

DISTINCTIVE COLLEGE PREP

**FINANCIAL REPORT
WITH
SUPPLEMENTAL INFORMATION**

JUNE 30, 2023

DISTINCTIVE COLLEGE PREP

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Distinctive College Prep
Harper Woods, Michigan

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the major fund, and the remaining fund information of Distinctive College Prep (the Academy) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the remaining fund information of the Academy, as of June 30, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Academy, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Academy's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Academy's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 27, 2023 on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of law, 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 effectiveness of the Academy's 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.

Alan C. Young & Assoc.

Detroit, Michigan
October 27, 2023

DISTINCTIVE COLLEGE PREP

Management's Discussion and Analysis (MD&A)

June 30, 2023

As management of Distinctive College Prep (the Academy), we offer readers of the Academy's basic financial statements this narrative overview and analysis of the financial activities of the Academy for the years ended June 30, 2023 and 2022.

Management's discussion and analysis is included at the beginning of the Academy's basic financial statements to provide, in layman's terms, the current position of the Academy's financial condition. This summary should not be taken as a replacement for the audit, which consists of the basic financial statements and other supplementary information.

FINANCIAL HIGHLIGHTS

Our basic financial statements provide these insights into the results of this year's operations.

- As of June 30, 2023, the Academy's total fund balance for its governmental funds was \$1,660,446 as compared to \$2,594,731 at June 30, 2022.
- As of June 30, 2023, the Academy had a net position of \$2,021,966 as compared to \$2,860,412, at June 30, 2022.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Academy's basic financial statements. The Academy's basic financial statements are comprised of three components: 1) Academy-wide basic financial statements, 2) fund basic financial statements, and 3) notes to the basic financial statements.

Academy-Wide Financial Statements

The Academy-wide financial statements are designed to provide readers with a broad overview of the Academy's finances, in a manner similar to a private sector business.

The statement of net position presents information on all of the Academy's assets, liabilities, and deferred inflows/outflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Academy is improving or deteriorating.

The statement of activities presents information showing how the Academy's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this Statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected revenues and services rendered but unpaid).

The Academy-wide financial statements include all governmental activities that are principally supported by grants and entitlements from the state for full-time equivalent funding. The Academy does not have any business-type activities. The governmental activities of the Academy primarily include instruction and instructional support services.

The Academy-wide basic financial statements can be found on pages 1 and 2 of this report.

DISTINCTIVE COLLEGE PREP

Management's Discussion and Analysis (MD&A) (Continued)

June 30, 2023

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Academy, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide basic financial statements, governmental fund basic financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Academy's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the academy-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the academy-wide financial statements. By doing so, readers may better understand the long-term impact of the Academy's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and change in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

All of the Academy's services are reported in governmental funds. Information is presented in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and change in fund balances.

The Academy adopts an annual budget for its governmental funds. Budgets are revised in an attempt to deal with unexpected changes in revenue and expenditure. State law requires that the budget be amended to ensure that expenditures do not exceed appropriation. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided as required supplemental information of these financial statements.

The governmental fund financial statements can be found on pages 3 and 5 of this report.

Notes to Basic Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 7 through 16 of this report.

DISTINCTIVE COLLEGE PREP

Management's Discussion and Analysis (MD&A) (Continued) June 30, 2023

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Academy's net position was \$2,021,966 at June 30, 2023. This amount represents net investment in capital assets of \$341,520, restricted net position of \$152,723 and unrestricted net position of \$1,527,723. The Academy's net position was \$2,860,412 at June 30, 2022.

Our analysis in the table below focuses on the net position of the Academy's governmental activities:

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Assets		
Current Assets	\$ 2,789,318	\$ 3,522,089
Capital Assets, Net of Depreciation	4,712,003	4,549,959
Total Assets	<u>7,501,321</u>	<u>8,072,048</u>
Liabilities		
Current Liabilities	1,108,872	927,358
Noncurrent Liabilities	4,370,483	4,284,278
Total Liabilities	<u>5,479,355</u>	<u>5,211,636</u>
Net Position		
Net Investment in Capital Assets	341,520	265,681
Restricted	152,723	41,816
Unrestricted	1,527,723	2,552,915
Total Net Position	<u>\$ 2,021,966</u>	<u>\$ 2,860,412</u>

DISTINCTIVE COLLEGE PREP

Management's Discussion and Analysis (MD&A) (Continued) June 30, 2023

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Governmental Activities

The results of the operations for the Academy as a whole are reported in the statement of activities on page 2. The table below provides a condensed presentation of the Academy's revenues and expenses for the years ended June 30, 2023 and 2022:

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Revenue		
State Aid Formula Grants	\$ 7,522,267	\$ 6,496,933
Other Revenue	74,115	43,830
Operating Grants and Contributions	3,748,129	4,721,983
Total Revenues	<u>11,344,511</u>	<u>11,262,746</u>
Functions/Program Expenses		
Basic Instruction and Added Needs	4,792,545	3,547,990
Support Services		
Pupil Support	564,698	560,452
Instructional Staff	266,358	116,710
General Administration	1,706,515	1,534,180
School Administration	1,057,689	795,475
Business Support Services	142,379	77,855
Operations and Maintenance	1,707,716	1,838,133
Food Service	610,042	451,030
Transportation	456,233	409,249
Central Support Services	109,242	115,944
Interest	152,191	12,077
Depreciation Expenses (Unallocated)	285,767	154,179
Amortization Expense-Right to Use Assets (Unallocated)	331,582	222,037
Withholding of Prior Year Revenue	-	26,511
Total Expenses	<u>12,182,957</u>	<u>9,861,822</u>
Change in Net Position	(838,446)	1,400,924
Net Position - Beginning of Year	<u>2,860,412</u>	<u>1,459,488</u>
Net Position - End of the Year	<u>\$ 2,021,966</u>	<u>\$ 2,860,412</u>

Certain 2022 amounts have been reclassified to conform with the 2023 presentation.

FUND BUDGET & ACTUAL REVENUES & EXPENSES

	<u>Final Budget</u>	<u>Final Actual</u>	<u>Variance %</u>
Revenues	\$ 10,976,908	\$ 10,577,051	-3.64%
Expenses	11,909,681	11,977,402	0.57%

The Uniform Budget Act of the State of Michigan requires the Board approve the original budget for the upcoming fiscal year by July 1.

Distinctive College Prep can amend its budget after the September headcount and thereafter during the fiscal year.

