

# **Education Achievement Authority**

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**Financial Report  
with Supplemental Information  
June 30, 2013**

# 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, each 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, 2013, 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, each major fund, and the aggregate remaining fund information of the Education Achievement Authority as of June 30, 2013 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***

As discussed in Note 1 to the basic financial statements, the Authority adopted the provisions of GASB Statement Nos. 63 and 65 as of July 1, 2012. Our opinion is not modified with respect to this matter.

***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 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 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 November 11, 2013 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*

November 11, 2013

# 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, 2013. 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 funds: the General Fund and the Capital Projects 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 Funds

### ***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 revenues 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 revenues and expenses is the EAA's operating results.

# Education Achievement Authority

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## 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, athletics, and food services. 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 (the Capital Projects Fund is an example) or to show that it is meeting legal responsibilities for using certain taxes, 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, 2013 and 2012:

Table I

	Governmental Activities	
	June 30	
	2013	2012
	(in thousands)	
<b>Assets</b>		
Current and other assets	\$ 22,658.5	\$ 11,257.9
Capital assets	12,830.3	18.6
Total assets	35,488.8	11,276.5
<b>Liabilities</b>		
Current liabilities	16,989.5	253.9
Long-term liabilities	2,531.5	101.8
Total liabilities	19,521.0	355.7
<b>Net Position</b>		
Net investment in capital assets	10,113.3	18.5
Unrestricted	5,854.5	10,902.3
Total net position	<u>\$ 15,967.8</u>	<u>\$ 10,920.8</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 \$15.97 million at June 30, 2013. Net investment in capital assets totaling \$10.11 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 (\$5.85 million) was unrestricted.

The \$5.85 million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. 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, 2013 and 2012.

# Education Achievement Authority

## Management's Discussion and Analysis (Continued)

Table 2

	Governmental Activities	
	Year Ended June 30	
	2013	2012
	(in thousands)	
<b>Revenue</b>		
Program revenue:		
Federal grants and entitlements	\$ 13,087.7	\$ -
State categoricals	8,580.5	-
Operating grants	1,486.3	-
General revenue:		
State aid	55,326.3	10,000.0
Interest and investment earnings	7.8	-
Local and other revenue	11,358.8	3,877.4
Total revenue	<u>89,847.4</u>	<u>13,877.4</u>
<b>Functions/Program Expenses</b>		
Instruction	25,577.0	-
Support services	56,847.0	2,950.0
Athletics	478.2	4.5
Community services	433.2	-
Interest on long-term debt	63.2	-
Depreciation (unallocated)	1,401.8	2.1
Total functions/program expenses	<u>84,800.4</u>	<u>2,956.6</u>
<b>Increase in Net Position</b>	5,047.0	10,920.8
<b>Net Position</b> - Beginning of year	<u>10,920.8</u>	-
<b>Net Position</b> - End of year	<u><u>\$ 15,967.8</u></u>	<u><u>\$ 10,920.8</u></u>

As reported in the statement of activities, the cost of all of our governmental activities this year was approximately \$84.80 million. Certain activities were partially funded by other governments and organizations that subsidized certain programs with grants and contributions (\$23.15 million). We paid for the remaining "public benefit" portion of our governmental activities with \$55.33 million in State foundation allowance and \$11.37 million of grants from not-for-profit organizations.

# Education Achievement Authority

## Management's Discussion and Analysis (Continued)

The EAA experienced an increase in net position of approximately \$5.05 million. This is primarily due to a timing issue during fiscal year 2013 - the EAA's first year of operating with students and teachers. The EAA accrues July and August 2013 state aid payments for fiscal year 2013 but does not accrue the teachers' compensation for any days the teachers work after June 30, 2013. Since the EAA has an extended school year, into the beginning of August, this results in an increase in fiscal year 2013 net position that will be used to compensate teachers for this approximately one-month period (i.e., 12 months of revenue but only 11 months of expenditures are in FY2013). This issue is a one-time event, due to the EAA being a startup organization. For future years, 12 months of revenue and expenditures will be represented in the financial statements.

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 will constitute the vast 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 combined fund balance of approximately \$6.8 million, which is a decrease of \$4.2 million from last year. This is primarily due to the reason outlined in the preceding section (timing of revenue and expenditures) combined with utilization of the capital projects fund balance.

