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Education Achievement Authority as of June 30, 2015, 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.

To the Board of Directors
Education Achievement Authority

Emphasis of Matter

The accompanying basic financial statements have been prepared assuming that the Education Achievement Authority will continue as a going concern. As discussed in Note 1 to the basic financial statements, the Authority was created through an interlocal agreement with Eastern Michigan University and Detroit Public Schools. The interlocal agreement allows for one of the parties to withdraw from the agreement as early as June 30, 2015. In the event that the party withdraws from the agreement and another entity does not take its place, the Authority would no longer have a legal basis for operating.

As described in Note 13 to the financial statements, the Authority incurred expenditures under grant programs that may be disallowed and recovered upon review of the granting agency, resulting in potentially material changes to federal source revenue recognized.

The basic financial statements do not include any adjustments that might result from the outcomes of these uncertainties.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2015 on our consideration of the Education Achievement Authority'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 Education Achievement Authority's internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 30, 2015

Education Achievement Authority

Management's Discussion and Analysis

This section of the Education Achievement Authority's (the "EAA," the "Authority," or the "School District") annual financial report presents our discussion and analysis of the EAA's financial performance during the year ended June 30, 2015. Please read it in conjunction with the EAA'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 EAA financially, as a whole. The government-wide financial statements provide information about the activities of the whole district, presenting both an aggregate view of the EAA'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 EAA's operations in more detail than the government-wide financial statements by providing information about the EAA's most significant fund: the General Fund. The remaining statement, the statement of fiduciary net position, presents financial information about activities for which the Authority acts solely as an agent for the benefit of students and parents. Below is an outline of the report format:

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 Major Fund

Reporting the Authority as a Whole - Government-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the EAA'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 EAA's financial statements, report information on the School District 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 EAA's net position - the difference between assets and liabilities, as reported in the statement of net position - as one way to measure the EAA's financial health or financial position. Over time, increases or decreases in the EAA'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 EAA's operating results.

Education Achievement Authority

Management's Discussion and Analysis (Continued)

However, the EAA'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 Authority. The statement of net position and the statement of activities report the governmental activities for the Authority, which encompass all of the EAA's services, including instruction, support services, community services, and athletics. Unrestricted state aid (foundation allowance revenue) and state and federal grants finance most of these activities.

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

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

Governmental Funds - All of the EAA'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 Authority 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 EAA'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.

Education Achievement Authority

Management's Discussion and Analysis (Continued)

The Authority as a Whole

Recall that the statement of net position provides the perspective of the Authority as a whole. Table I provides a summary of the EAA's net position as of June 30, 2015 and 2014:

Table I

	Governmental Activities	
	June 30	
	2015	2014
	(in thousands)	
Assets		
Current and other assets	\$ 18,568.3	\$ 23,088.9
Capital assets	8,559.9	11,646.6
Total assets	27,128.2	34,735.5
Liabilities		
Current liabilities	18,632.7	19,574.0
Long-term liabilities	2,660.3	3,487.1
Total liabilities	21,293.0	23,061.1
Net Position		
Net investment in capital assets	7,111.9	9,337.4
Restricted	38.0	694.6
Unrestricted	(1,314.7)	1,642.4
Total net position	<u>\$ 5,835.2</u>	<u>\$ 11,674.4</u>

The above analysis focuses on the net position (see Table I). The change in net position of the EAA is discussed below (see Table 2). The EAA's net position was \$5.8 million at June 30, 2015. Net investment in capital assets totaling \$7.1 million compares the original cost, less depreciation of the EAA's capital assets, to debt used to finance the acquisition of those assets. Most of the debt will be repaid from standard operating funds, as it relates to computers and related items used by the EAA's students and faculty. The remaining amount of net position included restricted balances of \$38,000 and (\$1.3) million was unrestricted.

Education Achievement Authority

Management's Discussion and Analysis (Continued)

The (\$1.3) million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. Restricted net position is the amount of resources remaining to be spent on grants that have been received by the EAA that have purpose restrictions. These resources can only be spent on costs specified in the grant agreements. The unrestricted net position balance enables the EAA to meet working capital and cash flow requirements as well as 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 EAA, as a whole, are reported in the statement of activities (see Table 2), which shows the changes in net position for fiscal years ended June 30, 2015 and 2014.

