

**STARR DETROIT ACADEMY  
REPORT ON FINANCIAL STATEMENTS  
(with required supplementary information  
and additional supplementary information)  
Fiscal Year Ended June 30, 2013**

## **Starr Detroit Academy**

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## **Independent Auditor's Report**

Board of Directors  
Starr Detroit Academy  
19360 Harper Avenue  
Harper Woods, MI 48225

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the major fund (General Fund) and the aggregate remaining fund information of Starr Detroit Academy (the Academy) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Academy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not

for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund (General Fund), and the aggregate remaining fund information of Starr Detroit Academy as of June 30, 2013, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter – Change in Accounting Principle***

As discussed in Note 13 to the financial statements, the Academy implemented Governmental Accounting Standards Board Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*, and Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

### ***Other Matters***

#### ***Required Supplementary Information***

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

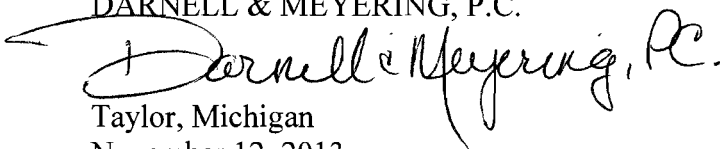
### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Starr Detroit Academy's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the 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 basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2013, on our consideration of Starr Detroit Academy's 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

DARNELL & MEYERING, P.C.

A handwritten signature in black ink that reads "Darnell Meyering, P.C." with a large, sweeping flourish at the beginning.

Taylor, Michigan  
November 12, 2013

# **Starr Detroit Academy**

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## **Management's Discussion and Analysis**

This section of the Starr Detroit Academy's annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2013. 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 Starr Detroit Academy financially as a whole. The Government-wide financial statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Academy's operations in more detail than the Government-wide financial statements by providing information about the Academy's most significant funds - the General Fund.

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

#### **Basic Financial Statements**

*Government-wide Financial Statements*      *Fund Financial Statements*

*Notes to the Basic Financial Statements*

*(Required Supplemental Information)*  
*Budgetary Information for Major Funds*

*Other Supplemental Information*

# Starr Detroit Academy

## Management's Discussion and Analysis (Continued)

### *Reporting the Academy as a Whole - Government-wide Financial Statements*

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Academy's net position – the difference between the School District's assets, deferred outflows of resources, liabilities and deferred inflows of resources – is one way to measure the School District's financial health or *position*. Over time, increases or decreases in the Academy's net position- as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the Academy. The statement of net position and the statement of activities report the governmental activities for the Academy, which encompass all of the Academy's services, including instruction, support services, and community 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. The governmental funds of the Academy use the following accounting approach:

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

# **Starr Detroit Academy**

## **Management's Discussion and Analysis (Continued)**

### **The Academy as a Whole**

Recall that the statement of net position provides the perspective of the Academy as a whole. Table 1 provides a summary of the Academy's net position as of June 30, 2013:

TABLE 1	<u>Governmental</u> <u>June 30</u> <u>2013</u> (in thousands)
<b>Assets</b>	
Current and other assets	\$ 971.4
Capital assets	<u>196.5</u>
Total assets	1,167.9
<b>Liabilities</b>	
Current liabilities	<u>970.8</u>
Total liabilities	<u>970.8</u>
<b>Net Position</b>	
Net investment in capital assets	196.5
Unrestricted	<u>0.6</u>
Total net position	<u><u>\$ 197.1</u></u>

Overtime, increases or decreases in Starr Detroit Academy's net position is an indicator of whether its financial position is improving or deteriorating, respectively.

To assess Starr Detroit Academy's overall health, one should consider additional non-financial factors such as changes in pupil membership and the condition of the Academy's building and equipment.



# Starr Detroit Academy

## Management's Discussion and Analysis (Continued)

The results of this year's operations for the Academy as a whole are reported in the statement of activities (Table 2), which shows the changes in net position for fiscal year 2013. The Academy prepares financial statements following GASB Statement No. 34.

TABLE 2	Governmental Activities <u>2013</u> (in thousands)
<b>Revenue</b>	
Program revenue:	
Operating grants	\$ 620.3
General revenue:	
State foundation allowance	3,712.5
Other	<u>895.3</u>
Total revenue	5,228.1
<b>Functions/Program Expenses</b>	
Instruction	1,849.3
Support services	2,682.5
Food Services	360.6
Community Services	<u>138.6</u>
Total functions/program expenses	<u>5,031.0</u>
<b>Increase/(Decrease) in Net Position</b>	<b><u>\$ 197.1</u></b>

Starr Detroit Academy's basic services are included here, such as instructional support, administration community service and food service. State aid finances most of these activities. The Academy's operating grants are reimbursement based, so the amount of expenditures directly affects the amount of revenue.

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$5,031 million. Certain activities were partially funded by other governments and organizations that subsidized certain programs which grants and contributions of \$620.3 thousand. We paid for the remaining "public benefit" portion of our governmental activities with \$3,712.5 million in State foundation allowance, and with our other revenues, i.e., interest.