In the General Fund, our principal operating fund, the fund balance increased \$5.8 million to approximately \$6.8 million. The primary driver of this change is the timing of the teacher and staff expenditures for July 2013 as noted above.

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

The Capital Projects Fund fund balance decreased by \$10 million, as the revenues received for capital projects were spent during fiscal year 2013.

### **General Fund Budgetary Highlights**

Over the course of the year, the EAA revises its budget as it attempts to deal with unexpected changes in revenues 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.

# Education Achievement Authority

## Management's Discussion and Analysis (Continued)

There were some revisions made to the fiscal year 2013 General Fund original budget. Budgeted revenues were decreased overall by approximately \$7.4 million, primarily due to a decrease in Title I and II funding. The decreases were partially offset by an increase in local funding sources.

Budgeted expenditures were decreased by approximately \$7.8 million to account for the decreased Title I and II funding.

### Capital Assets and Debt Administration

#### *Capital Assets*

As of June 30, 2013 and 2012, the EAA had approximately \$12.8 million and \$19 thousand, 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 increase (including additions, disposals, and depreciation) of approximately \$12.8 million from last year.

	2013	2012
Buildings and building improvements	\$ 10,006,092	\$ -
Buses and other vehicles	20,629	20,629
Furniture and equipment	676,729	-
Computer equipment	3,530,650	-
	<hr/>	<hr/>
Total capital assets	14,234,100	20,629
Less accumulated depreciation	1,403,810	2,063
	<hr/>	<hr/>
Net capital assets	<u><u>\$ 12,830,290</u></u>	<u><u>\$ 18,566</u></u>

This year's additions of \$12.8 million included building improvements, furniture and fixtures, and computer equipment. The only debt issued for these additions was the incurrence of a capital lease (\$2.7 million) for the computer equipment.

#### *Debt*

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

Other obligations included accounts payable, accrued payroll-related liabilities, unearned revenue, 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 2014 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 2014 fiscal year is based on an average of the February 2014 and September 2013 student counts. The fiscal year 2014 budget was adopted in June 2013, based on an estimate of students that will be enrolled in September 2013. Approximately 76.3 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 2013-2014 school year, we anticipate that the fall student count will be close to the estimates used in creating the fiscal year 2014 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 revenues to fund its appropriation to the Authority. The State periodically holds a revenue-estimating conference to estimate revenues. 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 taxpayers, 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, 2013

	Governmental Activities
<b>Assets</b>	
Cash (Note 3)	\$ 3,136,328
Receivables (Note 4)	19,512,932
Prepaid assets	9,238
Capital assets - Net (Note 5)	<u>12,830,290</u>
Total assets	35,488,788
<b>Liabilities</b>	
Accounts payable	12,875,850
Accrued payroll-related liabilities	2,348,138
Other accrued liabilities	2,378
Unearned revenue (Note 4)	595,622
Noncurrent liabilities (Note 7):	
Due within one year	1,167,536
Due in more than one year	<u>2,531,453</u>
Total liabilities	<u>19,520,977</u>
<b>Net Position</b>	
Net investment in capital assets	10,113,269
Unrestricted	<u>5,854,542</u>
Total net position	<u><u>\$ 15,967,811</u></u>

# Education Achievement Authority

## Statement of Activities Year Ended June 30, 2013

	Expenses	Program Revenues  Operating Grants and Contributions	Governmental Activities  Net (Expense) Revenue and Changes in Net Position
<b>Functions/Programs</b>			
Primary government - Governmental activities:			
Instruction	\$ 25,577,017	\$ 21,668,190	\$ (3,908,827)
Support services	56,846,989	1,486,300	(55,360,689)
Athletics	478,199	-	(478,199)
Community services	433,209	-	(433,209)
Interest	63,239	-	(63,239)
Depreciation expense (unallocated)	1,401,747	-	(1,401,747)
Total primary government	<b>\$ 84,800,400</b>	<b>\$ 23,154,490</b>	(61,645,910)
General revenues:			
State aid not restricted to specific purposes			55,326,215
Interest and investment earnings			7,776
Local grants and other unrestricted revenue			11,358,863
Total general revenues			66,692,854
			<b>Change in Net Position</b> 5,046,944
			<b>Net Position - Beginning of year</b> 10,920,867
			<b>Net Position - End of year</b> \$ 15,967,811