Table 2

	Governmental Activities	
	Year Ended June 30	
	2015	2014
	(in thousands)	
Revenue		
Program revenue:		
Federal grants and entitlements	\$ 21,992.6	\$ 30,051.6
State categoricals	6,747.0	13,617.7
Operating grants	-	-
General revenue:		
State aid	46,564.0	46,413.5
Interest and investment earnings	0.2	0.5
Loss on sale of capital assets	(3.4)	-
Local and other revenue	<u>1,912.3</u>	<u>11,757.3</u>
Total revenue	77,212.7	101,840.6
Functions/Program Expenses		
Instruction	28,983.8	37,589.5
Support services	49,439.4	63,930.8
Athletics	518.3	878.9
Community services	924.5	714.1
Interest on long-term debt	51.4	54.2
Depreciation (unallocated)	<u>3,134.5</u>	<u>2,966.5</u>
Total functions/program expenses	<u>83,051.9</u>	<u>106,134.0</u>
Decrease in Net Position	(5,839.2)	(4,293.4)
Net Position - Beginning of year	<u>11,674.4</u>	<u>15,967.8</u>
Net Position - End of year	<u><u>\$ 5,835.2</u></u>	<u><u>\$ 11,674.4</u></u>

Education Achievement Authority

Management's Discussion and Analysis (Continued)

As reported in the statement of activities, the cost of all of our governmental activities this year was approximately \$83.1 million. Certain activities were partially funded by other governments and organizations that subsidized certain programs with grants and contributions (\$28.7 million). We paid for the remaining "public benefit" portion of our governmental activities with \$46.6 million in State foundation allowance and \$1.9 million of grants from not-for-profit organizations.

The EAA experienced a decrease in net position of approximately \$5.8 million. This is primarily due to depreciation of capital improvements to school buildings.

As discussed above, the net cost shows the financial burden that was placed on the EAA by each of these functions. Since unrestricted state aid will constitute the majority of district operating revenue sources, the Authority board and administration must annually evaluate the needs of the EAA and balance those needs with state-prescribed available unrestricted resources.

The EAA's Funds

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

As the Authority completed this year, the governmental funds reported a General Fund balance of approximately \$0.4 million, which is an increase of \$0.9 million from last year. The primary driver of this change is the timing of revenue recognition for grant receipts and reimbursements received during the year.

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 EAA 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 expenditures do not exceed appropriations. The final amendment to the budget will be adopted just before year end. A schedule showing the EAA'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 some revisions made to the fiscal year 2015 General Fund original budget. Budgeted revenues were increased overall by approximately \$13.8 million, primarily due to an increase in federal funding.

Budgeted expenditures were increased by approximately \$12.1 million to account for the increased federal funding of certain programs.

Education Achievement Authority

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2015 and 2014, the EAA had approximately \$8.6 million and \$11.6 million, respectively, invested in a broad range of capital assets, including improvements to school buildings, furniture and equipment, vehicles, and computer equipment. This amount represents a net decrease (including additions, disposals, and depreciation) of approximately \$3.0 million from last year.

	<u>2015</u>	<u>2014</u>
Buildings and building improvements	\$ 10,041,004	\$ 10,041,004
Buses and other vehicles	-	20,629
Furniture and equipment	2,482,790	2,424,627
Computer equipment	<u>3,530,650</u>	<u>3,530,650</u>
Total capital assets	16,054,444	16,016,910
Less accumulated depreciation	<u>7,494,561</u>	<u>4,370,335</u>
Net capital assets	<u>\$ 8,559,883</u>	<u>\$ 11,646,575</u>

Debt

At the end of this year, the Authority had no bonds outstanding.

Other obligations included capital leases for computer equipment and employee compensated absences.