DISTINCTIVE COLLEGE PREP

Management's Discussion and Analysis (MD&A) (Continued)
June 30, 2023

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2023, the Academy had \$4,712,003 invested in capital assets net of accumulated depreciation and amortization. Total depreciation and amortization expense for the year was \$617,349.

Debt

The Academy entered into a 20 year lease agreement for its Harper Woods location in fiscal year 2021. The outstanding balance of the lease liability is \$4,147,794. During the year, the Academy also entered into a 3 year lease agreement for transportation buses. The outstanding balance of the lease liability is \$222,689.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Academy considers many factors when setting the Academy's 2023-2024 fiscal year budgets. One of the most important factors affecting the budget is our student enrollment. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2022-23 fiscal years is 90 percent of the current school year October count and 10 percent of the prior February count. The all-inclusive budget was adopted in June 2023 based on an enrollment estimate of 821 students in the Fall of 2023-24. Under State law, the Academy cannot assess property taxes for additional revenue for general operations. As a result, the Academy is heavily dependent on the State's ability to fund school operations. Once the final student count and related per pupil funding are validated, State law requires the Academy to amend the budget if actual Academy resources are not sufficient to fund original appropriations. Amended budgets will also reflect actual recurring and one-time federal grant allocations awarded to the Academy. Since the Academy's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenue to fund its appropriations to public schools and public school academies.

REQUESTS FOR INFORMATION

This financial report is designed to provide our students, parents, and stake holders with a general overview of the school's finances and to demonstrate the school's accountability for the money it receives. If you have questions about this report or need additional information, please contact the Academy's Business Office at 19630 Harper Avenue, Harper Woods, MI 48225.

DISTINCTIVE COLLEGE PREP

Statement of Net Position June 30, 2023

	Governmental Activities
Assets	
Cash and Cash Equivalents (Note 3)	\$ 807,429
Due From Other Governmental Units (Note 4)	1,702,806
Other Receivables	208,573
Deposits	41,250
Prepaid Expenses	29,260
Capital Assets, Net of Accumulated Depreciation (Note 6)	4,712,003
Total Assets	7,501,321
Liabilities	
Accounts Payable	531,878
Accrued Liabilities	280,672
Unearned Revenue (Note 1)	296,322
Lease Payable, Current Portion (Note 7)	228,596
Lease Payable, Net of Current Portion (Note 7)	4,141,887
Total Liabilities	5,479,355
Net Position	
Net Investment in Capital Assets	341,520
Restricted:	
Cafeteria Fund	152,723
Unrestricted	1,527,723
Total Net Position	\$ 2,021,966

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

DISTINCTIVE COLLEGE PREP

Governmental Funds Balance Sheet June 30, 2023

	General Fund	Non-major Fund Food Service Fund	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents (Note 3)	\$ 807,429	\$ -	\$ 807,429
Due From Other Governmental Units (Note 4)	1,660,939	41,867	1,702,806
Other Receivables (Note 5)	208,573	-	208,573
Due from Other Funds (Note 11)	-	170,525	170,525
Deposits	41,250	-	41,250
Prepaid Expense	29,260	-	29,260
Total Assets	\$ 2,747,451	\$ 212,392	\$ 2,959,843
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 472,209	\$ 59,669	\$ 531,878
Accrued Expenditure	280,672	-	280,672
Unearned Revenue (Note 1)	296,322	-	296,322
Due to Other Funds (Note 11)	170,525	-	170,525
Total Liabilities	1,219,728	59,669	1,279,397
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue (Note 1)	20,000	-	20,000
Fund Balance			
Nonspendable	70,510	-	70,510
Restricted	-	152,723	152,723
Unassigned	1,437,213	-	1,437,213
Total Fund Balance	1,507,723	152,723	1,660,446
Total Liabilities, Deferred Inflows and Fund Balance	\$ 2,747,451	\$ 212,392	\$ 2,959,843

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

DISTINCTIVE COLLEGE PREP

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2023

Total Fund Balances - Governmental Funds \$ 1,660,446

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 therefore, not reported as assets in Governmental Funds:

Cost of Capital Assets	5,994,951	
Accumulated Depreciation and Amortization	<u>(1,282,948)</u>	4,712,003

Leases Payable used in Governmental Activities are not financial resources and therefore, not reported as liabilities in Governmental Funds (4,370,483)

Certain receivables not meeting the availability criteria are reported as deferred inflows in the Governmental Funds, but revenue in Governmental Activities 20,000

Total Net Position - Governmental Activities \$ 2,021,966

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

DISTINCTIVE COLLEGE PREP

Statement of Revenues, Expenditures and Changes in Fund Balance Year Ended June 30, 2023

	General Fund	Non-major Fund Food Service Fund	Total Governmental Funds
Revenue			
Federal Sources	\$ 2,367,388	\$ 709,181	\$ 3,076,569
State Sources	8,162,059	11,768	8,173,827
Local Sources	47,604	-	47,604
Total Revenue	<u>10,577,051</u>	<u>720,949</u>	<u>11,298,000</u>
Expenditures			
Basic Instruction and Added Needs	4,792,545	-	4,792,545
<u>Supporting Services:</u>			
Pupil Support Services	564,698	-	564,698
Instructional Support Services	266,358	-	266,358
General Administration Services	1,706,515	-	1,706,515
School Administration Services	1,057,689	-	1,057,689
Business Support Services	142,379	-	142,379
Operations and Maintenance	2,877,633	-	2,877,633
Transportation	456,233	-	456,233
Central Support Services	109,242	-	109,242
Interest	4,110	-	4,110
Food Service	-	610,042	610,042
Total Expenditures	<u>11,977,402</u>	<u>610,042</u>	<u>12,587,444</u>
Excess of Revenue over Expenditures	(1,400,351)	110,907	(1,289,444)
Other Financing Sources (Uses)			
Recovery of Prior Year Revenue (Note 10)	26,511	-	26,511
Financing of New Leases (Note 7)	328,648	-	328,648
Total Other Financing Sources (Uses)	<u>355,159</u>	<u>-</u>	<u>355,159</u>
Net Change in Fund Balance	(1,045,192)	110,907	(934,285)
Fund Balance - July 1, 2022	<u>2,552,915</u>	<u>41,816</u>	<u>2,594,731</u>
Fund Balance - June 30, 2023	<u>\$ 1,507,723</u>	<u>\$ 152,723</u>	<u>\$ 1,660,446</u>

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

DISTINCTIVE COLLEGE PREP

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities Year Ended June 30, 2023

Net Change in Fund Balances - Total Governmental Funds \$ (934,285)

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:

Depreciation Expense	(285,767)	
Amortization Expense	(331,582)	
Capitalized Capital Outlay Expense	<u>779,397</u>	162,048

