

**DETROIT COMMUNITY SCHOOLS,
A PUBLIC SCHOOL ACADEMY**

FINANCIAL REPORT

WITH SUPPLEMENTAL INFORMATION

JUNE 30, 2012

CONTENTS

	<u>PAGE</u>
I. INDEPENDENT AUDITORS' REPORTS	1-2
II. MANAGEMENT'S DISCUSSION AND ANALYSIS	3-8
III. FINANCIAL STATEMENTS:	
District-wide financial statements:	
Statement of net assets	9
Statement of activities	10
Fund financial statements:	
Governmental funds:	
Balance sheet	11
Reconciliation of balance sheet of governmental funds to net assets	12
Statement of revenues, expenditures and changes in fund balances	13
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities	14
Fiduciary funds:	
Statement of fiduciary net assets	15
Notes to financial statements	16-25
IV. SUPPLEMENTAL FINANCIAL INFORMATION:	
REQUIRED:	
Budgetary comparison schedule - general fund	26
OTHER:	
Nonmajor governmental funds:	
Statement of revenues, expenditures and changes in fund balances	27

A Professional Corporation

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Detroit Community Schools, a Public School Academy

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Detroit Community Schools, as of and for the year ended June 30, 2012, which collectively comprise the Detroit Community Schools' basic financial statements as listed in the table of contents. These financial statements are the responsibility of Detroit Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Detroit Community Schools as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2012, on our consideration of Detroit Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and page 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Emphasis of a Matter

We draw attention to Note 11 to the financial statements which discusses a contingency regarding the status of Detroit Community Schools' charter contract. Our opinion is not qualified with respect to this matter.

Hungerford & Co.

December 2, 2012

Detroit Community Schools

Management's Discussion and Analysis

Detroit Community Schools, a Michigan Public School Academy, has the legal standing of a "School District", but will be referred to as "The Academy". This section of the Academy's annual financial report represents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2012. Please read it in conjunction with the Academy's financial statements which immediately follow this section.

Using this Annual Report

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

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

District-wide Financial Statements
Fund Financial Statements

Notes to Financial Statements

(Required Supplemental Information)
Budgetary Information for the General Fund

Other Supplemental Information

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

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

Detroit Community Schools

Management's Discussion and Analysis (continued)

Reporting the Academy as a Whole - Academy-wide Financial Statements (continued)

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

The Academy experienced an increase in net assets of \$357,385 for the current year. The Academy considers this insignificant. The State of Michigan uses a blended student count to fund the Academy, so as the enrollment rises, there is a timing lag in the amount of funds provided. We may have more students, but we are not funded 100% for those students. The Academy's goal is to provide services to our students, not to generate profit as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the Academy.

The statement of net assets and statement of activities report the governmental activities for the Academy, which encompass all of the Academy's services, including instruction, support services, athletics, child care, and food services. Unrestricted State Aid (foundation allowance revenue), and State and Federal grants finance most of these activities.

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

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

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

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

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

Detroit Community Schools

Management's Discussion and Analysis (continued)

The Academy as a Whole

Recall that the statement of net assets provides the perspective of the Academy as a whole. Table I provides a summary of the Academy's net assets as of June 30, 2012:

Table I	Governmental Activities (in millions)	
	2011	2012
Assets		
Current and other assets	\$ 4.11	\$ 3.97
Capital assets -		
Net of accumulated depreciation	10.16	9.69
Total assets	\$ 14.27	\$ 13.66
Liabilities		
Current liabilities	\$ 2.05	\$ 1.44
Long-term obligations	11.24	10.88
Total liabilities	\$ 13.29	\$ 12.32
Net Assets		
Invested in capital assets -		
Net of related debt	\$ (1.41)	\$ (1.56)
Restricted for debt service	1.22	1.23
Unrestricted	1.17	1.67
Total net assets	\$ 0.98	\$ 1.34

Academy's governmental activities is discussed below. The Academy's net assets were \$1.34 million at June 30, 2012. Capital assets, net of related debt, compares the original cost, less depreciation of the Academy's capital assets to long-term obligations which were used to finance the acquisition of those assets.

The \$1.67 million in unrestricted net assets represents the *accumulated* results of all past years' operations. The operating results of the Funds will have a significant impact on the change in unrestricted net assets from year to year. During the year ended June 30, 2006, the Academy acquired and completed renovation of buildings to be used for future educational facilities. The \$1.56 deficit in net capital assets is the result of the prefunding of interest payments on the bonds for 2005, 2006, 2007, 2008, 2009 and part of 2010, and the debt service reserve required under the bond agreement.

Detroit Community Schools

Management's Discussion and Analysis (continued)

The Academy as a Whole (continued)

The results of this year's operations for the Academy as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for year ended June 30, 2012.

Table 2	Governmental Activities (in millions)	
	2011	2012
Revenues		
Program revenue:		
Charges for services	\$ 0.01	\$ 0.03
Grants and categoricals	2.27	2.28
General revenue:		
State foundation allowance	7.20	7.33
Other	0.09	(0.01)
	<u>9.57</u>	<u>(0.01)</u>
Total revenues	\$ 9.57	\$ 9.63
Functional/Program Expenses		
Instruction	\$ 3.83	\$ 3.80
Support services	4.42	4.00
Food services	0.41	0.49
Athletics	0.08	0.12
Community Services	0.20	0.21
Interest on long term obligations	0.67	0.65
	<u>9.61</u>	<u>9.27</u>
Total expenses	\$ 9.61	\$ 9.27
Increase (Decrease) in Net Assets	\$ (0.04)	\$ 0.36

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$9.27 million vs \$9.61 million last year. Certain activities were partially funded from those individuals that benefited from the programs or by other governments and organizations that subsidized certain programs with grants and categoricals (\$2.28 million current and \$2.27 million prior). We paid for the remaining "public benefit" portion of our government activities with \$7.33 million in 2012 and \$7.20 million in 2011 in State Foundation Allowance, and with our other revenues, such as tuition and general entitlements.

The Academy's Funds

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

The Academy's general fund experienced an increase of \$497,127 generally due to control of expenditures, including reductions in retirement costs due to fewer employees in the retirement system.

Detroit Community Schools

Management's Discussion and Analysis (continued)

The Academy's Funds (continued)

The Academy started a debt retirement fund in 2006 to account for the resources to retire its bonds. As part of the bond issue, \$.85 million is to be held in a debt retirement reserve fund. This reserve is included in the debt retirement fund. Beginning in 2007, the general fund began to transfer funds to the debt retirement fund to pay amounts due under the bond agreement.

Our special revenue fund, food service, continues to require general fund support. Child care and athletic activities are no longer reported as special revenue funds due to minimal funding of these activities from their own revenues. These activities are now reporting within the general fund.