Education Achievement Authority

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 EAA's 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 2016 fiscal year is based on a weighted average of 10 percent of the February 2015 and 90 percent of the October 2015 student counts. The fiscal year 2016 budget was adopted in June 2015, based on an estimate of students that will be enrolled in September 2015. Approximately 56.4 percent of total General Fund revenue is from the foundation allowance. Under State law, the Authority cannot assess additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2015-2016 school year, we anticipate that the fall student count will be slightly lower than the estimates used in creating the fiscal year 2016 budget. Once the final student count and related per-pupil funding are validated, State law requires the Authority to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the EAA'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 the Authority. The State periodically holds a revenue-estimating conference to estimate revenue. Based on the results of the most recent conference, the State estimates funds are sufficient to fund the appropriation.

Contacting the School District's Management

This financial report is intended to provide our parents and investors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the business office.

Education Achievement Authority

Statement of Net Position June 30, 2015

	Governmental Activities
Assets	
Cash (Note 3)	\$ 3,551,269
Receivables (Note 4):	
Accounts receivable	263,932
Due from other governmental units	14,743,263
Prepaid assets	9,861
Capital assets - Net (Note 5)	8,559,883
Total assets	<u>27,128,208</u>
Liabilities	
Accounts payable	13,099,674
Accrued payroll-related liabilities	3,368,179
Accrued interest	4,369
Due to other governmental units	1,357,148
Contingent liability (Note 13)	567,687
Unearned revenue (Note 4)	235,638
Noncurrent liabilities (Note 7):	
Due within one year	884,800
Due in more than one year	1,775,524
Total liabilities	<u>21,293,019</u>
Net Position	
Net investment in capital assets	7,111,920
Restricted - Grant proceeds	38,025
Unrestricted	(1,314,756)
Total net position	<u>\$ 5,835,189</u>

Education Achievement Authority

Statement of Activities Year Ended June 30, 2015

	Expenses	Program Revenue Operating Grants and Contributions	Governmental Activities Net (Expense) Revenue and Changes in Net Position
Functions/Programs			
Primary government - Governmental activities:			
Instruction	\$ 28,983,830	\$ 12,868,446	\$ (16,115,384)
Support services	49,439,343	14,947,348	(34,491,995)
Athletics	518,342	-	(518,342)
Community services	924,450	923,796	(654)
Interest (Note 7)	51,364	-	(51,364)
Depreciation expense (unallocated) (Note 5)	3,134,541	-	(3,134,541)
Total primary government	\$ 83,051,870	\$ 28,739,590	(54,312,280)
General revenue:			
State aid not restricted to specific purposes			46,563,979
Interest and investment earnings			195
Loss on the sale of capital assets			(3,439)
Local grants and other unrestricted revenue			1,912,327
Total general revenue			48,473,062
			Change in Net Position (5,839,218)
			Net Position - Beginning of year 11,674,407
			Net Position - End of year \$ 5,835,189

Education Achievement Authority

Governmental Fund Balance Sheet June 30, 2015

	<u>General Fund</u>
Assets	
Cash (Note 3)	\$ 3,551,269
Receivables (Note 4):	
Accounts receivable	263,932
Due from other governmental units	14,743,263
Due from other funds (Note 6)	30,962
Prepaid assets	9,861
	<u> </u>
Total assets	<u>\$ 18,599,287</u>
Liabilities, Deferred Inflows of Resources, and Fund Balance	
Liabilities	
Accounts payable	\$ 13,130,636
Accrued payroll-related liabilities	3,368,179
Due to other governmental units (Note 10)	1,357,148
Unearned revenue (Note 4)	235,638
	<u> </u>
Total liabilities	18,091,601
Deferred Inflows of Resources - Unavailable revenue (Note 4)	51,011
	<u> </u>
Total liabilities and deferred inflows of resources	18,142,612
Fund Balance	
Nonspendable - Prepaid assets	9,861
Restricted - Restricted grant proceeds	38,025
Unassigned	408,789
	<u> </u>
Total fund balance	456,675
	<u> </u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 18,599,287</u>

Education Achievement Authority

Governmental Fund Reconciliation of the Balance Sheet of Governmental Fund to the Statement of Net Position June 30, 2015