The Academy's Management Company, Starr Commonwealth Educational Services, is paid a specific fee based on a percentage of state revenue the Academy receives.

# Starr Detroit Academy

## Management's Discussion and Analysis (Continued)

As discussed above, the net cost shows the financial burden that was placed on the State. Since, unrestricted State aid constitute the vast majority of Academy operating revenue sources, the Board of Directors and administration must annually evaluate the needs of the Academy and balance those with State-prescribed available unrestricted resources.

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

The General Fund is the Academy's primary operating fund. The General Fund has total revenues of \$4,886 million, total expenditures of \$4,866 million, and total other financing sources uses of \$18.9 thousand. As the Academy completed this year, the governmental funds reported a combined fund balance of \$665 dollars.

Starr Detroit Academy operates one nonmajor Special Revenue Fund, for the food service program. Total revenues were \$341.5 thousand, total expenditures were \$360.5 thousand and transfers from the General Fund totaled \$18.9 thousand. The ending fund balance was zero at June 30, 2013.

General Fund balance is available to fund costs related to allowable school operating purposes. The transfer from the General Fund to Special Revenue was to cover operating expenses.

### **General Fund Budgetary Highlights**

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted at the board meeting on June 12, 2013. 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 revisions made to the 2012-2013 General Fund original budgets. Budgeted revenues were increased by \$141.2 thousand due to a private source contribution made at the end of the year.

Budgeted expenditures were also increased by \$180.7 thousand due to a number of increases not budgeted for in the original budget due to the 2012-2013 fiscal year being the school's first year of operation.

There were significant variances between the final budget and actual amounts, within the following functional expenditure categories: Added need and Compensatory Education, Support Services – Pupil, Support Services – Instructional Staff, Support Services - School Administration, Support Services – Transportation, Support Services – Central.

# Starr Detroit Academy

## Management's Discussion and Analysis (Continued)

### Capital Assets and Debt Administration

#### *Capital Assets*

As of June 30, 2013, the Academy had \$226 thousand invested in capital assets with a net book value at June 30, 2013 of \$197 thousand.

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>June 30, 2013 Net Book Value</u>
Furniture and equipment	\$ 9	\$ 3	\$ 6
Computers & Software	<u>217</u>	<u>27</u>	<u>190</u>
<b>Total</b>	<b><u>\$ 226</u></b>	<b><u>\$ 30</u></b>	<b><u>\$ 197</u></b>

#### *Debt*

As of June 30, 2013, the Academy has no long term debt.

### Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the Academy's 2014 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2014 fiscal year is 50 percent and 50 percent of the February 2013 and September 2013 student counts, respectively. The 2014 budget was adopted in June 2013, based on an estimate of students that will be enrolled in September 2013. Approximately 80 percent of total General Fund revenue is from the foundation allowance. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2013 school year, we anticipate that the fall student count will be comparable to the estimates used in creating the 2013 budget. Once the final student count and related per pupil funding is validated, State law requires the Academy to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the Academy's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to Academies. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates funds are sufficient to fund the appropriation of 7,168 per pupil.

# Starr Detroit Academy

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## Management's Discussion and Analysis (Continued)

### Contacting the Academy's Management

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

**Starr Detroit Academy  
Statement of Net Position  
June 30, 2013**

	Governmental Activities
<b>Assets:</b>	
<b>Current assets:</b>	
Cash and equivalents	\$ 242,533
Due from other governmental units	728,268
Prepaid Expenses	665
<b>Total current assets</b>	971,466
<b>Noncurrent assets:</b>	
Capital assets	226,224
Less accumulated depreciation	(29,707)
<b>Total noncurrent assets</b>	196,517
<b>Total assets</b>	1,167,983
<b>Liabilities:</b>	
Accounts payable	40,703
Accrued oversight fees	20,164
Accrued management fees	655,717
Unearned revenue	254,217
<b>Total liabilities</b>	970,801
<b>Net position:</b>	
Net investment in capital assets	196,517
Unrestricted	665
<b>Total net position</b>	\$ 197,182

The notes to the financial statements are an integral part of this statement.

**Starr Detroit Academy  
Statement of Activities  
Year Ended June 30, 2013**

<b>Functions/programs</b>	<b>Expenses</b>	<b>Program Revenues</b>		<b>Governmental Activities Net (expense) Revenue and Changes in Net Position</b>
		<b>Charges for Services</b>	<b>Operating Grants &amp; Contributions</b>	
Contracted service fee:				
Governmental activities:				
Instruction	\$ 1,849,324	\$ -	\$ 78,725	\$ (1,770,599)
Support services	2,682,517	-	200,000	(2,482,517)
Food Services	360,539	-	341,570	(18,969)
Community Services	138,565	-	-	(138,565)
<b>Total governmental activities</b>	<b>\$ 5,030,945</b>	<b>\$ -</b>	<b>\$ 620,295</b>	<b>(4,410,650)</b>
 General revenues:				
State of Michigan sources				3,712,514
Miscellaneous				895,318
<b>Total general revenues</b>				<b>4,607,832</b>
 <b>Change in net position</b>				<b>197,182</b>
 <b>Net position, beginning of year</b>				<b>-</b>
 <b>Net position, end of year</b>				<b>\$ 197,182</b>

The notes to the financial statements are an integral part of this statement.