Payments on Leases are expensed in the Governmental Funds, but are used to reduce Capital Lease Liability in the Statement of Net Position

242,439

Liability for new Lease is recorded on Statement of Net Position, recorded as Other Financing Sources in Governmental Funds

(328,648)

Revenue is reported in the Statement of Activities at the time it is earned, without regard to timeliness of collection

20,000

Change in Net Position - Governmental Activities \$ (838,446)

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

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Distinctive College Prep (the Academy) conform to generally accepted accounting principles as applicable to schools. The following is a summary of the significant policies:

Reporting Entity

The Academy is a nonprofit corporation incorporated in the State of Michigan on December 20, 2016 as authorized by the Central Michigan University Board of Trustees (CMU) to charter a Michigan public school academy. The agreement with CMU is effective through June 30, 2027. The administrative fee for the year ended June 30, 2023 paid to CMU was \$221,082. The Academy has two campuses; Harper Woods and Redford. The Academy's mission is to serve children and families in urban communities by providing a high quality learning environment that accelerates achievement, performance and college preparedness through careful analysis of student needs and effective use of data to personalize and monitor student learning. The Academy primarily receives its revenue from grants and contracts with the State of Michigan and funds passed through from the federal government. Approximately 73% of total revenue for the year ended June 30, 2023 is from the State of Michigan and 27% is from the federal government.

The Academy is governed by a five member Board of Directors. The Academy has delegated its duty to manage and operate the school to a management company under an agreement which ends on June 30, 2023.

In addition, the Academy is obligated to reimburse the management company for the compensation of certain management company employees providing education and other services, and other costs reasonably incurred in providing the education program at the school. Such costs shall include, but are not limited to, curriculum materials, professional development, textbooks, computer equipment and software, supplies, subcontracted services, rental, maintenance and utilities, marketing and other costs. In return, the management company will provide management, accounting, clerical, administrative, as well as professional, curriculum development other services during the term of the agreement. Also, most personnel working at or for the Academy, including teaching, food service, secretarial, transportation and other staff will be employed, trained and supervised by the management company. The Academy is also responsible for reimbursing the management company for all costs attributable to these employees. This amount including all related payroll taxes and benefits of these management company employees is included in expenditures on the statement of activities.

Academy-Wide and Fund Financial Statements

The Academy-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Academy. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy's activities are considered governmental activities.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Academy-Wide and Fund Financial Statements (Continued)

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

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 are recorded when a liability is incurred, regardless of the timing to 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 inter-fund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all unrestricted State aid.

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

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 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.

Unrestricted State Aid and Intergovernmental Grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Academy.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

General Fund - The Academy's major fund, is the General Fund. This fund is used to account for all operational activities of the Academy. The General Fund includes the current operating expenditures of the Academy. Revenues are derived primarily from the State of Michigan.

Additionally, the Academy reports the following fund type:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The Academy's special revenue fund is the Food Service Fund. Any operating deficit generated by these activities is the responsibility of the General Fund.

Assets, Liabilities and Net Position or Equity

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Receivables – Receivables are shown net of an allowance for uncollectible amounts. The Academy considers all receivables to be fully collectible. Accordingly, no allowance for uncollectible amounts has been recorded.

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

Capital Assets – Capital assets which include computers, equipment and furniture are reported in the applicable governmental column in the Academy-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$2,500 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.

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

Computers and Equipment	3 Years
Furniture	5-7 years

Right to use assets are amortized over the shorter of the lease term or the useful life of the assets. The Academy's current right to use assets are being amortized over the lease term of 3 and 20 years.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Assets, Liabilities and Net Position or Equity (Continued)

Deferred Outflows of Resources – In addition to assets, the financial statements 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 periods(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. The Academy had no deferred outflows of resources at June 30, 2023.

Deferred Inflows of Resources – In addition to liabilities, the balance sheet 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 that time.

The governmental funds report unavailable revenues, which arises only under a modified accrual basis of accounting, when resources are not received within 60 days after year end. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The Academy had \$20,000 in deferred inflows of resources as of June 30, 2023.

Unearned Revenue – Unearned Revenue is reported in connection with funds that have been received for services which have not been performed and is therefore not yet earned. At June 30, 2023, the Academy had \$296,322 of unearned revenue for funds not yet utilized.

MPSERS Liability – The Academy contracted with an outside organization to provide all staffing personnel during the year under audit. Consequently, all staffing costs are treated as purchased services in these financial statements. The Academy has no obligation to fund the Michigan Public School Employees Retirement System for the year 2023, and no such funding was made for the year.

Compensated Absences (Vacation) – A Liability for compensated absences would be reported in the government-wide statements and consist of earned but unused accumulated vacation benefits. A liability for these amounts would be reported in governmental funds as it comes due for payment. The Academy had no liability for compensated absences at June 30, 2023.

Fund Balances – GASB 54 provides for two major types of fund balances, which are non-spendable and spendable. Non-spendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. This category typically includes prepaid items and inventories.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Assets, Liabilities and Net Position or Equity (Continued)**Fund Balances (Continued)**

In addition to non-spendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- a. *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.
- b. *Committed fund balance* – amounts constrained to specific purposes by the Board; to be reported as committed, amounts cannot be used for any other purpose unless the Board takes action to remove or change the constraint.
- c. *Assigned fund balance* – amounts the Board intends to use for a specific purpose; intent can be expressed by the Board or by an official or committee to which the Board delegates the authority.
- d. *Unassigned fund balance* – amounts that are available for any purpose; these amounts are reported only in the general fund.

Fund Balance Flow Assumptions - Sometimes, the Academy will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). To calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are applied. It is the Academy's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Furthermore, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first followed by assigned fund balance. Unassigned fund balance is applied last.

Net Position – Net position of the Academy is classified in three components. Net Investment in capital assets – net of related debt consists of capital assets net of accumulated depreciation and is reduced by the current balances of any loan payable and outstanding borrowings used to finance the purchase of those assets. Restricted net position is further classified as expendable and nonexpendable. The Academy did not have any expendable restricted net position during the year. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital assets or restricted.

Net Position Flow Assumption – Sometimes, the Academy will fund outlays for a particular purpose from both restricted and unrestricted resources. To calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Academy's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Assets, Liabilities and Net Position or Equity (Continued)

Use of Estimates - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statement, and the reported revenues and expenses during the reporting period. Actual results may differ from those estimates.

Leases – The Academy is a lessee for noncancellable leases for its building and for buses. The Academy recognizes a lease liability and an intangible right to use lease asset in the government-wide financial statements.