General Fund Budgetary Highlights

Over the course of the year, the Academy can revise its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure the expenditures do not exceed appropriations. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. There were significant changes to the original budget because of increases in state and federal grant revenues. There were increases in projected expenditures due to additional grant monies available, and changes in classification of expenditures from general administration to community activities. Budget decreases were due to controlled spending.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2012, the Academy had \$13.8 million invested in a broad range of capital assets, including land and building, furniture and equipment, computers and vehicles. This amount represents a net increase (including additions and disposals) of approximately \$.18 million from last year.

	2011	2012
Land and construction in progress	\$ 132,754	\$ 132,754
Building and improvements	9,666,542	9,666,542
Land improvements	176,032	176,032
Furniture and equipment	3,511,513	3,693,650
Vehicles	109,296	109,296
	<u>13,596,137</u>	<u>13,778,274</u>
Total capital assets	13,596,137	13,778,274
	<u>3,430,398</u>	<u>4,094,081</u>
Less accumulated depreciation	3,430,398	4,094,081
	<u>10,165,739</u>	<u>9,684,193</u>
Net capital assets	\$ 10,165,739	\$ 9,684,193

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

Detroit Community Schools

Management's Discussion and Analysis (continued)

Capital Asset and Debt Administration (continued)

Debts

The Academy had \$.36 and \$.36 million in current and \$10.9 and \$11.2 million in long-term obligations as of June 30, 2012 and 2011, respectively. No financing agreements were issued during the year. State aid anticipation notes totaling \$1.66 million were issued to help fund current activities.

Economic Factors and Next Year's budgets and Rates

Based on early enrollment data for the subsequent school year, we anticipate that the fall student count will be lower than the estimates used in creating the 2012 fiscal year budget. Once the final student count and related pupil funding is validated, the budget will be amended. State law *requires* the Academy to amend the budget if actual Academy resources are not sufficient to fund the original appropriations.

Since the Academy's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts.

Contingency

In the spring of 2010, the Academy was informed that its high school was listed on the Michigan Department of Education's list of the 5% lowest performing schools in the State. Also, since June of 2010 the Academy's authorization to continue as a public school academy has been limited to one-year contracts. The current authorization contract expires on June 30, 2013. The Board of Control of SVSU will determine in January or February 2013 if required benchmarks have been reached to allow the Academy to be offered a contract for the year ended June 30, 2014. Benchmarks include improved student achievement and stable and cohesive leadership.

Contacting the Academy's Financial Management

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

DETROIT COMMUNITY SCHOOLS

STATEMENT OF NET ASSETS

June 30, 2012

	Governmental Activities
ASSETS	
Cash	\$ 1,774,071
Accounts receivable	13,560
Due from other governmental units	1,645,476
Prepaid expenditures	538,033
Capital assets, less accumulated depreciation	<u>9,684,193</u>
TOTAL ASSETS	<u>\$ 13,655,333</u>
LIABILITIES	
Accounts payable	\$ 223,178
Notes payable	297,725
Long-term obligations, due within one year	363,820
Accrued expenditures	180,101
Salaries payable	359,809
Deferred revenue	15,090
Long-term obligations, due in more than one year	<u>10,879,568</u>
TOTAL LIABILITIES	<u>12,319,291</u>
NET ASSETS	
Investment in capital assets, net of related debt	(1,559,195)
Restricted for debt service	1,225,862
Unrestricted	<u>1,669,375</u>
TOTAL NET ASSETS	<u>1,336,042</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,655,333</u>

The accompanying notes are an integral part of the financial statements.

DETROIT COMMUNITY SCHOOLS

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2012

	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants/ Contributions	Net(Expense) Revenue and Changes in Net Assets
FUNCTIONS/PROGRAMS				
PRIMARY GOVERNMENT, GOVERNMENTAL ACTIVITIES				
Instruction	\$ 3,796,969	\$ 0	\$ 1,262,510	\$ (2,534,459)
Support services	4,004,875	0	656,521	(3,348,354)
Food service activities	494,776	12,022	365,230	(117,524)
Athletics	121,916	14,947	0	(106,969)
Community services	199,724	282	0	(199,442)
Interest on long-term obligations	653,444	0	0	(653,444)
TOTAL GOVERNMENTAL ACTIVITIES	9,271,704	27,251	2,284,261	(6,960,192)
GENERAL REVENUES:				
State aid, unrestricted				7,325,110
Other income (expense)				(7,533)
TOTAL GENERAL REVENUES				7,317,577
CHANGE IN NET ASSETS				
NET ASSETS, July 1, 2011				
				978,657
NET ASSETS, June 30, 2012				
				\$ 1,336,042

The accompanying notes are an integral part of the financial statements.

DETROIT COMMUNITY SCHOOLS

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2012

	General Fund	Debt Retirement Fund	Nonmajor Governmental Funds	Total
ASSETS				
Cash	\$ 548,209	\$ 1,225,862	\$ -	\$ 1,774,071
Accounts receivable	230	-	13,330	13,560
Due from other governmental units	1,645,476	-	-	1,645,476
Due from other funds	13,330	-	-	13,330
Prepaid expenditures	629	-	-	629
TOTAL ASSETS	\$ <u>2,207,874</u>	\$ <u>1,225,862</u>	\$ <u>13,330</u>	\$ <u>3,447,066</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES:				
Accounts payable	\$ 223,178	\$ -	\$ -	\$ 223,178
State aid note	297,725	-	-	297,725
Due to other funds	-	-	13,330	13,330
Accrued expenditures	74,840	-	-	74,840
Salaries payable	359,809	-	-	359,809
Deferred revenue	15,090	-	-	15,090
TOTAL LIABILITIES	<u>970,642</u>	<u>-</u>	<u>13,330</u>	<u>983,972</u>
FUND BALANCE:				
Non-spendable	629	-	-	629
Restricted	969,027	1,225,862	-	2,194,889
Unassigned	267,576	-	-	267,576
TOTAL FUND BALANCE	<u>1,237,232</u>	<u>1,225,862</u>	<u>-</u>	<u>2,463,094</u>
TOTAL LIABILITIES AND AND FUND BALANCE	\$ <u>2,207,874</u>	\$ <u>1,225,862</u>	\$ <u>13,330</u>	\$ <u>3,447,066</u>

The accompanying notes are an integral part of the financial statements.

DETROIT COMMUNITY SCHOOLS

GOVERNMENTAL FUNDS RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS

June 30, 2012

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 2,463,094
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.	
The cost of the capital assets is	13,778,274
Accumulated depreciation is	(4,094,081)
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:	
Bonds and notes payable	(11,243,388)
The cost of issuance of the bonds was a prior year expenditure in the Governmental funds, but these costs are capitalized and spread over the life of the debt in the statement of net assets.	
Cost of issuance	\$ 705,727
Amortization	<u>(168,323)</u>
	537,404
Interest in accrued expenses is not included as a liability in the governmental funds	<u>(105,261)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	\$ <u><u>1,336,042</u></u>

The accompanying notes are an integral part of the financial statements.