Starr Detroit Academy  
Balance Sheet  
Governmental Funds  
June 30, 2013

	General Fund	Non-major governmental (special revenue) Fund		Total Governmental Funds
<b>Assets</b>				
<b>Current Assets:</b>				
Cash and equivalents	\$ 222,132	\$ 20,401	\$	242,533
Due from other governmental units	719,754	8,514		728,268
Prepaid Expenses	665	-		665
<b>Total assets</b>	\$ 942,551	\$ 28,915	\$	971,466
 <b>Liabilities and Fund Balance</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 11,788	\$ 28,915	\$	40,703
Oversight fees payable	20,164	-		20,164
Management fees payable	655,717	-		655,717
Unearned revenue	254,217	-		254,217
<b>Total liabilities</b>	941,886	28,915		970,801

	General Fund	Non-major governmental (special revenue) Fund	Total Governmental Funds
<b>Fund balance:</b>			
Nonspendable, prepaids	\$ 665	\$ -	\$ 665
Unreserved, undesignated	-	-	-
<b>Total fund balance</b>	<u>665</u>	<u>-</u>	<u>665</u>
<b>Total liabilities and fund balance</b>	<u>\$ 942,551</u>	<u>\$ 28,915</u>	<u>\$ 971,466</u>
<b>Total governmental fund balance</b>			\$ 665
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and are not reported in the funds:			
The cost of capital assets is	\$ 226,224		
Accumulated depreciation is	<u>(29,707)</u>		<u>196,517</u>
<b>Net position of governmental activities</b>			<u>\$ 197,182</u>



**Starr Detroit Academy**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Governmental Funds**  
**Year Ended June 30, 2013**

	<b>General Fund</b>	<b>Non-major governmental (special revenue) Fund</b>	<b>Total Governmental Funds</b>
<b>Revenues:</b>			
Local sources	\$ 895,318	\$ -	\$ 895,318
State sources	3,712,514	-	3,712,514
Federal sources	278,725	341,570	620,295
Total revenues	<u>4,886,557</u>	<u>341,570</u>	<u>5,228,127</u>
<b>Expenditures:</b>			
Contracted service fee:			
Current:			
Instruction:			
Basic programs	1,652,981	-	1,652,981
Added needs	166,636	-	166,636
Total instruction	<u>1,819,617</u>	<u>-</u>	<u>1,819,617</u>
Support services:			
Pupil	95,832	-	95,832
Instructional staff	442,545	-	442,545
General administration	453,676	-	453,676
School administration	284,348	-	284,348
Business	171,111	-	171,111
Operations/maintenance	970,293	-	970,293
Transportation	365,447	-	365,447
Central	116,989	-	116,989
Community	147,065	-	147,065
Total support services	<u>3,047,306</u>	<u>-</u>	<u>3,047,306</u>
Food Service	<u>-</u>	<u>360,539</u>	<u>360,539</u>
Total expenditures	<u>4,866,923</u>	<u>360,539</u>	<u>5,227,462</u>
<b>Excess (deficiency) of expenditures over (under) revenues</b>	<u>19,634</u>	<u>(18,969)</u>	<u>665</u>
<b>Other financing sources (uses):</b>			
Operating transfers out	(18,969)	-	(18,969)
Operating transfers in	-	18,969	18,969
Total other financing sources (uses):	<u>(18,969)</u>	<u>18,969</u>	<u>-</u>
<b>Net change in fund balance</b>	665	-	665
<b>Fund balance:</b>			
Beginning of year	-	-	-
End of year	<u>\$ 665</u>	<u>\$ -</u>	<u>\$ 665</u>

The notes to the financial statements are an integral part of this statement.

**Starr Detroit Academy**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures and Changes in Fund Balance of Governmental Funds**  
**to the Statement of Activities**  
**Year Ended June 30, 2013**

**Net change in fund balance of governmental funds** \$ 665

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

Governmental funds report capital outlays as expenditures.

In the statement of activities, these costs are allocated over their estimated useful lives as depreciation and amortization.

Capital outlay	226,224
Depreciation expense	<u>(29,707)</u>

**Change in net position of governmental activities** \$ 197,182

STARR DETROIT ACADEMY  
Notes to the Financial Statements  
June 30, 2013

**Note 1. Summary of Significant Accounting Policies**

The accounting policies of Starr Detroit Academy (the Academy) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Academy.