# Education Achievement Authority

## Governmental Funds Balance Sheet June 30, 2013

	General Fund	Capital Projects Fund	Total Governmental Funds
<b>Assets</b>			
Cash (Note 3)	\$ 1,795,483	\$ 1,340,845	\$ 3,136,328
Receivables (Note 4)	19,512,932	-	19,512,932
Due from other funds (Note 6)	64,105	-	64,105
Prepaid assets	9,238	-	9,238
Total assets	<u>\$ 21,381,758</u>	<u>\$ 1,340,845</u>	<u>\$ 22,722,603</u>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 11,599,110	\$ 1,276,740	\$ 12,875,850
Accrued payroll-related liabilities	2,348,138	-	2,348,138
Due to other funds (Note 6)	-	64,105	64,105
Unearned revenue (Note 4)	595,622	-	595,622
Total liabilities	14,542,870	1,340,845	15,883,715
<b>Deferred Inflows of Resources</b> - Unavailable revenue (Note 4)	57,741	-	57,741
Total liabilities and deferred inflows of resources	14,600,611	1,340,845	15,941,456
<b>Fund Balances</b>			
Nonspendable - Prepaid assets	9,238	-	9,238
Unassigned	6,771,909	-	6,771,909
Total fund balances	6,781,147	-	6,781,147
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 21,381,758</u>	<u>\$ 1,340,845</u>	<u>\$ 22,722,603</u>

# Education Achievement Authority

## Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position June 30, 2013

**Fund Balance Reported in Governmental Funds** \$ 6,781,147

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	\$ 14,234,100	
Accumulated depreciation	<u>(1,403,810)</u>	12,830,290

Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:

Employee compensated absences	(981,968)	
Capital leases	<u>(2,717,021)</u>	(3,698,989)

Accrued interest payable is not included as a liability in governmental funds (2,378)

Grant reimbursements not available to pay current period expenditures are deferred in the governmental funds 57,741

**Net Position of Governmental Activities** **\$ 15,967,811**

# Education Achievement Authority

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2013

	General Fund	Capital Projects Fund	Total Governmental Funds
<b>Revenue</b>			
Local sources	\$ 11,360,547	\$ 6,092	\$ 11,366,639
State sources	63,906,755	-	63,906,755
Federal sources	13,029,909	-	13,029,909
Other	1,486,300	-	1,486,300
Total revenue	89,783,511	6,092	89,789,603
<b>Expenditures</b>			
Current:			
Instruction	25,014,865	-	25,014,865
Support services	56,346,609	-	56,346,609
Athletics	470,326	-	470,326
Community services	428,601	-	428,601
Debt service:			
Principal	813,629	-	813,629
Interest	60,861	-	60,861
Capital outlay	4,402,180	10,006,092	14,408,272
Total expenditures	87,537,071	10,006,092	97,543,163
<b>Excess of Revenue Over (Under) Expenditures</b>	2,246,440	(10,000,000)	(7,753,560)
<b>Other Financing Sources</b> - Proceeds from issuance of capital leases (Note 7)	3,530,650	-	3,530,650
<b>Net Change in Fund Balances</b>	5,777,090	(10,000,000)	(4,222,910)
<b>Fund Balances</b> - Beginning of year	1,004,057	10,000,000	11,004,057
<b>Fund Balances</b> - End of year	<b>\$ 6,781,147</b>	<b>\$ -</b>	<b>\$ 6,781,147</b>

# Education Achievement Authority

## 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, 2013

**Net Change in Fund Balances - Total Governmental Funds** \$ (4,222,910)

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	\$ (1,401,747)	
Capitalized capital outlay	<u>14,213,471</u>	12,811,724

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

57,741

Capital lease proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position

(3,530,650)

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)

813,629

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

(2,378)

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

(880,212)

**Change in Net Position of Governmental Activities** \$ 5,046,944

# Education Achievement Authority

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## Fiduciary Funds Statement of Fiduciary Net Position June 30, 2013

	Agency Funds
<b>Assets - Cash</b>	<u>\$ 75,811</u>
<b>Liabilities - Due to student groups</b>	<u>\$ 75,811</u>

# Education Achievement Authority

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## Notes to Financial Statements June 30, 2013

### 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.

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.