DETROIT COMMUNITY SCHOOLS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES

For the Year Ended June 30, 2012

	<u>General Fund</u>	<u>Debt Retirement Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Totals</u>
REVENUES				
Local sources	\$ 45,571	\$ 572	\$ 12,022	\$ 58,165
State sources	8,216,915	-	22,353	8,239,268
Federal sources	967,208	-	342,877	1,310,085
TOTAL REVENUES	9,229,694	572	377,252	9,607,518
EXPENDITURES				
Current:				
Instruction	3,675,546	-	-	3,675,546
Support services	3,443,574	-	-	3,443,574
Community services	199,724	-	-	199,724
Food service activities	-	-	494,776	494,776
Athletics	121,916	-	-	121,916
Debt service				
Principal	122,835	215,000	-	337,835
Interest	13,578	641,891	-	655,469
Capital outlay	182,037	-	-	182,037
TOTAL EXPENDITURES	7,759,210	856,891	494,776	9,110,877
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,470,484	(856,319)	(117,524)	496,641
OTHER FINANCING SOURCES (USES):				
Prior period adjustments, non-material	5,296	-	-	5,296
Operating transfers:				
Incoming	-	861,129	117,524	978,653
Outgoing	(978,653)	-	-	(978,653)
NET CHANGE IN FUND BALANCE	497,127	4,810	-	501,937
FUND BALANCE, July 1, 2011	740,105	1,221,052	-	1,961,157
FUND BALANCE, June 30, 2012	\$ 1,237,232	\$ 1,225,862	\$ -	\$ 2,463,094

The accompanying notes are an integral part of the financial statements

DETROIT COMMUNITY SCHOOLS

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2012

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ 501,937**

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

Governmental funds reported capital outlays as expenditures, but in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Capital outlay	\$ 182,137	
Depreciation expense	<u>(663,683)</u>	
Total		(481,546)

The cost of issuance of the bonds was an expenditure in the governmental funds, but these costs are capitalized and spread over the life of the debt in the statement of net assets.

Amortization		(24,337)
--------------	--	----------

In the statement of activities, termination benefits are measured by the amounts earned during the year. In the governmental funds, expenditures for these items are measured by the resources used (amounts paid). This year termination benefits paid exceeded benefits earned.

23,180

Repayment of loan principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term obligations)

336,126

Interest on long-term obligations not accrued in governmental funds.

2,025

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 357,385**

The accompanying notes are an integral part of the financial statements.

DETROIT COMMUNITY SCHOOLS

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2012

	<u>Agency Fund Internal Activities</u>
ASSETS	
Cash	\$ <u>17,319</u>
TOTAL ASSETS	\$ <u><u>17,319</u></u>
LIABILITIES	
Due to student organizations	\$ <u>17,319</u>
TOTAL LIABILITIES	\$ <u><u>17,319</u></u>

The accompanying notes are an integral part of the financial statements.

DETROIT COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accompanying financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

REPORTING ENTITY

The Academy is authorized to operate as a Public School Academy under a one-year contract with the Saginaw Valley State University (SVSU) Board of Control which expires on June 30, 2013. The Academy is governed by a Board of Directors (Board) appointed by the University. The Board receives funding from local, state and federal sources and must comply with the requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements. It is considered to be a potential component unit of the University because the University appoints the Board of the Academy, but has no financial benefit or burden relationship with the Academy.

ACADEMY-WIDE AND FUND FINANCIAL STATEMENTS

The **academy-wide** financial statements include the statement of net assets and the statement of activities. These statements report all nonfiduciary activities of the primary government. Government activities are generally supported by taxes and intergovernmental revenues, and are reported separately from business-type activities which are financed in whole or in part by fees charged to external parties for goods and services. The focus of the Academy-wide statements is the primary government.

The **statement of net assets** presents the reporting entity's nonfiduciary assets and liabilities, with the difference reported as net assets.

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 charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental and fiduciary funds, even though the latter is excluded from the Academy-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

DETROIT COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

Academy-wide financial statements

The Academy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses 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 for the Academy-wide financial statements.

Governmental 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 government 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 judgements, are recorded only when payment is due.

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

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

Financial statement presentation

The Academy reports the following major governmental funds:

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

The Debt Retirement Fund accounts for the resources accumulated for the retirement of general long-term debt principal, interest and related costs.

In addition, the Academy reports the following fund types:

Special Revenue Funds account for specific revenue sources that are legally restricted to expenditure for specified purposes. The School Lunch Fund is a special revenue fund.

Fiduciary funds are used to account for assets held by the Academy in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government-wide statements. Agency funds are custodial in nature and do not involve measurement of results of operations.

The Academy maintains one fiduciary fund. The Internal Activities Fund represents the activities of the student and parent groups for school and related purposes and is considered an agency fund.

DETROIT COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

ASSETS, LIABILITIES AND NET ASSETS/FUND BALANCE

Cash and cash equivalents include cash on hand and in local banks. Cash and **investments** are reported at fair value.

Receivables consist primarily of expenditure refunds and amounts due from other governmental units.

The State of Michigan uses a foundation grant approach which provides for a specific annual amount of revenue per student based on a statewide formula. The allowance is based on the pupil membership counts taken in February and October 2011.

Federal grant and certain State categorical funds are considered to be earned to the extent of expenditures made under their provisions and, accordingly, when such funds are received they are recorded as deferred revenue until earned. Amounts receivable are reported as due from other governmental units.

Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are expensed using the consumption method. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as **prepaid expenditures** in both the Academy-wide and governmental fund financial statements. The cost of issuance of long-term obligations, which is only recorded in the Academy-wide financial statements is being amortized on a straight-line basis over the life of the related obligation.

Capital Assets, which include land, buildings, equipment, and vehicles, are defined by the government as assets with an initial individual or aggregate cost of more than \$500. These assets are recorded at cost. Donated capital assets are recorded at fair market value at the date of donation. The Academy does not have infrastructure-type assets.

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

Land improvements	15-20	Years
Buildings and improvements	20-50	Years
Vehicles	5	Years
Furniture and equipment	5-15	Years

Long-term Obligations are reported as liabilities in the Academy-wide financial statements. Bond issuance costs, premiums and discounts, if material, are deferred and amortized over the life of the bonds using the effective interest method.