**A. Reporting Entity**

Starr Detroit Academy is a public school academy in its first year of operations. A public school academy is a Michigan Public School System under Public Act No. 362 of 1993, and is subject to the leadership and general supervision of the State Board of Education. Central Michigan University is the authorizing body of the Academy and has contracted with the Academy to charter the public school through June 30, 2017. Starr Detroit Academy's board members are approved by the authorizing body to manage the property and affairs of the Academy. The Academy receives funding from local, state and federal government sources and must comply with all the requirements of these funding source entities. The Academy does not include any other component unit within its financial statements as defined in Governmental Accounting Standards Board *Statements Nos. 14 and 39*.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of activities demonstrates the degree, to which the direct expenses, of a given function or segment, are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include, 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

STARR DETROIT ACADEMY  
Notes to the Financial Statements  
June 30, 2013  
(Continued)

In the government-wide statement of net position, the governmental activities column is presented on a consolidated basis, and is reported on a full accrual, economic resource basis which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy first utilizes restricted resources to finance qualifying activities.

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

The net costs (by function) are normally covered by general revenue (State Foundation Aid, intermediate Academy sources, interest income and other revenues).

The Academy does not allocate indirect costs.

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

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

**Governmental Funds** – Governmental funds are those funds through which most Academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The Academy reports the following major fund:

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

Additionally, the Academy reports the following non-major governmental fund type:

The *special revenue fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The Academy accounts for its food service activity in the special revenue fund.

During the course of operations, the Academy has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and

STARR DETROIT ACADEMY  
Notes to the Financial Statements  
June 30, 2013  
(Continued)

advances to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

### **C. Measurement Focus, Basis of Accounting and Basis of Presentation**

#### **Accrual Method**

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

#### **Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, if any, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

STARR DETROIT ACADEMY  
Notes to the Financial Statements  
June 30, 2013  
(Continued)

**State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to the charter school based on information supplied by the schools. For the year June 30, 2013, the foundation allowance was based on the pupil membership counts taken in September 2012 and February 2013.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The state revenue is recognized during the foundation period and is funded through payments from October, 2012 to August, 2013. Thus, the unpaid portion at June 30 is reported as due from other governmental units.

The Academy also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year, are recorded as unearned revenue.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

**D. Other Accounting Policies**

1. Deposits and Investments

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The Academy reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of

STARR DETROIT ACADEMY  
Notes to the Financial Statements  
June 30, 2013  
(Continued)

the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. Banks, and mutual funds composed of investments as outlined above. At June 30, 2013, the Academy had no investments.

## 2. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

## 3. Capital Assets

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

Depreciation on all assets is provided using the straight-line method over the following useful lives:

Computers	3 years
Furniture and fixtures	8-15 years

## 4. Deferred Outflows/Inflows

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Academy has no outflows to report in the statement of net position as of June 30, 2013.

STARR DETROIT ACADEMY  
Notes to the Financial Statements  
June 30, 2013  
(Continued)

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The Academy has no inflows to report in the statement of net position as of June 30, 2013.

5. Government-wide - Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net Position consists of the following:

*Net investment in Capital Assets* – Consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.

*Unrestricted net position* – Consists of all other assets that do not meet the definition of “restricted” or “Net investment in Capital Assets”.

6. Governmental Fund Balances

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;

Committed fund balance – amounts constrained to specific purposes by a government itself, using the highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purposes unless the government takes the same highest level action to remove or change the constraint;

Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates authority;

Unassigned fund balance – amounts that are available for any purpose; positive amounts reported only in the general fund.



STARR DETROIT ACADEMY  
Notes to the Financial Statements  
June 30, 2013  
(Continued)

The Academy's board establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget.

A fund balance commitment is further indicated in the budget document as a designation or commitment of a fund. Assigned fund balance is established by the Academy's board through adoption or amendment of the budget as intended for a specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes). The Academy utilizes fund balance in the following order when an expenditure has been incurred for which more than one type of fund balance is available for that respective expenditure: Restricted, Committed, Assigned, Unassigned.

In the general fund, the Academy strives to maintain an unassigned fund balance to be used for unanticipated emergencies.

#### 7. Use of Estimates

The process of preparing general purpose financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

#### **Note 2. Stewardship, Compliance and Accountability**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America, except for capital outlay which is reported in the function or activity it services. Annual appropriated budgets are adopted for the general fund. All annual appropriations lapse at fiscal year end.

The Academy maintains a formalized encumbrance accounting system.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

- A. The Vice President of the Management Company submits to the Board a proposed operating budget for the fiscal year commencing on July 1 for approval. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth in the combined statement of revenues, expenditures and changes in fund balances – budget and actual – general fund and special revenue funds.

STARR DETROIT ACADEMY  
Notes to the Financial Statements  
June 30, 2013  
(Continued)

- B. Public hearings are conducted to obtain local public comments.
- C. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Any expenditures in violation of the budgeting act are disclosed as unfavorable variances in the budgetary comparison schedule – general fund.
- D. The management company is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Directors.
- E. The budget as presented has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30<sup>th</sup>.