At the commencement of a lease, the Academy initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgements related to leases include how the Academy determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Academy uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Academy generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancelable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the Academy is reasonably certain to exercise.

The Academy monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with capital assets and lease liabilities are reported with long-term debt on the statement of net position.

Adoption of New Accounting Pronouncement – The Academy adopted GASB Statement No. 96, *Subscription Based Information Technology Agreements*, effective July 1, 2022. This statement requires recognition of certain subscription based IT agreements (SBITAs). Under this statement a user is required to recognize a liability and an intangible right-to-use asset. The impact of the adoption was not significant as the Academy's SBITAs are considered short-term as disclosed in Note 7.

2) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for the General Fund, except that capital outlay expenditures are budgeted within the various functions. All annual appropriations lapse at fiscal year ended.

The budget document presents information by fund, function, and object. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the object level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits schools to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner.

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

During the year, actual expenditures exceeded final budgeted expenditures for the following categories:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Added Needs	\$ 410,738	\$ 421,610	\$ 10,872
School Administration Services	1,047,481	1,057,689	10,208
Business Support Services	142,254	142,379	125
Operation and Maintenance	2,648,460	2,877,633	229,173
Pupil Transportation Services	442,331	456,233	13,902
Central Support Services	108,198	109,242	1,044

In total, actual expenditures exceeded the final budget by \$67,721.

Grants – Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, would become a liability of the General Fund. In the Academy's opinion, no disallowed claims are expected and would not have a material effect on the financial statements as of and for the year ended June 30, 2023.

3) DEPOSITS AND INVESTMENTS

State statutes authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Academy is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Academy's deposits are in accordance with the statutory authority. As of June 30, 2023, the Academy does not have any investments.

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

3) DEPOSITS AND INVESTMENTS (Continued)

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

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of bank failure, the Academy's deposits may not be returned to it. At the year end, the Academy's deposit balance was \$800,316, of which \$300,316 was uninsured and uncollateralized and \$500,000 was FDIC insured.

Custodial Credit Risk of Bank Deposits (Continued)

The Academy evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that value of investments will decrease as a result of a rise in interest rates. The Academy does not have investments with interest rate risk.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Academy held no such investment at June 30, 2023.

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value, as a result of changes in foreign currency exchange rates. State law and Academy's policy prohibit investment in foreign currency.

4) DUE FROM OTHER GOVERNMENTAL UNITS

Receivables from other governmental units as of year-end for the Academy include \$1,540,344 from the State of Michigan and \$162,462 from Federal grants.

DISTINCTIVE COLLEGE PREP

Notes to Financial Statements (Continued)
June 30, 2023

5) MANAGEMENT COMPANY AGREEMENT

The Academy entered into a contract with Distinctive Schools effective through June 30, 2023, subject to a continued contract with CMU and state per capita funding. Under the direction of the Academy's Board, Distinctive Schools shall be responsible for all of the management, operation, administration, and education at the Academy, by providing certain services directly to the Academy, subcontracting for certain services, and overseeing other contractors. The management contract may be terminated under various circumstances as defined in the management agreement. The annual fee shall be the higher of \$375,000 for each Academy site, or twelve percent of all payments that the Academy receives, less amounts retained by CMU and all donations that are made to the Academy. For the year ended June 30, 2023, the management fee amounted to \$1,063,446. Throughout the year, Distinctive Schools paid various expenses on behalf of the Academy. Also, Distinctive Schools provided various services to the Academy as detailed in Note 1. At June 30, 2023 the Academy had a balance of \$150,951 due to Distinctive Schools. The agreement with Distinctive Schools was not renewed, and effective July 1, 2023, the Academy has entered a management agreement with Entrepreneurial Ventures in Education. During the year Distinctive Schools reconciled its historical transactions with the Academy. It was determined there was a balance due to the Academy of \$208,573. The amount was paid back to the Academy subsequent to the year end.

6) CAPITAL ASSETS

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

	Balance July 1, 2022	Additions/ Disposals	Balance June 30, 2023
Capital Assets Being Depreciated:			
Furniture and Equipment	\$ 774,814	\$ 298,881	\$ 1,073,695
Lease Right to Use Equipment	405,647	(405,647)	-
Lease Right to Use Building	4,440,740	-	4,440,740
Building Improvements	-	151,868	151,868
Lease Right to Use Buses	-	328,648	328,648
Subtotal	<u>5,621,201</u>	<u>373,750</u>	<u>5,994,951</u>
Accumulated Depreciation:			
Furniture and Equipment	240,024	261,552	501,576
Lease Right to Use Equipment	405,647	(405,647)	-
Lease Right to Use Building	425,571	222,037	647,608
Building Improvements	-	24,215	24,215
Lease Right to Use Buses	-	109,549	109,549
Total Accumulated Depreciation and Amortization	<u>1,071,242</u>	<u>211,706</u>	<u>1,282,948</u>
Net Governmental Capital Assets	<u>\$ 4,549,959</u>	<u>\$ 162,044</u>	<u>\$ 4,712,003</u>

The equipment lease expired during fiscal 2023. Depreciation on capital assets is unallocated in the statement of activities.

DISTINCTIVE COLLEGE PREP

Notes to Financial Statements (Continued)
June 30, 2023

7) LEASE PAYABLE

The Academy entered into a lease agreement for its Harper Wood location beginning August 1, 2020 and ending on June 30, 2040. The right to use asset is amortized on a straight-line basis over the term of the asset. The right to use asset activity for the Academy for the year ended June 30, 2023 is included in the capital assets schedule in Note 6.

The liability for the lease is discounted at 3.30%. The maturity of the lease is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 119,086	\$ 135,096	\$ 254,182
2025	130,817	130,990	261,808
2026	143,174	126,488	269,662
2027	156,183	121,568	277,751
2028	169,876	116,208	286,084
2029-2033	1,080,830	483,595	1,518,860
2034-2038	1,544,403	269,194	1,760,775
2039-2040	803,425	29,187	1,217,086
	<u>\$ 4,147,794</u>	<u>\$ 1,412,326</u>	<u>\$ 5,846,208</u>

The Academy also entered into a lease agreement for its Redford location beginning July 1, 2018 and ending on June 30, 2028. The terms of lease payments are as follows:

- a) Commencing July 1, 2018 through October 31, 2018, monthly lease payments are 50% of one-twelfth (1/12th) of 10% of any and all amounts actually received by the Academy from (i) State Aid and/or (ii) tuition derived from students enrolled at the Redford location;
- b) Commencing November 1, 2018 through February 28, 2019, monthly lease payments are 150% of one-twelfth (1/12th) of 10% of any and all amounts actually received by the Academy from (i) State Aid and/or (ii) tuition derived from students enrolled at the Redford location;
- c) Commencing March 1, 2019 through the term of the lease, monthly lease payments will be one-twelfth (1/12th) of ten percent of any and all amounts actually received by the Academy from (i) State Aid and/or (ii) tuition derived from students enrolled at the Redford location.