Fund Balance Reported in Governmental Fund	\$	456,675
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	\$ 16,054,444	
Accumulated depreciation	<u>(7,494,561)</u>	8,559,883
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:		
Employee compensated absences	(1,212,361)	
Capital leases	<u>(1,447,963)</u>	(2,660,324)
Accrued interest payable is not included as a liability in governmental funds		(4,369)
Grant reimbursements not available to pay current period expenditures are deferred in the governmental funds		51,011
Contingent liabilities are recorded when matured (due and payable) in the governmental funds, but are recorded when estimable and probable in the statement of net position		<u>(567,687)</u>
Net Position of Governmental Activities	\$	<u>5,835,189</u>

Education Achievement Authority

Governmental Fund Statement of Revenue, Expenditures, and Changes in Fund (Deficit) Balance Year Ended June 30, 2015

	<u>General Fund</u>
Revenue	
Local sources	\$ 5,435,229
State sources	53,310,986
Federal sources	<u>22,987,525</u>
Total revenue	81,733,740
Expenditures	
Current:	
Instruction	29,016,690
Support services	49,425,570
Athletics	518,342
Community services	923,964
Debt service:	
Principal (Note 7)	861,231
Interest	53,847
Capital outlay	<u>5,160</u>
Total expenditures	<u>80,804,804</u>
Net Change in Fund Balance	928,936
Fund (Deficit) Balance - Beginning of year	<u>(472,261)</u>
Fund Balance - End of year	<u><u>\$ 456,675</u></u>

Education Achievement Authority

Governmental Fund Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities Year Ended June 30, 2015

Net Change in Fund Balance - Governmental Fund \$ 928,936

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	\$ (3,134,541)	
Capitalized capital outlay	<u>58,163</u>	(3,076,378)

Governmental funds report proceeds from sale of assets as revenue; in the statement of activities, these are recorded net of carrying value of the disposed assets (6,875)

Governmental funds report losses from sale or disposal of assets as expense; in the statement of activities, these are recorded net of carrying value of the disposed assets (3,439)

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 (4,481,609)

Contingent liabilities are recorded when matured (due and payable) in the governmental funds, but are recorded when estimable and probable in the statement of net position (29,165)

Repayment of capital lease principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 861,231

Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid 2,483

Compensated absences are recorded when earned in the statement of activities. In the current year, more was earned than paid out (34,402)

Change in Net Position of Governmental Activities \$ (5,839,218)

Education Achievement Authority

Fiduciary Funds Statement of Fiduciary Net Position June 30, 2015

	Agency Funds
Assets - Cash (Note 3)	<u>\$ 140,144</u>
Liabilities	
Accounts payable	\$ 7,917
Due to student activities	101,265
Due to other funds (Note 6)	<u>30,962</u>
Total liabilities	<u>\$ 140,144</u>

Education Achievement Authority

Notes to Financial Statements June 30, 2015

Note 1 - Nature of Business and Significant Accounting Policies

The Education Achievement Authority (the "EAA," the "Authority," or the "School District") is a public school district formed by an interlocal agreement between Detroit Public Schools (DPS) and Eastern Michigan University. Its purpose is to assume the operations and assets of the lowest performing schools within the state of Michigan. The State has granted legal authority to the Authority to operate as a school district within the boundaries of the city of Detroit for an initial term of 15 years with automatic extensions in five-year increments.

Under the terms of the interlocal agreement, Eastern Michigan University may withdraw from the agreement on the first June 30 after providing at least 180 days' notice of the intent to withdraw provided the notice is provided after December 30, 2014 or another state public university is admitted to be a party to the agreement. In the event Eastern Michigan University withdraws from the agreement and the agreement is not amended to allow for another public school district or state public university to participate in the agreement, the legal basis for the Authority to operate would cease.

The Authority was formed in August 2011; however, the Authority began actively operating and managing the 12 selected schools and receiving state foundation allowance during the fiscal year beginning July 1, 2012.

Effective August 9, 2012, the Authority granted a charter to operate three schools as a separate public school academy. The academy is recognized as an independent district by the State of Michigan and is governed by an independent board. The EAA acts as the fiscal agent to the academy and is accountable for providing oversight and compliance monitoring. The academy provides the EAA an oversight fee equal to 3 percent of the academy's annual per-pupil state revenue and pays additional fees for certain administrative support services provided by the EAA.