**Note 3. Deposits and Investments – Credit Risk**

Cash is held in the name of the Academy in the general fund. These deposits are subject to custodial credit risk. This is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy minimizes custodial credit risk on deposits by assessing the credit worthiness of the individual institutions in which it deposits funds. The amount of deposits with each institution is assessed to determine the level of risk it may pose to the Academy in relation to deposits in excess of insured amounts. These assessments are performed by the Academy at least annually. As of June 30, 2013, none of the Academy's bank balance of \$242,533 was exposed to custodial credit risk because it was insured in full by the Federal Deposit Insurance Corporation (FDIC).

**Note 4. Receivables**

Receivables as of year-end were as follows:

	General
Receivables	
State aid	\$ 719,754
Federal	8,514
	_____
Net total receivables	\$ 728,268

All receivables were deemed collectible as of June 30, 2013.

STARR DETROIT ACADEMY  
Notes to the Financial Statements  
June 30, 2013  
(Continued)

**Note 5. Capital Assets**

Capital asset activity for the Academy for the current fiscal year was as follows:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2013</u>
Capital assets:				
Computers	\$ -	\$ 9,239	\$ -	\$ 9,239
Furniture and equipment	-	216,985	-	216,985
Subtotal	<u>-</u>	<u>226,224</u>	<u>-</u>	<u>226,224</u>
Accumulated depreciation:				
Computers	-	3,080	-	3,080
Furniture and equipment	-	26,627	-	26,627
Subtotal	<u>-</u>	<u>29,707</u>	<u>-</u>	<u>29,707</u>
Net governmental capital assets:	<u>\$ -</u>	<u>\$ 196,517</u>	<u>\$ -</u>	<u>\$ 196,517</u>

Depreciation for the fiscal year ended June 30, 2013 amounted to \$29,707. Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

Support services	\$ 29,140
Community Service	567
	<u>\$ 29,707</u>

**Note 6. Interfund Transfers**

Transfers between the governmental funds were as follows.

<u>Transfers out</u>	<u>Transfers in</u>
General fund <u>\$ 18,969</u>	Food Service Fund <u>\$ 18,969</u>

The transfers from the general fund to the food service fund were made to cover operating expenses.

STARR DETROIT ACADEMY  
Notes to the Financial Statements  
June 30, 2013  
(Continued)

**Note 7. Management Agreement**

The Academy has entered into a five year (through June 30, 2017) Management Agreement with Starr Commonwealth Educational Services, Inc. (SCES, a Michigan Non-profit Corporation) for operations of the Academy. Under the terms of the management agreement, SCES's compensation for operating the Academy is 8% of the State per pupil aid Foundation Grant received from the State of Michigan. During the year ended June 30, 2013, the Academy incurred approximately \$297,000 for management fees.

**Note 8. Oversight Fees**

The Academy pays an administrative oversight fee of 3% of its state school aid discretionary and Proposal A obligation payments to Central Michigan University, as set forth by contract, to reimburse Central Michigan University for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2013, the Academy incurred approximately \$110,293 for oversight fees.

**Note 9. Leased Employees**

The Academy leases substantially all of its staff from its management company and, in accordance with Article (V), Section 3, SCES is responsible for providing personnel to the Academy and the Academy shall reimburse SCES for its payment of all such compensation as approved by the Board and provided for in the budget.

**Note 10. Related Party**

A donation in the amount of \$622,650 was made to the Academy by SCES, the Academy's management company.

**Note 11. Risk Management**

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The risk of employee injuries and medical benefits for employees of the management company is covered by insurance held by the management company discussed in Note 9. The Academy has purchased commercial insurance for all other claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since inception.

STARR DETROIT ACADEMY  
Notes to the Financial Statements  
June 30, 2013  
(Continued)

**Note 12. Contingencies**

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2013.

**Note 13. New Accounting Standards**

For the year end June 30, 2013 the Academy implemented the following new pronouncements:

*GASB Statement 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

**Summary:**

The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure

*GASB Statements 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and GASB Statement 65 – Items Previously Reported as Assets and Liabilities.*

**Summary:**

These Statements provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

STARR DETROIT ACADEMY  
Notes to the Financial Statements  
June 30, 2013  
(Continued)