Since this is a variable term lease with no fixed component, the requirements under GASB 87 of a lessee to record a right-to-use asset and a lease liability are not applicable and therefore not recorded on the statement of net position.

DISTINCTIVE COLLEGE PREP

Notes to Financial Statements (Continued)
June 30, 2023

7) LEASE PAYABLE (Continued)

Additionally, the Academy entered into a lease for transportation buses, beginning July 1, 2022 and ending June 30, 2025. The right to use asset is amortized on the straight line basis over the term of the assets. The right to use asset activity for the Academy for the year ended June 30, 2023 is included in the capital assets schedule in Note 6. The net present value of the lease agreement at inception of \$328,648 is shown on the statement of revenues, expenditures and changes in fund balance as an expenditure and as an other financing source.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 109,510	\$ 5,702	\$ 115,212
2025	113,179	2,033	115,212
	<u>\$ 222,689</u>	<u>\$ 7,735</u>	<u>\$ 230,424</u>

The Academy is not a party to any subscription based IT agreements that meet the criteria for recognition as an asset or liability under GASB Statement 96, Subscription based information technology agreements, due to the noncancellable period being less than 12 months.

8) INTER-FUND RECEIVABLES AND PAYABLES

The composition of inter-fund balances is as follows:

<u>Fund Due To</u>	<u>Fund Due From General</u>
Cafeteria Fund	\$ 170,525

Inter-fund receivables and payables occur during the normal course of business and are settled routinely during the year.

9) RECOVERY OF PRIOR YEAR REVENUE

During the year ended June 30, 2022, the State of Michigan withheld Title IV Funds due to failed submission of reports in the amount of \$26,511. Management and the State of Michigan resolved the issue and the money was returned to the Academy during the current year.

10) SUBSEQUENT EVENTS

The Academy has evaluated all subsequent events through October 27, 2023, the date the financial statements were available to be issued. No significant event was noted that required adjustment or disclosure in the report.

REQUIRED SUPPLEMENTAL INFORMATION

DISTINCTIVE COLLEGE PREP

Budgetary Comparison Schedule General Fund Year Ended June 30, 2023

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Revenue				
Federal Sources	\$ 2,767,593	\$ 2,527,179	\$ 2,367,388	\$ (159,791)
State Sources	9,286,626	8,407,798	8,162,059	(245,739)
Local Sources	22,000	41,931	47,604	5,673
Total Revenue	<u>12,076,219</u>	<u>10,976,908</u>	<u>10,577,051</u>	<u>(399,857)</u>
Expenditures				
<u>Instructional Services</u>				
Basic Programs	4,179,876	4,481,109	4,370,935	(110,174)
Added Needs	504,710	410,738	421,610	10,872
<u>Supporting Services:</u>				
Pupil Support Services	644,622	593,369	564,698	(28,671)
Instructional Staff Services	799,454	278,375	266,358	(12,017)
General Administration Services	1,494,044	1,752,866	1,706,515	(46,351)
School Administration Services	850,961	1,047,481	1,057,689	10,208
Business Support Services	163,063	142,254	142,379	125
Operation and Maintenance	1,921,602	2,648,460	2,877,633	229,173
Pupil Transportation Services	479,987	442,331	456,233	13,902
Central Support Services	272,480	108,198	109,242	1,044
Interest	15,000	4,500	4,110	(390)
Total Expenditure	<u>11,325,799</u>	<u>11,909,681</u>	<u>11,977,402</u>	<u>67,721</u>
Excess of Revenue Over (Under) Expenditures	750,420	(932,773)	(1,400,351)	(467,578)
Other Financing Sources (Uses)				
Recovery of Prior Year Revenue	-	-	26,511	26,511
Financing of New Leases	-	-	328,648	328,648
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>355,159</u>	<u>355,159</u>
Net Change in Fund Balance	<u>\$ 750,420</u>	<u>\$ (932,773)</u>	<u>(1,045,192)</u>	<u>\$ (112,419)</u>
Fund Balance - July 1, 2022			<u>2,552,915</u>	
Fund Balance - June 30, 2023			<u>\$ 1,507,723</u>	

DISTINCTIVE COLLEGE PREP

**FEDERAL AWARDS
SUPPLEMENTAL INFORMATION**

JUNE 30, 2023

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Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Distinctive College Prep
Harper Woods, Michigan

We have audited the financial statements of the governmental activities, major fund, and the remaining fund information of Distinctive College Prep (the Academy) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements. We issued our report thereon dated October 27, 2023 which contained unmodified opinions on the basic financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to October 27, 2023.

The accompanying schedule of expenditures of federal awards and reconciliation of the basic financial statements' federal revenue with the schedule of expenditures of federal awards are presented for purposes of additional analysis as required by the Uniform Guidance and are 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 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 and the reconciliation of the basic financial statements federal revenue with the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Alan C. Young & Assoc.

Detroit, Michigan
October 27, 2023



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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

To the Board of Directors
Distinctive College Prep
Harper Woods, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the 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 and the remaining fund information of Distinctive College Prep (the Academy) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated October 27, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Academy's internal control over financial reporting (internal control) as a basis for designing 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 the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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 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. 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 or significant deficiencies may exist that were not identified.

**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
(Continued)**

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free from 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 financial statements. 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings and questioned cost as item 2023-001.

Academy's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the Academy's response to findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Academy's response was not subjected to the other auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on the response.

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 the 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 the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Alan C. Young, Assoc.

Detroit, Michigan
October 27, 2023



Alan C. Young & Associates, P.C.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Distinctive College Prep
Harper Woods, Michigan

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Distinctive College Prep's, (the Academy) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Academy's major federal programs for the year ended June 30, 2023. The Academy's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Academy complied, in all material respects, with the types of 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, 2023.

Basis for Opinion on Each Major Federal Program

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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Academy and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Academy's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Academy's federal programs.

**Independent Auditor's Report on Compliance
for Each Major Program and on Internal Control
over Compliance Required by the Uniform Guidance
(Continued)**

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Academy's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Academy's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Academy's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Academy's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2023-002. Our opinion on each major federal program is not modified with respect to this matter.