The Education Achievement Authority conforms 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 Authority:

Reporting Entity

The Authority is governed by an 11-member Board of Education appointed by the governor of Michigan, Eastern Michigan University, and DPS. 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 Authority's reporting entity, and which organizations are legally separate component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

Education Achievement Authority

Notes to Financial Statements June 30, 2015

Note I - Nature of Business and Significant Accounting Policies (Continued)

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 nonfiduciary activities of the primary government. 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 Authority's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes grants and contributions that are restricted to meeting the operational requirements of a particular function. Intergovernmental payments, unrestricted grants, and other items not properly included among program revenue are reported instead as general revenue.

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

Amounts reported as program revenue include 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 and local grants.

Education Achievement Authority

Notes to Financial Statements June 30, 2015

Note 1 - Nature of Business and 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 Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

The Authority reports the following major governmental fund:

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

Additionally, the Authority reports the following fund type:

Student Activities Agency Funds - The Authority presently maintains an Agency Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

Assets, Liabilities, and Net Position or Equity

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

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

Education Achievement Authority

Notes to Financial Statements June 30, 2015

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Prepaid Costs - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include building improvements, equipment, and vehicles, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. 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 Authority does not have infrastructure-type assets.

Buildings and building additions represent improvements to leased buildings and are depreciated over the life of the lease. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and building additions	5 years
Vehicles	5 years
Furniture and other equipment	5 to 20 years

Compensated Absences (Vacation and Sick Leave) - The liability for compensated absences reported in the government-wide statements consists of earned but unused accumulated vacation and sick leave benefits. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments at normal retirement age and other employees who are expected to become eligible in the future to receive such payments upon normal retirement are included.

Long-term Obligations - In the government-wide financial statements, long-term obligations, which include capital lease obligations, are reported as liabilities in the statement of net position.

In the fund financial statements, governmental fund types recognize capital lease payments as debt service expenditures during the current period.

Education Achievement Authority

Notes to Financial Statements June 30, 2015

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category.

Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from amounts due from other governments and other granting agencies that are not considered available. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Fund Balance - 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 Education 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.

Education Achievement Authority

Notes to Financial Statements June 30, 2015

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

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 at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Comparative Data - Comparative data is not included in the Authority'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. 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. The statement of revenue, expenditures, and changes in fund balance presents capital outlay separately, as required by generally accepted accounting principles. State law requires the Authority to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as restrictions, commitments, or assignments of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

The Authority budgets and reports athletics expenditures within the support services - central function in the budgetary comparison schedule - General Fund. Additionally, the Authority budgets and reports debt service expenditures related to its capital lease for computer equipment within the support services - instructional staff function. In accordance with generally accepted accounting principles, the Authority reports these items in the proper functions in the statement of revenue, expenditures, and changes in fund balance. Beginning fund balance for the original budget in the budgetary comparison schedule has been reflected as the estimated beginning fund balance used when adopting the original budget, as opposed to the actual beginning fund balance.

Education Achievement Authority

Notes to Financial Statements June 30, 2015

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Authority incurred expenditures in the General Fund which were in excess of the amounts budgeted, as follows:

	<u>Budget</u>	<u>Actual</u>
Business	\$ 896,824	\$ 1,350,791

Note 3 - Deposits and Investments

State statutes authorize the Authority to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Authority 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 Authority's deposits are in accordance with statutory authority.

The Authority has designated two banks for the deposit of its funds.

The Authority's cash and investments are subject to risk, which is 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 Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At year end, the School District's deposit balance of \$3,827,997 had \$3,470,899 of bank deposits (checking and money market demand account) that were uninsured and uncollateralized. The Authority 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 - Receivables and Unavailable/Unearned Revenue

The majority of the intergovernmental receivable is from the State of Michigan for the July and August state aid payments and from the federal government for grants. Accounts receivable are amounts due to the Authority primarily from grants passed through Detroit Public Schools.