The difference between assets and liabilities is **Net Assets** on the Academy-wide and fiduciary fund financial statements, and Fund Balance on the governmental fund financial statements. Net assets are reported in three categories as follows:

DETROIT COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

ASSETS, LIABILITIES AND NET ASSETS/FUND BALANCE (continued)

Investment in capital assets, net of related debt as reported in the Academy-wide financial statements, consists of capital assets, net of accumulated depreciation and further reduced by the outstanding balances of notes that are attributed to the acquisition, construction or improvement of those assets.

Restricted for specific use net assets consist of assets that have externally imposed constraints placed on them through regulations imposed by other governments.

Unrestricted net assets consist of assets that do not meet the two preceding criteria.

Fund Equity - 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

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 Management, who is authorized by a resolution approved by the Board of Directors to make assignments.

Unassigned - includes any remaining amounts after applying the above definitions.

NOTE 2 BUDGETARY INFORMATION

The Academy is required by state law to adopt an annual budget on a basis consistent with generally accepted accounting principles for the General and Special Revenue Funds. Prior to July 1, the budget is legally adopted by the Board of Directors. Once approved, the budget can be amended by a majority of the Board. Budgets are passed at the function level and controlled by management at the object level. The last amendment to the budget was adopted on June 25, 2012.

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until the receipt of materials or services. For budgetary purposes, appropriations lapse at year-end and outstanding encumbrances, if any, are reappropriated in the next year. Encumbrances outstanding at the end of the year are reported as reservations of fund balance. There were no encumbrances outstanding at year end.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Academy incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

Fund	Total Appropriations	Amount of Expenditures	Budget Variance
General Fund - General Administration Services	\$ 312,372	\$ 357,213	\$ (44,841)

DETROIT COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 3 CASH AND INVESTMENTS

State laws authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; 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.

School Academy cash is subject to different types of risk. This Academy is subject to risk as described below.

Custodial credit risk of bank deposits is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy only uses financial institutions which are evaluated to have an acceptable risk level. The FDIC insures a limited amount of the Academy's deposits. It is impractical for the Academy to have all deposits insured. At year end, the Academy had \$1,882,331 in funds deposited at banks, of which \$1,382,331 was uninsured and uncollateralized.

NOTE 4 CAPITAL ASSETS

	Balance June 30, 2011	Additions	Disposals and adjustments	Balance June 30, 2012
Capital assets not being depreciated:				
Land	\$ 132,754	\$ -	\$ -	\$ 132,754
Non-depreciable additions	-	-	-	-
Total capital assets not being depreciated	132,754	-	-	132,754
Capital assets being depreciated:				
Building and improvements	9,666,542	-	-	9,666,542
Land improvements	176,032	-	-	176,032
Furniture and equipment:				
Furniture and equipment	2,324,632	-	-	2,324,632
Technology	1,186,881	182,137	-	1,369,018
	13,354,087	182,137	-	13,536,224
Vehicles	109,296	-	-	109,296
Total capital assets being depreciated	\$ 13,463,383	\$ 182,137	\$ -	\$ 13,645,520

DETROIT COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 4 CAPITAL ASSETS (continued)

	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Disposals and adjustments</u>	<u>Balance June 30, 2012</u>
Accumulated depreciation:				
Building and improvements	\$ 1,610,946	\$ 318,568	\$ -	\$ 1,929,514
Land improvements	<u>40,758</u>	<u>13,274</u>	<u>-</u>	<u>54,032</u>
Furniture and equipment:				
Furniture and equipment	930,426	152,647	-	1,083,073
Technology	<u>751,770</u>	<u>172,558</u>	<u>-</u>	<u>924,328</u>
	<u>1,682,196</u>	<u>325,205</u>	<u>-</u>	<u>2,007,401</u>
 Vehicles	<u>96,498</u>	<u>6,636</u>	<u>-</u>	<u>103,134</u>
 Total accumulated depreciation	 <u>3,430,398</u>	 <u>663,683</u>	 <u>-</u>	 <u>4,094,081</u>
 Net capital assets being depreciated	 <u>10,032,985</u>	 <u>(481,546)</u>	 <u>-</u>	 <u>9,551,439</u>
 Net capital assets	 <u>\$ 10,165,739</u>	 <u>\$ (481,546)</u>	 <u>\$ -</u>	 <u>\$ 9,684,193</u>

Depreciation expense was charged to activities of the Academy as follows:

Governmental activities:	
Instruction	\$ 126,719
Support services	<u>536,964</u>
 Total governmental activities	 <u>\$ 663,683</u>

NOTE 5 DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that are 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>Unavailable</u>	<u>Unearned</u>
Grants and categorical aid payments received prior to meeting all eligibility requirements	 <u>\$ -</u>	 <u>\$ 15,090</u>

DETROIT COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 6 NOTES PAYABLE

State Aid Notes

As of June 30, 2012, the Academy had outstanding borrowings of \$297,725 pursuant to Act No. 451 of the Public Acts of 1976. This Act authorizes the borrowing of money in a single series of notes in anticipation of the collection of State Aid payments for the 2011-2012 school year.

	Beginning Balance	Additions	Reductions	Ending Balance
State Aid Note Payable dated July 2010 bearing interest at 3.04%, nine non-equal payments from October 2010 through June 2011, remainder due July 2011	\$ 499,804	\$ -	\$ 499,804	\$ -
State Aid Note Payable dated March 2011 bearing interest at 2.48%, due August 2011	250,000	-	250,000	-
State Aid Note Payable dated August 2011 bearing interest at 2.9%, due August 2012	-	1,655,000	1,357,275	297,725
	\$ 749,804	\$ 1,655,000	\$ 2,107,079	\$ 297,725

Total interest for these notes included in support service is \$27,702.

NOTE 7 LONG-TERM OBLIGATIONS

The Academy issues bonds, notes and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the Academy.

In August 2005, the Academy issued \$11,865,000 of Public School Academy Revenue Bonds for the refinancing and construction of its future facilities. Significant details regarding this issue are as follows:

Description	Final Payment Due	Interest Rate	Annual Principal (000)	Ending Outstanding
2005 Serial bonds	November 2035	5.0 - 5.75%	\$195 - \$810	\$ 11,065,000

DETROIT COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 7 LONG-TERM OBLIGATIONS (continued)

During the year ended June 30, 2009, the Academy entered into a lease agreement for \$415,000 to finance the purchase and installation of certain equipment with a cost of \$423,300 which is, in essence, a financing arrangement. The terms are as follows:

Year Ended:		
2013	\$	138,820
2014		<u>39,569</u>
		178,389
Amount representing interest		<u>(8,320)</u>
Present value of minimum lease payments	\$	<u><u>170,069</u></u>

Long-term obligation activity can be summarized as follows:

	Bond and Notes	Termination Benefits	Total Long-Term Obligation
Beginning balance	\$ 11,579,514	\$ 23,180	\$ 11,602,694
Additions	-	-	-
Reductions	<u>(336,126)</u>	<u>(23,180)</u>	<u>(359,306)</u>
Ending balance	11,243,388	-	11,243,388
Amount due within one year	<u>(363,820)</u>	<u>-</u>	<u>(363,820)</u>
Amount due in more than one year	<u><u>\$ 10,879,568</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 10,879,568</u></u>

Annual debt service requirements to maturity for the above governmental note obligations are as follows:

	Principal	Interest	Total
2013	\$ 363,820	\$ 633,091	\$ 996,911
2014	279,568	612,515	892,083
2015	255,000	598,091	853,091
2016	270,000	583,260	853,260
2017	285,000	567,581	852,581
2018-2022	1,680,000	2,571,085	4,251,085
2023-2027	2,205,000	2,024,909	4,229,909
2028-2032	2,915,000	1,297,344	4,212,344
2033-2036	<u>2,990,000</u>	<u>546,537</u>	<u>3,536,537</u>
	<u><u>\$ 11,243,388</u></u>	<u><u>\$ 9,434,413</u></u>	<u><u>\$ 20,677,801</u></u>

DETROIT COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 8 RISK MANAGEMENT

The Academy is exposed to various risks of loss related to torts; theft of, damage to and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded insurance coverage since inception.

Federal programs

The Academy participates in numerous federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Academy has not complied with the rules and regulations governing the grants, refunds of any money received may be required and collectibility of any receivable at June 30 may be impaired. In the opinion of the Academy, there are no significant liabilities relating to compliance with the rules and regulations governing the grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

NOTE 9 DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS

Plan Description - The Academy participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple--employer defined benefit public employee retirement system, with a defined contribution component for those who first worked on or after July 1, 2010, governed by the State of Michigan that covers all direct employees of the Academy. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103 or is available on the Office of Retirement Services (ORS) Web site <http://www.michigan.gov/ors>.

The pension benefit rates are as follows:

	Employed Before July 1, 2010 (Basic/MIP)	Employed on or After July 1, 2010 (Pension Plus)
July 1, 2011 - September 30, 2011	20.66%	19.16%
October 1, 2011 - June 30, 2012	24.46%	23.23%

In addition, basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3.0% to 4.3% of gross wages. The Academy's contributions to the MPERS plan for the years ended June 30, 2012, 2011 and 2010 were \$9,695, \$75,600 and \$180,770 respectively.

As of September 30, 2011, the Academy no longer has any employees in the MPERS retirement system.

Post Employment Benefits - Under the MPERS Act, all retirees participating in the MPERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10% percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for post employment health care benefits make up 8.5% of the Academy's total contribution to the MPERS plan discussed above.

DETROIT COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 10 SUBSEQUENT EVENT

The Academy issued a State Aid note for \$923,000 for additional cash flow purposes in August 2012. Monthly payments of approximately \$85,352, including interest at 2.95%, will be required from October 2012 through August 2013.

NOTE 11 CONTINGENCY

In the spring of 2010, the Academy was informed that its high school was listed on the Michigan Department of Education's list of the 5% lowest performing schools in the State. Also, since June of 2010 the Academy's authorization to continue as a public school academy has been limited to one-year contracts. The current authorization contract expires on June 30, 2013. The Board of Control of SVSU will determine in January or February 2013 if required benchmarks have been reached to allow the Academy to be offered a contract for the year ended June 30, 2014. Benchmarks include improved student achievement and stable and cohesive leadership.

NOTE 12 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Food Service Fund	\$ 13,330

Interfund balances represent routine and temporary cash flow assistance from funds until amounts are transferred from fund investment accounts.

The composition of interfund transfers is as follows:

	<u>Transfers out - General Fund</u>
Transfers in - Debt Retirement Fund	\$ 861,129
Transfers in - Other nonmajor governmental funds - Food Service Fund	117,524
	<u>978,653</u>

Interfund transfers represent routine, recurring transfers between funds.

REQUIRED SUPPLEMENTAL INFORMATION

DETROIT COMMUNITY SCHOOLS

BUDGETARY COMPARISON SCHEDULE GENERAL FUND For the Year Ended June 30, 2012

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES:				
Local sources	\$ 45,300	\$ 87,559	\$ 45,571	\$ (41,988)
State sources	7,420,307	8,210,744	8,216,915	6,171
Federal sources	828,090	1,088,272	967,208	(121,064)
TOTAL REVENUES	8,293,697	9,386,575	9,229,694	(156,881)
EXPENDITURES:				
Instruction:				
Basic programs	2,722,116	2,787,508	2,696,569	90,939
Added needs	857,683	1,015,519	978,977	36,542
Support services:				
Pupil services	456,590	601,825	552,474	49,351
Instructional staff	558,662	777,109	773,096	4,013
General administration	491,990	312,372	357,213	(44,841)
School administration	379,254	468,331	467,294	1,037
Business services	296,374	357,452	342,496	14,956
Operation and maintenance	853,908	910,764	874,181	36,583
Pupil transportation	290,942	20,063	18,542	1,521
Central	65,563	250,163	240,315	9,848
Athletics	115,834	123,225	121,916	1,309
Community services	38,379	213,559	199,724	13,835
Other facilities improvements	55,000	255,000	0	255,000
Debt service	149,603	148,279	136,413	11,866
TOTAL EXPENDITURES	7,331,898	8,241,169	7,759,210	481,959
EXCESS OF REVENUES OVER EXPENDITURES	961,799	1,145,406	1,470,484	325,078
OTHER FINANCING SOURCES (USES):				
Prior period adjustments, non-material	-	-	5,296	5,296
Operating transfers in/out	(970,002)	(1,086,410)	(978,653)	107,757
Total Other Financing Sources (Uses)	(970,002)	(1,086,410)	(973,357)	113,053
NET CHANGE IN FUND BALANCES	\$ (8,203)	\$ 58,996	497,127	\$ 438,131
FUND BALANCE, July 1, 2011			740,105	
FUND BALANCE, June 30, 2012			\$ 1,237,232	

OTHER SUPPLEMENTAL INFORMATION

DETROIT COMMUNITY SCHOOLS
NONMAJOR GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES

June 30, 2012

	School Lunch
REVENUES	
Local	\$ 12,022
State	22,353
Federal	342,877
TOTAL REVENUES	377,252
EXPENDITURES	
Food services	494,776
Excess of Revenues Over (under) expenditures	(117,524)
Other Financing Sources, transfer in	117,524
NET CHANGE IN FUND BALANCES	-
FUND BALANCES, July 1, 2011	-
FUND BALANCES, June 30, 2012	\$ -

DETROIT COMMUNITY SCHOOLS
REPORT ON EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2012

DETROIT COMMUNITY SCHOOLS

TABLE OF CONTENTS

JUNE 30, 2012

	PAGE
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	1-2
Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	3-4
Schedule of Expenditures of Federal Awards	5-7
Notes to Schedule of Expenditures of Federal Awards	8-9
Schedule of Findings and Questioned Costs	10-13
Summary Schedule of Prior Audit Findings	14

A Professional Corporation

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Detroit Community Schools, a Public School Academy
Detroit, Michigan 48223

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Detroit Community Schools as of and for the year ended June 30, 2012, which collectively comprise Detroit Community Schools' basic financial statements and have issued our report thereon dated December 2, 2012. 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.