Government Auditing Standard requires the auditor to perform limited procedures on the Academy's response to the noncompliance finding identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Academy's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Independent Auditor's Report on Compliance
for Each Major Program and on Internal Control
over Compliance Required by the Uniform Guidance
(Continued)**

Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Alan C. Young, Assoc.

Detroit, Michigan
October 27, 2023

DISTINCTIVE COLLEGE PREP

Schedule of Expenditures of Federal Awards Year Ended June 30, 2023

Federal Grantor Pass Through Grantor Program Title Grant Number	Assistance Listing Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued or (Deferred) Revenue at July 1, 2022	Adjustments and Transfers	Current Year Receipts (Cash Basis)	Current Year Expenditures	Accrued or (Deferred) Revenue at June 30, 2023	Passed Through to Subrecipients
DEPARTMENT OF AGRICULTURE									
Passed through the Michigan Department of Education -									
Child Nutrition Cluster									
Seamless Summer Option (SSO) - Breakfast Project Number 221971	10.553	\$ 125,138	\$ 125,138	\$ 10,761	\$ -	\$ 10,761	\$ -	\$ -	\$ -
Total		125,138	125,138	10,761	-	10,761	-	-	-
School Breakfast Program Project Number 221970	10.553	34,638	-	-	-	34,638	34,638	-	-
Project Number 231970	10.553	235,881	-	-	-	191,127	205,782	14,656	-
Total		270,519	-	-	-	225,765	240,420	14,656	-
Seamless Summer Option (SSO) - Lunch Project Number 221961	10.555	21,156	21,156	21,156	-	21,156	-	-	-
Total		21,156	21,156	21,156	-	21,156	-	-	-
Supply Chain Assistance Project Number 230910	10.555	14,438	-	-	-	14,438	14,438	-	-
Total		14,438	-	-	-	14,438	14,438	-	-
National School Lunch Program Project Number 221960	10.555	57,718	-	-	-	57,718	57,718	-	-
Project Number 231960	10.555	332,002	-	-	-	332,002	357,528	25,526	-
Total		389,720	-	-	-	389,720	415,246	25,526	-
SFSP Operating Project Number 220900	10.559	3,676	-	-	-	3,676	3,676	-	-
Total		3,676	-	-	-	3,676	3,676	-	-
Noncash Assistance USDA Commodities	10.555	28,362	-	-	-	34,962	34,962	-	-
USDA Bonus Commodities	10.555	-	-	-	-	439	439	-	-
Total		28,362	-	-	-	35,401	35,401	-	-
Total Child Nutrition Cluster		853,009	146,294	31,917	-	700,917	709,181	40,181	-
Food Equipment Assistance Grant Project Number 201991	10.579	18,890	18,890	18,890	-	18,890	-	-	-
Total		18,890	18,890	18,890	-	18,890	-	-	-
Pandemic EBT Local Level Costs Project Number 220980	10.649	628	-	-	-	628	628	-	-
Total		628	-	-	-	628	628	-	-
Total Department of Agriculture		872,527	165,184	50,807	-	720,435	709,809	40,181	-

See notes to Schedule of Expenditures of Federal Awards.

DISTINCTIVE COLLEGE PREP

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2023

Federal Grantor Pass Through Grantor Program Title Grant Number	Assistance Listing Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued or (Deferred) Revenue at July 1, 2022	Adjustments and Transfers	Current Year Receipts (Cash Basis)	Current Year Expenditures	Accrued or (Deferred) Revenue at June 30, 2023	Passed Through to Subrecipients
DEPARTMENT OF EDUCATION									
Passed through Wayne County RESA									
IDEA Flow through - Special Education Grants to State									
IDEA Flow through 21-22	84.027A	164,532	164,532	13,732	-	13,732	-	-	-
IDEA Flow through 22-23	84.027A	201,654	-	-	-	122,779	201,654	78,875	-
Total Passed through Wayne County RESA		366,186	164,532	13,732	-	136,511	201,654	78,875	-
Passed through the Michigan Department of Education Office of Elementary and Secondary Education Program									
Title I, Part A - Improving Basic Programs									
Project Number 220520	84.010	47,519	-	-	-	253	253	-	-
Project Number 221530	84.010	366,297	326,197	78,348	-	78,348	-	-	-
Project Number 231530	84.010	521,498	-	-	-	454,051	460,569	6,518	-
Total		935,314	326,197	78,348	-	532,652	460,822	6,518	-
MI Charter School Program Grant									
Project Number 190610	84.282	1,250,000	395,657	187,058	-	272,774	85,716	-	-
Total		1,250,000	395,657	187,058	-	272,774	85,716	-	-
Title II, Part A - Teacher/Principal Training									
Project Number 220520	84.367	47,519	40,121	28,171	-	28,171	-	-	-
Project Number 230520	84.367	79,452	-	-	-	79,452	79,452	-	-
Total		126,971	40,121	28,171	-	107,623	79,452	-	-
Title IV, Part A - Student Support & Academic Enrichment Program									
Project Number 210750	84.424	39,327	-	-	26,511	26,511	-	-	-
Project Number 220750	84.424	49,875	49,875	36,700	-	36,700	-	-	-
Project Number 230750	84.424	32,622	-	-	-	32,622	32,622	-	-
Total		121,824	49,875	36,700	26,511	95,833	32,622	-	-
98c Learning Loss									
Project Number 213782	84.425D	38,619	-	-	-	38,619	38,619	-	-
ESSER - Formula (II)									
Project Number 213712	84.425D	1,276,608	1,262,312	45,232	-	45,232	-	-	-
ESSER III - Formula									
Project Number 203713	84.425U	2,869,121	1,245,499	248,341	-	1,699,328	1,467,875	16,888	-
Total		4,184,348	2,507,811	293,573	-	1,783,179	1,506,494	16,888	-
Total Department of Education Passed through the Michigan Department of Education		6,618,457	3,319,661	623,850	26,511	2,792,061	2,165,106	23,406	-
Passed through Calhoun Intermediate School District									
Title I Technical Assistance Grant									
Project Number 213580	84.010	20,000	-	-	-	-	20,000	20,000	-
Total Passed through Calhoun Intermediate School District		20,000	-	-	-	-	20,000	20,000	-
Total Department of Education		7,004,643	3,484,193	637,582	26,511	2,928,572	2,386,760	122,281	-
TOTAL FEDERAL AWARDS		\$ 7,877,170	\$ 3,649,377	\$ 688,389	\$ 26,511	\$ 3,649,007	\$ 3,096,569	\$ 162,462	\$ -

See notes to Schedule of Expenditures of Federal Awards.