Education Achievement Authority

Notes to Financial Statements June 30, 2015

Note 4 - Receivables and Unavailable/Unearned Revenue (Continued)

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 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:

	Governmental Funds	
	Deferred Inflow - Unavailable	Liability - Unearned
Grant reimbursements and pledges received after the period of availability	\$ 51,011	\$ -
Grant and categorical aid payment received prior to meeting all eligibility requirements	-	235,638

Note 5 - Capital Assets

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

Governmental Activities	Balance July 1, 2014	Reclassifications	Additions/ Transfers	Disposals/ Transfers	Balance June 30, 2015
Capital assets being depreciated:					
Buildings and improvements	\$ 10,041,004	\$ -	\$ -	\$ -	\$ 10,041,004
Furniture and equipment	2,424,627	-	58,163	-	2,482,790
Vehicles	20,629	-	-	20,629	-
Computer equipment (capital lease)	3,530,650	-	-	-	3,530,650
Subtotal	16,016,910	-	58,163	20,629	16,054,444
Accumulated depreciation:					
Buildings and improvements	1,004,520	2,000,799	2,008,201	-	5,013,520
Furniture and equipment	2,296,305	(2,000,799)	420,210	-	715,716
Vehicles	10,315	-	-	10,315	-
Computer equipment (capital lease)	1,059,195	-	706,130	-	1,765,325
Subtotal	4,370,335	-	3,134,541	10,315	7,494,561
Net capital assets being depreciated	11,646,575	-	(3,076,378)	10,314	8,559,883
Net capital assets	\$ 11,646,575	\$ -	\$ (3,076,378)	\$ 10,314	\$ 8,559,883

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

Education Achievement Authority

Notes to Financial Statements June 30, 2015

Note 6 - Interfund Receivables, Payables, and Transfers

At June 30, 2015, the Agency Fund has recorded a due to the General Fund for \$30,962. This balance results 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 - Long-term Debt

The Authority issues notes and other contractual commitments to provide for the acquisition of certain equipment. Notes, installment purchase agreements, and capital leases are also general obligations of the Authority. Other long-term obligations include compensated absences.

Long-term debt activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Capital leases	\$ 2,309,194	\$ -	\$ 861,231	\$ 1,447,963	\$ 884,800
Employee compensated absences	1,177,959	34,402	-	1,212,361	-
Total governmental activities	<u>\$ 3,487,153</u>	<u>\$ 34,402</u>	<u>\$ 861,231</u>	<u>\$ 2,660,324</u>	<u>\$ 884,800</u>

Total interest expense recognized in the government-wide financial statements for the year ended June 30, 2015 was \$51,364.

Capital Leases - The Authority has entered into lease agreements as lessee for financing the purchase of certain computer equipment. These lease agreements qualify as capital leases for accounting purposes and therefore have been recorded in the government-wide statements at the present value of the future minimum lease payments as of the inception date. The property acquired under the lease agreements is included in Note 5. The future minimum lease obligations and the net present value are as follows:

<u>Years Ending June 30</u>	<u>Amount</u>
2016	\$ 915,077
2017	570,017
Total	<u>1,485,094</u>
Less amount representing interest	<u>37,131</u>
Present value of net minimum lease payments	<u>\$ 1,447,963</u>

Education Achievement Authority

Notes to Financial Statements June 30, 2015

Note 8 - Local Revenue

In addition to the state aid awarded and federal grant revenue as discussed in Note 1, the Authority also received a substantial amount of its funding from private, local sources for the year ended June 30, 2015. The significant private sources were as follows:

General Motors Corporation - A \$500,000 grant was awarded for general operating support. As of June 30, 2015, the Authority had received all funds related to this grant, and had met the eligibility requirements for \$341,438 of the grant award. The remaining \$158,562 was recorded as unearned revenue.

Carnegie Corporation of New York - A \$1,000,000 grant was awarded by the Carnegie Corporation of New York for the development of a leadership pipeline to support next generation schools. A total of \$390,000 was received and recognized as revenue during the year ended June 30, 2015.