Internal Control Over Financial Reporting

Management of Detroit Community Schools is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Detroit Community Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Detroit Community Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Detroit Community Schools' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as Item 2012-1 to be a material weakness.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as Item 2012-2 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Detroit Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to the management of Detroit Community Schools, in a separate letter dated December 2, 2012.

Detroit Community Schools' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Detroit Community Schools' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the audit committee, the Board of Directors, others within the entity and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



December 2, 2012

A Professional Corporation

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Detroit Community Schools, a Public School Academy
Detroit, Michigan 48223

Compliance

We have audited Detroit Community Schools' compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Detroit Community Schools' major federal programs for the year ended June 30, 2012. Detroit Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Detroit Community Schools' management. Our responsibility is to express an opinion on Detroit Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Detroit Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Detroit Community Schools' compliance with those requirements.

In our opinion, Detroit Community Schools complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of Detroit Community Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Detroit Community Schools' internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Detroit Community Schools' internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2012-3 to be a significant deficiency.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Detroit Community Schools as of and for the year ended June 30, 2012, and have issued our report thereon dated December 2, 2012, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Detroit Community Schools' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Detroit Community Schools' responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the audit committee, the Board of Directors, others within the entity and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



December 2, 2012

DETROIT COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	APPROVED GRANT AWARD AMOUNT	ACCRUED (DEFERRED) REVENUE JULY 1, 2011	ADJUSTMENTS AND TRANSFERS	(MEMO ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS	ACCRUED (DEFERRED) REVENUE AT JUNE 30, 2012
U.S. DEPARTMENT OF EDUCATION								
Passed Through Michigan								
Department of Education								
Title I Part A								
Project Number: 111530-1011	84.010*	\$ 630,932	\$ 87,179	\$ -	\$ 510,917	\$ 12,463	\$ 99,642	\$ -
Project Number: 111550-1011		40,000	30,844	30	-	-	30,874	-
Project Number: 121530-1112		<u>800,868</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>567,056</u>	<u>441,291</u>	<u>125,765</u>
Total Title I Part A		<u>1,471,800</u>	<u>118,023</u>	<u>30</u>	<u>510,917</u>	<u>579,519</u>	<u>571,807</u>	<u>125,765</u>
ARRA Title I, Part A Carryover								
Project Number: 111535-1011	84.389*	<u>93,617</u>	<u>28,756</u>	<u>(24,158)</u>	<u>105,524</u>	<u>-</u>	<u>4,598</u>	<u>-</u>
ARRA Title I 4% School Improvement								
Project Number: 101555-0910	84.389A*	179,221	54,244	(32)	154,637	24,616	78,828	-
Project Number: 101555-1011		<u>56,848</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>53,683</u>	<u>49,183</u>	<u>4,500</u>
Total ARRA Title I 4% School Improvement		<u>236,069</u>	<u>54,244</u>	<u>(32)</u>	<u>154,637</u>	<u>78,299</u>	<u>128,011</u>	<u>4,500</u>
Title II Part A								
Project Number: 110520-1011	84.367A	51,047	4,128		25,273	21,718	25,846	-
Project Number: 120520-1112		<u>37,940</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,075</u>	<u>18,075</u>	<u>-</u>
Total Title II Part A		<u>88,987</u>	<u>4,128</u>	<u>-</u>	<u>25,273</u>	<u>39,793</u>	<u>43,921</u>	<u>-</u>
ARRA Education Stabilization Fund								
Project Number: 112525-1011	84.394	<u>113,088</u>	<u>26,823</u>	<u>-</u>	<u>113,088</u>	<u>-</u>	<u>26,823</u>	<u>-</u>
Education Jobs Fund								
Project Number: 112545-1011	84.410A	<u>201,260</u>	<u>32,541</u>	<u>-</u>	<u>91,318</u>	<u>2,350</u>	<u>34,891</u>	<u>-</u>
Safe & Drug Free Tobacco Grant								
Project Number: S32011	84.186	<u>4,363</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,363</u>	<u>4,363</u>	<u>-</u>

DETROIT COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

(Continued)

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	APPROVED GRANT AWARD AMOUNT	ACCRUED (DEFERRED) REVENUE JULY 1, 2011	ADJUSTMENTS AND TRANSFERS	(MEMO ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS	ACCRUED (DEFERRED) REVENUE AT JUNE 30, 2012
U.S. DEPARTMENT OF EDUCATION (Continued)								
Passed Through Michigan Department of Education (Continued) Michigan Safe and Supportive Schools Project Number: 122790-SS2012	84.184	\$ 82,244	\$ -	\$ -	\$ -	\$ 79,549	\$ 54,886	\$ 24,663
Total Passed Through Michigan Department of Education		2,291,428	264,515	(24,160)	1,000,757	783,873	869,300	154,928
Passed Through Wayne County Regional Education Service Agency I.D.E.A. - Flow-Through Project Number: 120450-1112	84.027A	161,160	-	-	-	161,160	135,560	25,600
Passed Through Michigan Association of Public School Academies Teacher Excellence & Academic Milestones for Students (TEAMS) Project Project Number: 100168	84.385A	46,335	-	-	-	46,335	46,335	-
Total U.S. Department of Education		2,498,923	264,515	(24,160)	1,000,757	991,368	1,051,195	180,528
U.S. DEPARTMENT OF AGRICULTURE								
Passed Through Michigan Department of Education Child Nutrition Cluster Non-Cash Assistance National School Lunch Program Entitlement Commodities 2011-2012	10.555*	18,298	-	-	-	15,949	15,949	-
Cash Assistance National School Lunch Program Project Number: 112960 Project Number: 121960	10.555*	30,742 214,396	- -	- -	- -	30,742 214,275	30,742 214,275	- -
Total National School Lunch Program		245,138	-	-	-	245,017	245,017	-