DISTINCTIVE COLLEGE PREP

Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2023

Revenue from Federal Sources - as reported on financial statements (includes all funds)	\$ 3,076,569
Revenue not meeting availability criteria is not recorded as revenue in the financial statements, but it is included in the SEFA.	<u>20,000</u>
Total Federal Expenses as reported on schedule of federal expenditures	<u><u>\$ 3,096,569</u></u>

See notes to Schedule of Expenditures of Federal Awards.

DISTINCTIVE COLLEGE PREP

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2023

1) BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Distinctive College Prep (the Academy). The information in this schedule is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Academy and therefore it is not intended to and does not present the financial position or changes in net position of the Academy for year ended June 30, 2023. Expenditures reported on the schedule are reported on the accrual basis of accounting. In addition, expenditures reported on the schedule are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement.

2) GRANT AUDITOR REPORT

Management has utilized the Cash Management System (CMS) Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards. Unreconciled differences, if any, have been disclosed to the auditor.

3) NONCASH ASSISTANCE

The value of the noncash assistance received was determined in accordance with the provisions of the Uniform Guidance.

Commodities – Inventory values are based on USDA value for donated food commodities. Reported commodity values were computed using the recipient entitlement balance report and other records.

4) INDIRECT COST RATE

The Academy has elected not to use 10 percent de minimis indirect cost rate allowed rate allowed under the Uniform Guidance.

5) SUBSEQUENT EVENTS

All subsequent events related to the major programs were evaluated through October 27, 2023, the date the accompanying reports were available to be issued. No significant event was noted that required adjustment or disclosure in the report.

6) ADJUSTMENT

During the year ended June 30, 2023, the School had an adjustment of \$26,511. This adjustment was the result of costs which were previously disallowed by the State, but payment was remitted during the year.

DISTINCTIVE COLLEGE PREP

Schedule of Findings and Questioned Costs Year Ended June 30, 2023

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of Auditor’s Report Issued: Unmodified

Internal Control over Financial Reporting:

- Material Weakness (es) Identified? Yes X No
- Significant Deficiencies Identified? Yes X None Reported
- Non-Compliance Material to Financial Statements noted? X Yes No

Federal Awards

Internal Control over Major Programs:

- Material Weakness (es) Identified? Yes X No
- Significant Deficiencies Identified? Yes X 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 2CFR 200.516(a)?

 X Yes No

Identification of Major Programs:

<u>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>
84.425	Education Stabilization Fund Program

Dollar threshold used to distinguish between type A and B programs: \$750,000

Auditee Qualified as Low Risk Auditee? Yes X No

DISTINCTIVE COLLEGE PREP

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2023

SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS

Reference Number	Findings
------------------	----------

2023-001 **Finding Type** – Noncompliance with Laws and Regulations

Condition and Description – For the year ended June 30, 2023, the Academy’s expenses exceeded the final budgeted level for the categories shown in the following table. Additionally, total expenditures exceeded the final budgeted level by \$67,721. Expenditures in excess of budgeted amounts are a violation of State law.

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Expenditures				
<u>Instructional Services</u>				
Added Needs	\$ 504,710	\$ 410,738	\$ 421,610	\$ 10,872
<u>Supporting Services:</u>				
School Administration Services	850,961	1,047,481	1,057,689	10,208
Business Support Services	163,063	142,254	142,379	125
Operation and Maintenance	1,921,602	2,648,460	2,877,633	229,173
Pupil Transportation Services	479,987	442,331	456,233	13,902
Central Support Services	272,480	108,198	109,242	1,044

Identification of a Repeat Finding – This was not a finding in the immediate previous audit.

Recommendation – We recommend that the Academy monitor variances between actual and budgeted figures for expenditures.

View of Responsible Officials and Corrective Action Plan – Our 2022-2023 audited financial statements indicated that the Academy exceeded 1% of the General Fund - Total Expenditures budget. The reason for this is primarily due to the allocation of the net present value of the bus lease calculation according to GASB 87. There was an associated other financing sources that had no net impact on the Academy’s bottom line. To address this finding, we will be sure to include the GASB 87 lease amounts in general fund budget projections.

Please note that the board reviews financial statements monthly and can facilitate conversations as it relates to specific expense items. Monthly, the school leader reviews the details of all monthly expenses. Also, as recommended by the Michigan School Business Officials, DCP will review and adjust budget projections to ensure that actual revenues will exceed revenue budgets, actual expenditures will not exceed functional level budgets and that the school does not budget for a negative general fund balance.

DISTINCTIVE COLLEGE PREP

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2023

SECTION III – FEDERAL PROGRAM AUDIT FINDINGS

Reference Number	Findings
2023-002	<p data-bbox="418 495 943 520">Program Name – Child Nutrition Cluster</p> <p data-bbox="418 562 1127 588">Assistance Listing Number – 10.553, 10.555, 10.559</p> <p data-bbox="418 630 1182 655">Pass Through Entity – Michigan Department of Education</p> <p data-bbox="418 697 834 722">Finding Type – Noncompliance</p> <p data-bbox="418 764 1419 823">Criteria – Billing for meal reimbursement should be done on an individual school basis and not combined with other schools.</p> <p data-bbox="418 865 1419 991">Condition and Description – During our procedures we noted that the Academy including billings for another school along with their own billings to MDE for their food service reimbursements. This other school was also under the management of the Academy’s management company.</p> <p data-bbox="418 1033 764 1058">Questioned Costs - None</p> <p data-bbox="418 1100 1419 1159">Identification of a Repeat Finding – This was not a finding in the immediate previous audit.</p> <p data-bbox="418 1201 1419 1260">Recommendation – We recommend that the Academy separately bill food service costs for each school individually as required under state guidelines.</p> <p data-bbox="418 1302 1419 1596">View of Responsible Officials and Corrective Action Plan – The 2022-2023 financial audit report identified a compliance finding related to the Academy’s food service funding. Specifically, the operations team from the management company for the Academy during the year of the finding set up a food service account for another Academy under the same DCP account. The impact was that DCP received food service funding for this other Academy throughout the year. The DCP finance team appropriately accounted for and transferred these funds to the other Academy, thus having no impact on the Academy’s financial results.</p> <p data-bbox="418 1638 1419 1732">This finding does not apply to the Academy going forward. The other school involved is no longer in operation so only food service monies specific to DCP will be received by the Academy.</p>

SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS

There were no financial statement audit findings.

SECTION III – FEDERAL PROGRAM AUDIT FINDINGS

There were no Federal program audit findings.