Upon assumption of the operations, the Authority employed approximately 400 teachers and building administrators and contracted substantially all non-instruction related functions to third parties. The Authority also began receiving state aid and federal grant revenue and implementing processes designed to achieve the purpose of the Authority.

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 School District:

#### **Reporting Entity**

The School District 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 School District's reporting entity, and which organizations are legally separate component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

# Education Achievement Authority

## Notes to Financial Statements June 30, 2013

### **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 revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District'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 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, unrestricted grants, and other items not properly included among program revenues 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 assets or fund balance are available, the Authority'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 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.

# Education Achievement Authority

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## Notes to Financial Statements June 30, 2013

### **Note I - 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. For this purpose, the School District 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 and local 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 School District.

All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are custodial in nature (assets equal liabilities) and do not report the measurement of results of operations.

The Authority reports the following major governmental funds:

**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.

**Capital Projects Fund** - The Capital Projects Fund is used to record the disbursement of monies designated for upgrading facilities and ensuring they are in compliance with state guidelines.

Additionally, the Authority reports the following fund type:

**Student Activities Agency Fund** - 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**

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

# Education Achievement Authority

## Notes to Financial Statements June 30, 2013

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

**Capital Assets** - Capital assets are reported in the applicable governmental activities 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. 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.

Effective June 29, 2012, the Authority received a one-time \$10,000,000 appropriation from the State of Michigan from Senate Bill No. 871. The funds were used solely for capital improvements within the Authority. As of June 30, 2013, all \$10,000,000 had been spent.

Building additions, equipment, and vehicles are depreciated using the half-year convention method over the following useful lives:

Building improvements	5 years
Vehicles	5 years
Furniture and 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. At June 30, 2013, \$832,628 is accrued on the government-wide statements for this purpose.

**Taxes** - The Authority does not have the ability or authority to levy taxes on the residents of the state or of the district.

**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 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

# Education Achievement Authority

## Notes to Financial Statements June 30, 2013

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

- 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.

The board has not adopted a minimum fund balance policy.

**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.

**Accounting Change** - Effective July 1, 2012, the School District implemented the provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provided a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. This statement impacted the format and report of the balance sheet at the government-wide level and also at the fund level.

Also effective July 1, 2012, the School District implemented the provisions of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources.

### Note 2 - Stewardship, Compliance, and Accountability

**Budgetary Information** - An annual budget is adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund.

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 original budget was adopted at the object level. The original budget, as presented in the budgetary comparison schedule, does not present detail by function as this is not the level at which it was adopted.

# Education Achievement Authority

## Notes to Financial Statements June 30, 2013

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

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 School District 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.

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

	Budget	Actual
Instructional staff	\$ 16,198,862	\$ 18,970,644
General administration	2,218,888	2,283,686
Transportation	3,484,553	3,613,547
Other	-	817
Athletics	-	470,326
Community services	374,078	428,601
Debt service	-	874,490

### 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 one bank 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 \$3,226,233 had \$2,976,233 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.

# Education Achievement Authority

## Notes to Financial Statements June 30, 2013

### Note 4 - Receivables and Unavailable/Unearned Revenue

Receivables as of year end for the School District's individual major funds, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>
Receivables:	
Accounts receivable	\$ 5,373,074
Due from other governmental units	<u>14,139,858</u>
Total receivables	<u>\$ 19,512,932</u>

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 and from pledges from private donations (The Michigan Educational Excellence Foundation and W.K. Kellogg Foundation).