DETROIT COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	APPROVED GRANT AWARD AMOUNT	ACCRUED (DEFERRED) REVENUE JULY 1, 2011	ADJUSTMENTS AND TRANSFERS	(MEMO ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS	ACCRUED (DEFERRED) REVENUE AT JUNE 30, 2012
U.S. DEPARTMENT OF AGRICULTURE (Continued)								
Passed Through Michigan Department of Education (Continued)								
Child Nutrition Cluster (Continued)								
Cash Assistance (Continued)								
School Breakfast Program								
Project Number: 111970	10.553*	\$ 10,840	\$ -	\$ -	\$ -	\$ 10,840	\$ 10,840	\$ -
Project Number: 121970		<u>70,950</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>70,950</u>	<u>70,950</u>	<u>-</u>
Total School Breakfast Program		<u>81,790</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>81,790</u>	<u>81,790</u>	<u>-</u>
Total Cash Assistance		<u>326,928</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>326,807</u>	<u>326,807</u>	<u>-</u>
Total U.S. Department of Agriculture		<u>345,226</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>342,756</u>	<u>342,756</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 2,844,149</u>	<u>\$ 264,515</u>	<u>\$ (24,160)</u>	<u>\$ 1,000,757</u>	<u>\$ 1,334,124</u>	<u>\$ 1,393,951</u>	<u>\$ 180,528</u>

DETROIT COMMUNITY SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 1 -

The accompanying Schedule of Expenditures of Federal Awards includes federal grant activity of Detroit Community Schools and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations".

NOTE 2 -

*Designates Major Program

NOTE 3 -

The programs with total funds expended of \$300,000 or more (Type A programs) were the Title I Cluster and the Child Nutrition Cluster. Neither of these Type A programs were considered low- risk. None of the Type B programs that exceeded the small program floor of \$100,000 were considered high-risk. The Academy did not qualify as a low-risk auditee due to prior year audit findings. Therefore, 50% of total federal awards expended were required to be tested as major programs. The Title I Cluster and the Child Nutrition Cluster satisfied this requirement.

NOTE 4 -

Expenditures in this schedule are in agreement with amounts reported in the financial statements and the financial reports. The amounts reported on the Grant Auditor Report reconcile with this schedule.

NOTE 5 -

The amounts reported on the Recipient Entitlement Balance Report (PAL Report) agree with this schedule of USDA donated food commodities and are reported in the cash receipts column. Expenditures include spoilage or pilferage.

DETROIT COMMUNITY SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 6 -

Reconciliation to financial statements:

Federal Revenue per Financial Statements:				
General Fund			\$ 967,208	
Special Revenue Funds			342,877	
Expenditures on Prior Year Schedule of Expenditures of Federal Awards Overstated				
Title I			24,158	
Revenues for Child Nutrition Program Understated			<u>(119)</u>	
Expenditures per Schedule of Expenditures of Federal Awards			<u>\$ 1,334,124</u>	

NOTE 7 -

For Title I, the Michigan Department of Education required the payback of indirect costs on capital outlay, resulting in an adjustment of the accrued revenue at July 1, 2011.

DETROIT COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: (unqualified, qualified, adverse, or disclaimer)

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Type of auditor’s report issued on compliance for major programs: (unqualified, qualified, adverse, or disclaimer)

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes no

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
84.010, 84.389, 84.389A	Title I Cluster
10.555, 10.553	Child Nutrition Cluster

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? yes no

DETROIT COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

(Continued)

Section II – Financial Statement Findings

<u>Reference Number</u>	<u>Findings</u>
2012-1	<p>Management’s Decision to Not Prepare Full Disclosure Financial Statements</p> <p>Finding Type – Material Weakness in Internal Control over Financial Reporting</p> <p>Criteria – Generally accepted accounting principles and government auditing standards require that financial statements be prepared and presented on the accrual basis of accounting for the Academy-Wide statements and on the modified accrual basis of accounting for the Fund-Based statements and preparation of the Schedule of Expenditures of Federal Awards (SEFA).</p> <p>Condition – Inquiry of current management indicates that they have made the decision to accept the risk of the deficiency leading to a material misstatement due the cost and other considerations associated with preparing full disclosure financial statements and preparation of the SEFA.</p> <p>Cause – Management’s assertion is that sufficient internal resources are not available to prepare full disclosure financial statements and the SEFA due to staff turnover and limited record/management transition.</p> <p>Effect – Despite management’s decision, generally accepted auditing standards require the written communication of this material weakness.</p> <p>Recommendation – Management should prepare the full disclosure financial statements of the Academy and the SEFA</p> <p>View of Responsible Official – Because of time constraints, (and after the due date required by State law) management allowed a subcontractor to prepare the financial statements and the auditors to prepare the SEFA. During the 2012-13 year, management will ensure that accounts are reconciled timely and that year end entries are posted sooner so that the audit can be completed earlier. This will allow management sufficient time to prepare the financial statements and the SEFA.</p>

DETROIT COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

(Continued)

Section II – Financial Statement Findings

Reference Number	Findings
2012-2	<p>Lack of Written Procedures for Federal Awards</p> <p>Finding Type – Significant Deficiency in Internal Control Over Financial Reporting</p> <p>Criteria – As an established precondition to receive federal funds, prospective recipients must have effective administrative and financial internal controls.</p> <p>Condition – As described in 34 CFR Part 80, 2 CFR Part 215 and OMB Circular A-133 Compliance Supplement Part 6, school districts must have written procedures for the following:</p> <ul style="list-style-type: none"> • Financial Management Systems • Payments • Allowable Costs • Period of Availability • Matching or Cost Sharing (if applicable) • Program Income (if applicable) • Procurement • Equipment and Real Property (if applicable) • Supplies • Copyrights (if applicable) • Subawards to Debarred and Suspended Parties • Monitoring and Reporting Program Performance (if applicable) • Financial Reporting • Retention and Access Requirements for Records <p>In addition, districts should also have written procedures for:</p> <ul style="list-style-type: none"> • Cash Management • Conflict of Interest • Payroll • Federal Timekeeping <p>These written procedures should include provisions for training and consequences for compliance failures. Policies do not take the place of procedures.</p> <p>Cause – Proper documentation to satisfy this requirement has not been adequately documented by the Academy.</p> <p>Effect – The Academy does not meet the requirements for accepting federal awards.</p> <p>Recommendation – The Academy should complete its procedures manual to ensure that the proper internal controls are in place for the administration of federal awards.</p> <p>View of Responsible Official – The Chief Financial Officer will work with support staff during the current year to develop written procedures for federal awards to comply with requirements.</p>

DETROIT COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

(Continued)