DISTINCTIVE COLLEGE PREP

AUDIT COMMUNICATION LETTER

JUNE 30, 2023



Alan C. Young & Associates, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

7310 Woodward Ave, Suite 740
Detroit, MI 48202

(313) 873-7500 (Tel.)
(313) 873-7502 (Fax)
www.alancyoung.com

October 27, 2023

To the Board of Directors
Distinctive College Prep
Harper Woods, Michigan

We have recently completed our audit of the financial statements of Distinctive College Prep (the Academy) for the year ended June 30, 2023. In addition to our audit report, we are providing the following required communication and recommendations, which impact the Academy.

	<u>Page</u>
Communication Required Under AU-C 260	1

We are grateful for the opportunity to be of service to the Academy. Should you have any questions regarding the comments in this report, please do not hesitate to contact us.

Very truly yours,

Alan C. Young & Associates, P.C.
Detroit, Michigan



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Detroit, MI 48202

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RESULTS OF AUDIT

October 27, 2023

Board of Directors
Distinctive College Prep
Harper Woods, Michigan

We have audited the financial statements of the governmental activities, major fund and remaining fund information of Distinctive College Prep (the Academy) for the year ended June 30, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance as well as certain information related to the scope and timing of our audit. We have communicated such information in our letter to you dated May 8, 2023. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards, Government Auditing Standards and the Uniform Guidance

As stated in our engagement letter dated May 8, 2023, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions 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 in accordance with the Uniform Guidance.

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit. Also, in accordance with the Uniform Guidance, we examined, on a test basis, evidence about the Academy's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the Academy's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Academy's compliance with those requirements.

Results of Audit
(Continued)

Our Responsibilities under U.S. Generally Accepted Auditing Standards, Government Auditing Standards and the Uniform Guidance (Continued)

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the Management Discussion & Analysis, and the Budgetary Comparison Schedules, which supplement the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Scope of the Audit, Significant Risks and Other

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions examined and the areas tested.

Our audit included obtaining an understanding of the Academy and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the Academy or to acts by management or employees acting on behalf of the Academy.

We have identified the following significant risks of material misstatement as part of our audit planning which was communicated in our engagement letter dated May 8, 2023.

- Recording of revenues and unearned revenue for restricted grants.
- Year-end cut-off of payables.
- Override of controls.

During our audit procedures we did not note any findings or exceptions related to the above items.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Academy are described in Note 1 to the financial statements. The Academy implemented GASB 96 during the year but had no Subscription Based Information Technology Agreements (SBITAs) meeting the criteria for balance sheet presentation. The application of existing policies was not changed during the year. We noted no transactions entered into by the Academy 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.

Results of Audit
(Continued)

Significant Audit Matters (Continued)

Qualitative Aspects of Accounting Practices (Continued)

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. Depreciation expense and the discount rate used for the right-of-use lease assets are significant accounting estimates made by the Academy.

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. Note 7 is significant as it discusses the Academy's lease agreements.

Difficulties Encountered in Performing the Audit

We received complete cooperation from management throughout the process and encountered no significant difficulties dealing with management in performing and completing the audit. We would like to commend management and staff on the assistance provided to us during the 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. No such misstatements were noted as a result of our audit.

Disagreements with Management

For purposes of this letter, a disagreement with management is 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 October 27, 2023.

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 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 determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Results of Audit
(Continued)

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 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.

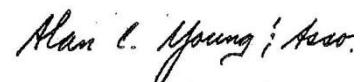
Other Matters

We applied certain limited procedures to the Academy's management discussion & analysis, and the budgetary comparison schedule, which are the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary schedules, which accompany the financial statements but are not RSI. 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 U.S. generally accepted accounting principles, 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.

Restriction on Use

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



Detroit, Michigan
October 27, 2023



October 27, 2023

State of Michigan
Michigan Department of Education, Office of Financial Management
608 W. Allegan Street
PO Box 30008
Lansing, MI 48909

Dear Michigan Department of Education,
Our 2022-2023 audited financial statements indicated that Discovery Creative Pathways, formerly known as Distinctive College Prep, had two audit findings that we are addressing in this corrective action plan.

Audit finding #1: Expenditures Exceed Budget by 1%

Our 2022-2023 audited financial statements indicated that Discovery Creative Pathways exceeded 1% of the General Fund - Total Expenditures budget. The reason for this is primary due to the allocation of the net present value of the bus lease calculation according to GASB 87. There was an associated offsetting transfer to the debt service fund that had no net impact on the Academy's bottom line. To address this finding, we will be sure to include the GASB 87 lease amounts in general fund budget projections.

Budgeting Process

At DCP, we believe that there are four key phases in the budgeting process.

1. Determining how to best ensure key goals and metrics are met and setting expectations for future conversations.
2. Developing a realistic budget with key financial goals, while also collaborating with all necessary stakeholders (internal and external).
3. Demonstrating to different audiences how the school is achieving their financial goals using the metrics set.
4. Implementing a budget and continuously evaluating performance against key goals and metrics to ensure that the budget fits the academic priorities of the school as defined in the strategic plan.

Please note that within each of these phases, a group of individuals discuss and develop future budgetary assumptions, strategic trade-offs, staffing, contingency plans and most importantly, ensures that the financial decisions are aligned to school and community values.

Please note that the board reviews monthly financials and can facilitate conversations as it relates to specific expense items. Monthly, the School Leader reviews a detail of all monthly expenses being presented. Also, as recommended by the Michigan School Business Officials, DCP will review and adjust budget updates to ensure that actual revenues will exceed revenue budgets, actual expenditures will not exceed functional level budgets and that the school does not budget for a negative general fund balance. If needed, a budget amendment will be presented for review after Count Days and lastly, in June 2024.

Audit finding #2: School lunch fund compliance

The 2022-2023 financial audit report identified a compliance finding related to the Academy's food service funding. Specifically, the operations team from the management company for the Academy during the year of the finding set up a food service account for another Academy under the same DCP account. The impact was that DCP received food service funding for this other Academy throughout the year. The DCP finance team appropriately accounted for and transferred these funds to the other Academy, thus having no impact on the Academy's financial results.



This finding does not apply to Discovery Creative Pathways going forward. The other school involved is no longer in operation so only food service monies specific to DCP will be received by the Academy. We understand the importance of separation of duties and entities and ensure that the Operations team will review all contracts appropriately to ensure the respective parties are involved. This process has already begun as of July 1, 2023.

If you have any questions or concerns on the following, please let me know.

Thanks,

Discovery Creative Pathways
Business Office Team