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Starr Detroit Academy**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended June 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with final budget Favorable (Unfavorable)</u>
<b>Revenues:</b>				
Local sources	\$ 145,585	\$ 867,752	\$ 895,318	\$ 27,566
State sources	4,331,484	3,699,000	3,712,514	13,514
Federal sources	239,900	291,369	278,725	(12,644)
Total revenues	<u>4,716,969</u>	<u>4,858,121</u>	<u>4,886,557</u>	<u>28,436</u>
<b>Expenditures:</b>				
Current:				
Instruction				
Basic programs	1,629,137	1,671,720	1,652,981	18,739
Added needs	346,544	166,150	166,636	(486)
Total instruction	<u>1,975,681</u>	<u>1,837,870</u>	<u>1,819,617</u>	<u>18,253</u>
Support services:				
Pupil	85,000	93,500	95,832	(2,332)
Instructional staff	362,379	431,465	442,545	(11,080)
General administration	615,120	458,200	453,676	4,524
School administration	295,784	260,150	284,348	(24,198)
Business	238,342	173,061	171,111	1,950
Operations/maintenance	521,670	974,775	970,293	4,482
Transportation	379,987	356,000	365,447	(9,447)
Central	106,608	111,275	116,989	(5,714)
Community	96,875	151,825	147,065	4,760
Total support services	<u>2,701,765</u>	<u>3,010,251</u>	<u>3,047,306</u>	<u>(37,055)</u>
Total expenditures	<u>4,677,446</u>	<u>4,848,121</u>	<u>4,866,923</u>	<u>(18,802)</u>
<b>Excess (deficiency) of expenditures over (under) revenues</b>	<u>39,523</u>	<u>10,000</u>	<u>19,634</u>	<u>9,634</u>
<b>Other financing sources (uses):</b>				
Operating transfers out	-	(10,000)	(18,969)	(8,969)
Operating transfers in	-	-	-	-
Total other financing sources (uses):	<u>-</u>	<u>(10,000)</u>	<u>(18,969)</u>	<u>(8,969)</u>
<b>Net change in fund balance</b>	39,523	-	665	665
<b>Fund balance:</b>				
Beginning of year	-	-	-	-
End of year	<u>\$ 39,523</u>	<u>\$ -</u>	<u>\$ 665</u>	<u>\$ 665</u>



## **ADDITIONAL SUPPLEMENTARY INFORMATION**

**STARR DETROIT ACADEMY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass-through grantor's number	Award amount	Accrued (deferred) revenue 6/30/2012	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued (deferred) revenue 6/30/2013
<u>U.S. Department of Agriculture:</u>								
Passed through Michigan Department of Education:								
Child nutrition cluster:								
Cash assistance:								
National School Lunch Program	10.555	121960	\$ 20,828	\$ -	\$ -	\$ 20,828	\$ 20,828	\$ -
National School Lunch Program		121980	5,855	-	-	5,855	5,855	-
National School Lunch Program		131960	169,494	-	-	164,068	169,494	5,426
National School Lunch Program		131980	43,018	-	-	43,018	43,018	-
			<u>239,195</u>	<u>-</u>	<u>-</u>	<u>233,769</u>	<u>239,195</u>	<u>5,426</u>
National School Breakfast Program	10.553	121970	11,402	-	-	11,402	11,402	-
National School Breakfast Program		131970	90,973	-	-	87,885	90,973	3,088
			<u>102,375</u>	<u>-</u>	<u>-</u>	<u>99,287</u>	<u>102,375</u>	<u>3,088</u>
Total U.S. Department of Agriculture and child nutrition cluster			<u>341,570</u>	<u>-</u>	<u>-</u>	<u>333,056</u>	<u>341,570</u>	<u>8,514</u>
<u>U.S. Department of Education:</u>								
Passed through Michigan Department of Education:								
Title V, Part B								
Public Charter Schools Program	84.282A	110610	200,000	-	-	200,000	200,000	-
Passed through Wayne County RESA: IDEA, Part B	84.027A	12/13	78,725	-	-	78,725	78,725	-
			<u>278,725</u>	<u>-</u>	<u>-</u>	<u>278,725</u>	<u>278,725</u>	<u>-</u>
Total U.S. Department of Education			<u>620,295</u>	<u>\$ -</u>	<u>\$ -</u>	<u>611,781</u>	<u>\$ 620,295</u>	<u>\$ 8,514</u>

The accompanying notes are an integral part of this schedule.

STARR DETROIT ACADEMY  
 NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED JUNE 30, 2013

1. Basis of Presentation – The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of Starr Detroit Academy programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Starr Detroit Academy, it is not intended to and does not present the financial position or changes in net position of Starr Detroit Academy.
2. Summary of Significant Accounting Policies – Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for States, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass – through entity identifying numbers are presented where available.
3. National School Lunch (CFDA #10.555) and National School Breakfast (CFDA #10.553) were audited as a major program, representing 55% of federal expenditures.
4. The threshold for distinguishing Type A and Type B programs was \$300,000.
5. Management has utilized the Grand Audit Report in preparing the Schedule of Expenditures of Federal Awards.
6. Federal expenditures are reported as revenue in the following funds in the financial statements:

General fund	\$	278,725
Special revenue fund		341,570
Subtotal	\$	620,295

# DARNELL & MEYERING, P.C.

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## **Independent Auditor's 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  
Starr Detroit Academy

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund (General Fund) and the aggregate remaining fund information of Starr Detroit Academy, as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise Starr Detroit Academy's basic financial statements and have issued our report thereon dated November 12, 2013.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Starr Detroit Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Starr Detroit Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of Starr Detroit Academy's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore,

material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2013-001 and 2013-002 that we consider to be significant deficiencies

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Starr Detroit Academy's 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*.