Section III – Federal Award Findings and Questioned Costs

Reference Number	Findings
2012-3	<p>Allowable Costs/Cost Principles – Payroll Documentation</p> <p>Finding Type – Noncompliance; Significant Deficiency in Internal Control over Compliance</p> <p>Federal Agency/Program Name – U.S. Department of Education – Title I Cluster – CFDA # 84.010</p> <p>Pass-Through Entity/Project Number – Michigan Department of Education – Project No. 1215310-1112</p> <p>Questioned Costs – \$7,291</p> <p>Criteria – Per OMB Circular A-87, the Academy is required to support payroll charges to federal programs with adequate supporting documentation including semi-annual payroll certifications for employees charged 100% to a single federal cost objective and personnel activity reports for those who split their time among multiple cost objectives.</p> <p>Condition – During the year ended June 30, 2012, the Academy had payroll transactions charged to federal programs that were not adequately documented.</p> <p>Cause – Management has not implemented adequate internal controls to ensure that all payroll charges are supported by documentation allowed under OMB Circular A-87.</p> <p>Effect – For 23 transactions tested, Personnel Activity Reports were not prepared in three instances (one individual) and the semi-annual certification was not prepared in two instances (one individual), which are required in accordance with OMB A-87.</p> <p>Recommendation – We recommend that the Academy modify its procedures to ensure that staff is trained on existing payroll documentation procedures and that expenditures are properly approved and documented before being recorded in the general ledger.</p> <p>View of Responsible Official – The Chief Financial Officer will meet with appropriate personnel to review the documentation requirements for salaries and wages under OMB Circular A-87.</p>

DETROIT COMMUNITY SCHOOLS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2012

<u>Reference Number</u>	<u>Findings</u>
2011-1 Finding:	Reimbursement for indirect costs was requested for capital outlay.
Status:	During the year ended June 30, 2012, the Academy did not request indirect costs for capital outlay. In addition, the questioned costs from June 30, 2011 were repaid.
2011-2 Finding:	Records that paraprofessionals hired by the Academy are highly qualified were not maintained.
Status:	During the year ended June 30, 2012 records that paraprofessionals are highly qualified were properly maintained.
2011-3 Finding:	Sufficient records were not retained to support the Academy's Claim Status Reports for the Child Nutrition Cluster.
Status:	During the year ended June 30, 2012 sufficient records were maintained to support Claim Status Reports.

DETROIT COMMUNITY SCHOOLS
LETTER OF COMMENTS AND RECOMMENDATIONS
JUNE 30, 2012

A Professional Corporation

December 2, 2012

To the Board of Directors
Detroit Community Schools
Detroit, Michigan 48223

We have audited the financial statements of Detroit Community Schools (the Academy) for the year ended June 30, 2012, and have issued our report dated December 2, 2012. As part of our examination, we reviewed and tested the Academy's accounting procedures and system of internal controls to determine the nature, timing and extent of the auditing procedures necessary to express an opinion on the annual financial statements.

The objective of internal control is to provide reasonable assurance that 1) transactions are executed according to management's general or specific authorization, 2) assets are safeguarded against loss from unauthorized use or disposition, 3) duties are segregated between various employees to provide a reasonable check upon transactions and 4) the financial records are reliable for preparing financial statements and maintaining accountability for assets.

Our examination would not necessarily disclose all weaknesses in the system of internal control because it was based on selective tests of accounting records and data.

The following comments and recommendations are presented for your consideration:

Schedule of Expenditures of Federal Awards

The Report on Expenditures of Federal Awards enumerates several findings not repeated in this letter. Please refer to that report.

PRIOR YEARS COMMENTS

Reconcile Bank Accounts on a Timely Basis

Bank statements, in some instances, were not reconciled to the appropriate general ledger accounts on a timely basis. Not reconciling the accounts on a monthly basis means that errors or other problems might not be recognized and resolved on a timely basis. Also, it is generally easier and less time-consuming to reconcile accounts while transactions are fresh in mind. We recommend that all bank accounts be reconciled each month prior to receiving the next month's bank statement.

Current year status: We noted the bank reconciliations were completed during the month following the statement date (with the exception of reconciliations during staff turnover).

Require Receipt of Goods Documentation

During our review of cash disbursements we noted that receipt of goods documentation was not attached or noted on a number of invoices being paid. We recommend that the documentation of receipt of goods (i.e. signed and dated packing slips) be required and be attached to the invoices being paid.

Current year status: We continued to note several paid invoices without proof of receipt of goods attached.

CURRENT YEAR COMMENTS

Accounting Software

The accounting department is currently using Quickbooks Software to record and report on financial transactions. While Quickbooks provides a broad range of reporting options, it is not specifically designed for school accounting use. We recommend that the Academy investigate the use of the Wayne County RESA Accounting System. While this system is more costly than Quickbooks it offers many reports and options that are centered on Michigan school accounting, budgeting and reporting needs. One area of importance would be the required use of the State school chart of accounts. That use would provide for seamless reporting for required State reports.

Annual Yearly Progress

For the fiscal year ended June 30, 2012 Detroit Community High School did not make Annual Yearly Progress (AYP) as defined by the Michigan Department of Education. There are specific requirements the Academy should make themselves aware of for the fiscal year end June 30, 2013. These compliance requirements include but are not limited to Title 1 budgeting, program planning and related expenditures.

OTHER INFORMATION

New Accounting Pronouncements

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB statements and interpretations, APB opinions and accounting research bulletins of the AICPA Committee on Accounting Procedure. This standard is required to be adopted during the Academy's 2012-2013 fiscal year.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The statement will be effective for the Academy's 2012-2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concept Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which 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. Statement No. 65 will be implemented during the Academy's 2013-2014 fiscal year.

Summary

Academy recordkeeping procedures are fundamentally sound and reliable. The employees responsible for recordkeeping were cooperative and prompt in answering questions and providing documentation required during our audit.

We would like to thank the Board for this opportunity to again serve as your auditors. We are available throughout the year to answer questions or work on special projects at your request.

Hungerford & Co.

December 2, 2012

A Professional Corporation

December 2, 2012

To the Board of Directors
Detroit Community Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Detroit Community Schools (the Academy) for the year ended June 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Detroit Community Schools are described in Note 1 to the financial statements. No new accounting policies were adopted during the year ended June 30, 2012. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the depreciation expense is based on the estimated useful life of each asset using the straight-line method of depreciation. We evaluated the key factors and assumptions used to develop the depreciation expense (and the related accumulated depreciation) in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate for the allocation of certain expenditures among federal and state grants is based on management's assessment of the percentage amount to be allocated to each expenditure category within each program. We evaluated the key factors and assumptions used to develop the liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered problems scheduling the timing of the audit. The schedule was delayed three times due principally to turnover in the Business Manager/CFO position. This delay resulted in late filing of certain reports with the State of Michigan.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. These misstatements were in the areas of accounts payable, deferred revenue, reclassifications, federal program revenue recognition, commodities and the General Fund food service appropriation.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 2, 2012.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of Detroit Community Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Hungerford & Co.