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 defer 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 deferred revenue are as follows:

	<u>Governmental Funds</u>	
	Deferred Inflow - Unavailable	Liability - Unearned
Grant reimbursements received after the period of availability	\$ 57,741	\$ -
Grant and categorical aid payment received prior to meeting all eligibility requirements	<u>-</u>	<u>595,622</u>
Total	<u>\$ 57,741</u>	<u>\$ 595,622</u>

# Education Achievement Authority

## Notes to Financial Statements June 30, 2013

### Note 5 - Capital Assets

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

<b>Governmental Activities</b>	<u>Balance July 1, 2012</u>	<u>Additions/ Transfers</u>	<u>Disposals/ Transfers</u>	<u>Balance June 30, 2013</u>
Capital assets being depreciated:				
Buildings and improvements	\$ -	\$ 10,006,092	\$ -	\$ 10,006,092
Furniture and equipment	-	676,729	-	676,729
Vehicles	20,629	-	-	20,629
Computer equipment (capital lease)	-	3,530,650	-	3,530,650
Subtotal	<u>20,629</u>	<u>14,213,471</u>	<u>-</u>	<u>14,234,100</u>
Accumulated depreciation:				
Buildings and improvements	-	1,000,609	-	1,000,609
Furniture and equipment	-	43,947	-	43,947
Vehicles	2,063	4,126	-	6,189
Computer equipment (capital lease)	-	353,065	-	353,065
Subtotal	<u>2,063</u>	<u>1,401,747</u>	<u>-</u>	<u>1,403,810</u>
Net capital assets being depreciated	<u>18,566</u>	<u>12,811,724</u>	<u>-</u>	<u>12,830,290</u>
Net capital assets	<u>\$ 18,566</u>	<u>\$ 12,811,724</u>	<u>\$ -</u>	<u>\$ 12,830,290</u>

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

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

<u>Fund Due To</u>	<u>Fund Due From Capital Project Fund</u>
General Fund	<u>\$ 64,105</u>

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 - 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 School District. Other long-term obligations include compensated absences.

# Education Achievement Authority

## Notes to Financial Statements June 30, 2013

### Note 7 - Long-term Debt (Continued)

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>
<b>Governmental Activities</b>					
Capital leases	\$ -	\$ 3,530,650	\$ 813,629	\$ 2,717,021	\$ 1,167,536
Employee compensated absences	<u>101,756</u>	<u>880,212</u>	<u>-</u>	<u>981,968</u>	<u>-</u>
Total governmental activities	<u>\$ 101,756</u>	<u>\$ 4,410,862</u>	<u>\$ 813,629</u>	<u>\$ 3,698,989</u>	<u>\$ 1,167,536</u>

Total interest expense for the year was approximately \$63,239.

**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>
2014	\$ 1,228,021
2015	1,228,021
2016	<u>353,531</u>
Total	2,809,573
Less amount representing interest	<u>92,552</u>
Present value of net minimum lease payments	<u>\$ 2,717,021</u>

### Note 8 - State Aid Anticipation Note

On September 1, 2012, the Authority entered into an agreement with DPS to participate in DPS' state aid anticipation borrowing. DPS acted as the agent and allowed the Authority to borrow up to \$6,000,000 as an advance of state aid. The Authority borrowed the full amount of the note and paid an administrative fee to DPS of \$88,000. The note was repaid in three installments, including interest (variable interest rate based on LIBOR), with the last payment made on January 21, 2013.

# Education Achievement Authority

## Notes to Financial Statements June 30, 2013

### Note 8 - State Aid Anticipation Note (Continued)

On February 1, 2013, the Authority entered into a second agreement with DPS to participate in DPS' state aid anticipation borrowing. DPS acted as the agent and allowed the Authority to borrow up to \$6,000,000 as an advance of state aid. The note is to be repaid with four installments, including interest (variable interest rate based on LIBOR), with the last payment due on July 22, 2013. During the year, the Authority borrowed a total of \$5,000,000 on the note and paid an administrative fee to DPS of \$80,600. As of June 30, 2013, the borrowing was fully repaid.

There are no amounts outstanding as of the report date related to these notes.

### Note 9 - 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 three private, local sources for the year ended June 30, 2013. The private sources were as follows:

**The Kellogg Grant** - A \$4,000,000 grant was awarded from the W.K. Kellogg Foundation to be received in six installments. The grant is to be used to achieve the mission of the Authority by redesigning public education in Michigan's persistently low achieving schools by providing general operating support. As of June 30, 2013, the first installment totaling \$1,000,000 was paid to the Authority.