Robertson Foundation - A \$6,000,000 grant was awarded by the Robertson Foundation for general operating support of the Authority's start-up operations. The Authority recognized \$2,000,000 in revenue during the year ended June 30, 2015 related to this grant.

The Michigan Educational Excellence Foundation (MEEF) - A total of approximately \$1,909,000 was recognized as revenue from MEEF to provide operating funds for the Authority's primary mission. Included within this award were funds awarded by the Skillman Foundation in the amount of \$500,000. These funds were used to fund the general operations of the Authority.

Note 9 - Operating Leases

The Authority began leasing 15 school buildings in the fiscal year ended June 30, 2013 with DPS, with three of the buildings being subleased to charter schools for \$1 per year each. The Authority is leasing the buildings from the original district at a rate of \$1 per annum plus the number of Detroit resident students attending each school multiplied by \$910 per year for the period of three years from the commencement date of the signed lease agreement. The Authority has annual options to renew the term for successive one-year periods, which the Authority executed during the year and extended the leases through June 30, 2016.

Rent is also charged for non-Detroit resident students at the lesser of (a) 2.5 percent of the Academy's total annual State aid revenue for students attending school or (b) an amount equal to 10 percent of the square footage of the building times \$1 times 12 months.

The Authority assumes all responsibility to manage all of the assets leased according to all applicable federal and state program rules and regulations.

Education Achievement Authority

Notes to Financial Statements June 30, 2015

Note 9 - Operating Leases (Continued)

The lease also provides a provision that any money expended by the Authority to make alterations, improvements, or additions to the buildings necessary to enable the Authority to utilize them will be deducted from the lease payment amount. Normal repairs and maintenance are paid for by the Authority.

The Authority also began leasing a building for their administrative office space during the fiscal year ended June 30, 2013 for a period of five years from the commencement date of the signed lease agreement. The Authority has one five-year renewal option at the end of the initial lease term.

Total costs for such leases were approximately \$5,801,000 for the year ended June 30, 2015, which is net of approximately \$1,078,000 in capital improvement costs paid by the Authority. Amounts due and payable to DPS under the lease agreements totaled approximately \$5,537,000 at June 30, 2015.

The future minimum lease payments for these leases are as follows - 2016 is computed using the projected enrollment for that year plus the flat lease payment. For 2017 and beyond, no enrollment assumption has been made and the lease expense is solely for the flat lease amount. Future amounts are as follows:

Years Ending June 30	Amount
2016	\$ 6,430,562
2017	137,500
2018	140,000
Total	<u>\$ 6,708,062</u>

Note 10 - Related Party Transactions

DPS and Eastern Michigan University - The Authority has related party relationships with DPS and Eastern Michigan University due to the interlocal agreement signed between the Board of Regents of Eastern Michigan University and the School District for the City of Detroit creating the Education Achievement Authority signed on July 14, 2011. During the year ended June 30, 2015, the Authority contracted with DPS for certain IT management, security, and other services. The total amount expended and paid to DPS for the year ended June 30, 2014 was approximately \$925,000, with an additional \$672,000 accrued for the year ended June 30, 2015. Additionally, DPS operates a food service activity at all EAA buildings. The results of this activity are not included in these financial statements.

Subsequent to year end, the Authority continued to contract with DPS for IT management and other services provided on behalf of the Authority.

Education Achievement Authority

Notes to Financial Statements June 30, 2015

Note 10 - Related Party Transactions (Continued)

During the year ended June 30, 2015, the Authority contracted with Eastern Michigan University for certain professional development services and services contributing to the purpose of the Skillman Grant. The amount expended and paid to Eastern Michigan University for the year ended June 30, 2015 was approximately \$96,000.

Michigan Educational Choice Center (MECC) - The Authority is the authorizing entity for MECC, a charter school operating in Detroit, Michigan. The Authority charges a fee equal to 3 percent of MECC's state aid. Additionally, the Authority processes certain transactions on behalf of MECC and charges a fee of 2.5 percent of the transaction. Revenue recognized from MECC during the fiscal year ended June 30, 2015 totaled approximately \$250,000. Amounts included in due from other governmental units include approximately \$1,400,000 in state aid receivables related to the MECC, while the entire balance of due to other governmental units totaling approximately \$1,358,000 is payable to the MECC for July and August 2015 state aid.