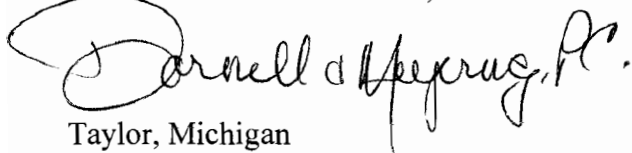
### **Starr Detroit Academy's Response to Findings**

Starr Detroit Academy's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Starr Detroit Academy's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

### **Purpose of this Report**

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

DARNELL & MEYERING, P.C.



Taylor, Michigan  
November 12, 2013

# DARNELL & MEYERING, P.C.

*Certified Public Accountants*

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MICHIGAN ASSOCIATION OF  
CERTIFIED PUBLIC ACCOUNTANTS

## **Independent Auditor's Report on Compliance for Each Major Program And on Internal Control Over Compliance Required by OMB Circular A-133**

Board of Directors  
Starr Detroit Academy

### **Report on Compliance fo Each Major Federal Program**

We have audited Starr Detroit Academy's 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 Starr Detroit Academy's major federal program for the year ended June 30, 2013. Starr Detroit Academy's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Starr Detroit Academy's major federal programs based on our audit of the types of compliance requirements referred to above. 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 Starr Detroit Academy's 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Starr Detroit Academy's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Starr Detroit Academy complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2013-003 and 2013-004. Our opinion on each major federal program is not modified with respect to these matters.

Starr Detroit Academy's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Starr Detroit Academy's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

### **Report on Internal Control Over Compliance**

Management of Starr Detroit Academy is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Starr Detroit Academy's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major program 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 Starr Detroit Academy's internal control over compliance.

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

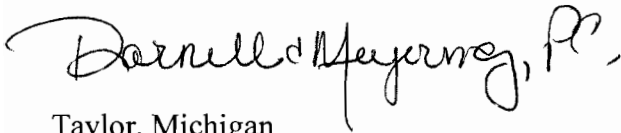
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and

therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2013-003 and 2013-004, that we consider to be significant deficiencies.

Starr Detroit Academy's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Starr Detroit Academy's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

DARNELL & MEYERING, P.C.

A handwritten signature in black ink that reads "Darnell Meyering, P.C.". The signature is written in a cursive style with a large, looping initial "D".

Taylor, Michigan  
November 12, 2013



STARR DETROIT ACADEMY  
 Schedule of Findings and Questioned Costs  
 For the Year Ended June 30, 2013

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Significant deficiencies identified that are not considered to be material weakness(es)?  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 deficiencies identified that are not considered to be material weakness (es)?  Yes  None reported

Type of auditor's report issued on compliance for major programs: Unmodified

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:

<b>CFDA Number(s)</b>	<b>Name of Federal Program or Cluster</b>
10.553	National School Breakfast Program
10.555	National School Lunch Program

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

Auditee qualified as low-risk auditee?  Yes  No

Starr Detroit Academy  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2013

**FINANCIAL STATEMENT AUDIT FINDING**

Reference  
Number

2013-001 **Finding Type** – Significant deficiency

**Criteria** – The Academy’s internal controls require purchase orders in excess of \$10,000 to be signed by the president of the management company.

**Condition** – During our audit we noted two purchase orders in excess of \$10,000 that did not contain the signature of the president of the management company.

**Context** – The Academy is not following its established procedures.

**Cause and Effect** – The president of the management company of the Academy has approved the purchase order but has not signed the purchase order which results in the Academy not following its established procedures.

**Recommendation** – We recommend that the Academy not write any checks in excess of \$10,000 unless the president of the management company has signed the purchase order.

**Views of Responsible Officials and Planned Corrective Action** – Management concurs with the finding. Arthur Jackson is now in place as our Finance Coordinator and is responsible for ensuring procedures are followed. As a newly opened Academy, procedures and documentation were being implemented throughout the year. Sound controls in these areas are now in place.

Starr Detroit Academy  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2013

**FINANCIAL STATEMENT AUDIT FINDING**

Reference  
Number

2013-002      **Finding Type** – Significant deficiency

**Criteria** – The Academy’s internal controls require purchase orders be written prior to purchases goods or services.

**Condition** – During our audit we noted a significant amount of purchase orders that were dated after the invoice to which they relate.

**Context** – The Academy is not following its established procedures.

**Cause and Effect** – Expenditures are being incurred prior to purchase orders being approved which results in the Academy not following its established procedures.

**Recommendation** – We recommend that the Academy strengthen its internal control structure to not allow expenditures to be incurred prior to the approval of purchase orders.

**Views of Responsible Officials and Planned Corrective Action** – Management concurs with the finding. Arthur Jackson is now in place as our Finance Coordinator and is responsible for ensuring procedures are followed. As a newly opened Academy, procedures and documentation were being implemented throughout the year. Sound controls in these areas are now in place.