**Next Generation Learning Challenges (a/k/a the Gates Grant)** - A total of \$300,000 was received from Next Generation Learning Challenges. The money is to be used for the implementation of a student-centered system of education. As of June 30, 2013, all money had been spent.

**The Michigan Educational Excellence Foundation (MEEF)** - A total of approximately \$9,500,000 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 an amount of \$500,000. These funds were used to fund the general operations of the Authority. Of this amount, \$2,100,000 was received after June 30, 2013.

### Note 10 - 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 \$1.00 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.

# Education Achievement Authority

## Notes to Financial Statements June 30, 2013

### Note 10 - Operating Leases (Continued)

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.

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 \$7,235,060 for the year ended June 30, 2013, net of \$1,536,121 in capital improvement costs paid by the Authority.

The future minimum lease payments for these leases are as follows assuming the number of students declines by approximately 6 percent each year:

Years Ending June 30	Amount
2014	\$ 8,081,856
2015	7,556,535
2016	135,000
2017	137,500
Total	<u>\$ 15,910,891</u>

### Note 11 - Related Party Transactions

**DPS** - The Authority has a related party relationship with DPS 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, 2013, the Authority contracted with DPS for help during the start-up phase of the Authority. The total amount expended and paid to DPS for the year ended June 30, 2013 was \$7,521,573. Additionally, DPS operates a food service activity at all EAA buildings. The results of this activity are not included in these financial statements.

# Education Achievement Authority

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## Notes to Financial Statements June 30, 2013

### **Note 11 - Related Party Transactions (Continued)**

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

**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, 2013 totaled \$312,696.

### **Note 12 - Risk Management**

The School District 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 School District 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 13 - Defined Contribution Pension Plan**

The School District 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 School District matched contributions up to 7.5 percent of the employee's salary during the year ended June 30, 2013.

For the year ended June 30, 2013, employees earned \$1,372,494 of matching contributions from the Authority, of which \$213,857 remains payable as of June 30, 2013.

## **Required Supplemental Information**

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# Education Achievement Authority

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Over (Under) <u>Final Budget</u>
<b>Revenue</b>				
Local sources	\$ 372,812	\$ 11,764,937	\$ 11,360,547	\$ (404,390)
State sources	71,578,204	64,527,423	63,906,755	(620,668)
Federal sources	24,904,592	13,025,401	13,029,909	4,508
Other	-	150,000	1,486,300	1,336,300
Total revenue	96,855,608	89,467,761	89,783,511	315,750
<b>Expenditures</b>				
Current:				
Instruction:				
Basic program	-	20,736,850	18,557,620	(2,179,230)
Added needs	-	6,956,037	6,468,624	(487,413)
Total instruction	-	27,692,887	25,026,244	(2,666,643)
Support services:				
Pupil	-	8,419,018	8,056,360	(362,658)
Instructional staff	-	16,198,862	18,970,644	2,771,782
General administration	-	2,218,888	2,283,686	64,798
School administration	-	6,242,766	5,705,696	(537,070)
Business	-	728,226	673,044	(55,182)
Operations and maintenance	-	19,591,704	18,958,435	(633,269)
Pupil transportation services	-	3,484,553	3,613,547	128,994
Central	-	3,572,420	2,475,181	(1,097,239)
Other	-	-	817	817
Total support services	-	60,456,437	60,737,410	280,973
Athletics	-	-	470,326	470,326
Community services	-	374,078	428,601	54,523
Debt service	-	-	874,490	874,490
Total expenditures	96,275,104	88,523,402	87,537,071	(986,331)
<b>Excess of Revenue Over Expenditures</b>	580,504	944,359	2,246,440	1,302,081
<b>Other Financing Sources -</b>				
Face value of debt issued	-	-	3,530,650	3,530,650
<b>Net Change in Fund Balance</b>	580,504	944,359	5,777,090	4,832,731
<b>Fund Balance - Beginning of year</b>	1,004,057	1,004,057	1,004,057	-
<b>Fund Balance - End of year</b>	<u>\$ 1,584,561</u>	<u>\$ 1,948,416</u>	<u>\$ 6,781,147</u>	<u>\$ 4,832,731</u>