Note 11 - Risk Management

The Authority 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. The Authority has purchased commercial insurance for medical, dental, and vision claims and workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 12 - Defined Contribution Pension Plan

The Authority provides pension benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan provisions and contribution requirements were established through a resolution by the Board of Education and may be amended by future board actions. Employees are eligible to participate from the date of employment and are fully vested after four years of service. The Authority matched contributions up to 7.5 percent of the employee's salary during the year ended June 30, 2015.

For the year ended June 30, 2015, employees earned \$1,411,043 of matching contributions from the Authority, of which \$163,521 remains payable as of June 30, 2015.

Education Achievement Authority

Notes to Financial Statements June 30, 2015

Note 13 - Contingent Liabilities

The Authority is required to have transactions associated with certain federal programs reviewed by a third party prior to their submission for reimbursement from the Michigan Department of Education. Due to timing of the reviews and responses by the Authority, expenditures were reimbursed prior to the final conclusions by the third party. This reimbursement was done with the approval of the Michigan Department of Education. There are several months of expenditure reviews where the third party has requested additional information or is waiting for information in order to resolve their questions. As a result, it is possible that certain expenditures that were reimbursed may be determined to be disallowed. Upon finalization of the third-party review, there may be funds that will need to be returned to the Michigan Department of Education, or a reduction in future grant awards. As of June 30, 2015, the dollar amounts of any possible disallowed costs are not known.

In addition to the above expenditures, the Authority received reimbursement for expenditures incurred while administering programs funded with federal grants in a prior year that may be disallowed upon review of the granting agency. Certain material instances of noncompliance with grant requirements were identified during the Authority's June 30, 2014 A-133 federal program audit. In the event that the expenditures are ultimately disallowed, the Authority could be required to repay the amounts received as reimbursement. The Authority has recorded an estimate of the potential repayment in the government-wide statement of net position totaling approximately \$568,000, of which \$539,000 was accrued at June 30, 2014; however, the amount that may ultimately be repaid is currently unknown but could be material to the financial statements.

Required Supplemental Information

Education Achievement Authority

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Over (Under) <u>Final Budget</u>
Revenue				
Local sources	\$ 2,086,863	\$ 4,579,797	\$ 5,435,229	\$ 855,432
State sources	53,242,655	53,366,159	53,310,986	(55,173)
Federal sources	29,729,370	40,925,759	22,987,525	(17,938,234)
Total revenue	85,058,888	98,871,715	81,733,740	(17,137,975)
Expenditures - Current				
Instruction:				
Basic program	19,212,098	20,196,080	19,188,703	(1,007,377)
Added needs	16,213,406	13,505,806	9,833,147	(3,672,659)
Total instruction	35,425,504	33,701,886	29,021,850	(4,680,036)
Support services:				
Pupil	7,595,776	8,249,019	7,643,780	(605,239)
Instructional staff	12,035,818	20,163,988	9,836,592	(10,327,396)
General administration	1,203,185	2,278,634	2,277,358	(1,276)
School administration	5,337,649	5,469,555	5,062,876	(406,679)
Business	768,600	896,824	1,350,791	453,967
Operations and maintenance	15,999,044	17,911,232	18,075,132	163,900
Pupil transportation services	2,956,144	2,153,420	2,244,708	91,288
Central	2,922,574	6,363,233	4,367,753	(1,995,480)
Total support services	48,818,790	63,485,905	50,858,990	(12,626,915)
Community services	1,903,212	1,082,906	923,964	(158,942)
Total expenditures	86,147,506	98,270,697	80,804,804	(17,465,893)
Net Change in Fund (Deficit) Balance	(1,088,618)	601,018	928,936	327,918
Fund Balance (Deficit) - Beginning of year	1,180,640	(472,261)	(472,261)	-
Fund Balance - End of year	<u>\$ 92,022</u>	<u>\$ 128,757</u>	<u>\$ 456,675</u>	<u>\$ 327,918</u>