Starr Detroit Academy  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2013

**FEDERAL PROGRAM AUDIT FINDING**

Reference  
Number

2013-003

**Program Name** – Child Nutrition Cluster – 10.553, 10.555

**Pass-through Entity** – Michigan Department of Education

**Finding Type** – Significant deficiency and noncompliance condition

**Criteria** – The United States Department of Agriculture annually issues income and eligibility guidelines for free and reduced price meals for the National School Lunch Program (7 CFR part 210)

**Condition** – Of the 60 applications sampled, one application was found where the participant was receiving free meals where the household income of the participant only qualified the participant for reduced price meals.

**Question Costs** – Unknown

**Cause and Effect** – The Academy inadvertently provided free meals to a participant who should have received reduced price meals resulting in participant ineligibility.

**Recommendation** – We recommend that after an Academy official determines participant eligibility, a second Academy official verify and initial the participant's application that the initial determination was correct.

**Views of Responsible Officials and Planned Corrective Action** –

Management concurs with the finding. Melissa Ross is now in place as our Director of Compliance and is responsible for ensuring procedures are followed and documents are accurate. As a newly opened Academy, procedures and documentation were being implemented throughout the year. Sound controls in these areas are now in place. For the 2013-2014 school year Starr Detroit Academy is a Community Eligibility Option (CEO) school, which allows all families to participate in the free-reduced price lunch program, thus eliminating eligibility documentation requirements moving forward.

Starr Detroit Academy  
Schedule of Findings and Questioned Costs (Continued)  
For the Year Ended June 30, 2013

**FEDERAL PROGRAM AUDIT FINDING**

Reference  
Number

2013-004

**Program Name** – Child Nutrition Cluster – 10.553, 10.555

**Pass-through Entity** – Michigan Department of Education

**Finding Type** – Significant deficiency and noncompliance condition

**Criteria** – The applications to determine participant eligibility contain a section for an official's signature to determine participant eligibility.

**Condition** – Of the 60 applications sampled, two applications were found that did not contain the signature of the official who made the determination of participant eligibility.

**Question Costs** – None

**Cause and Effect** – Applications were not signed by Academy officials where required.

**Recommendation** – We recommend that the Academy does not add any participant to the benefits issuance lists until participant applications are fully complete.

**Views of Responsible Officials and Planned Corrective Action** – Management concurs with the finding. Melissa Ross is now in place as our Director of Compliance and is responsible for ensuring procedures are followed and documents are accurate. As a newly opened Academy, procedures and documentation were being implemented throughout the year. Sound controls in these areas are now in place. For the 2013-2014 school year Starr Detroit Academy is a Community Eligibility Option (CEO) school, which allows all families to participate in the free-reduced price lunch program, thus eliminating eligibility documentation requirements moving forward.

STARR DETROIT ACADEMY  
Summary Schedule of Prior Audit Findings  
For the Year Ended June 30, 2013

**NONE** First year of operations.

# DARNELL & MEYERING, P.C.

*Certified Public Accountants*

CLINTON MEYERING, C.P.A.  
RANDALL H. DARNELL, C.P.A.  
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MEMBERS  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
MICHIGAN ASSOCIATION OF  
CERTIFIED PUBLIC ACCOUNTANTS

November 12, 2013

To the Board of Directors  
Starr Detroit Academy  
19360 Harper Avenue  
Harper Woods, MI 48225

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Starr Detroit Academy for the year ended June 30, 2013, and have issued our report thereon dated November 12, 2013. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Starr Detroit Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Starr Detroit Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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. Also

Starr Detroit Academy

November 12, 2013

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in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Starr Detroit Academy's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to its major federal program for the purpose of expressing an opinion on Starr Detroit Academy's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Starr Detroit Academy's compliance with those requirements.

#### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our conversations in September, 2013.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Starr Detroit Academy are described in Note 1 to the financial statements. During 2013 the Academy implemented Governmental Accounting Standard No. 62, Codification of Accounting and Financial Reporting Guidance, No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position, and No. 65, Items Previously Reported as Assets and Liabilities. The application of existing policies was not changed during 2013. We noted no transactions entered into by the Academy during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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. We did not identify any sensitive estimates.



Starr Detroit Academy

November 12, 2013

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The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. We did not identify any sensitive disclosures.

#### *Difficulties Encountered in Performing the Audit*

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

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

#### *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 November 12, 2013.

#### *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 Starr Detroit Academy'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

Starr Detroit Academy

November 12, 2013

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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*

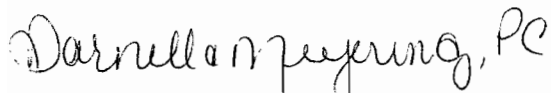
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Starr Detroit Academy's auditors. However, these discussions occurred in the normal course of our professional relationship and our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

Other Matters

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 Starr Detroit Academy and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

  
Darnell & Meyering, P.C.