

DISTINCTIVE COLLEGE PREP
FINANCIAL STATEMENTS
WITH SUPPLEMENTAL INFORMATION
JUNE 30, 2018

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Distinctive College Prep
Harper Woods, MI

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of DISTINCTIVE COLLEGE PREP (the "Organization"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Organization as of June 30, 2018, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

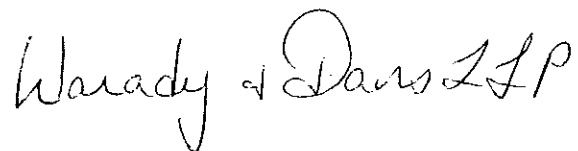
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting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

Supplementary Schedule

The supplemental schedule listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Organization. The information has not been audited by us and accordingly, we express no opinion on such matters.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2018 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Organization's internal control over financial reporting and compliance.



November 14, 2018

**Distinctive College Prep
A Michigan Charter School
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2018**

This section of Distinctive College Prep's Financial Report presents our discussion and analysis of the school's financial performance during the fiscal year ended June 30, 2018. This analysis should be read in conjunction with the transmittal letter at the front of this report and the school's financial statements.

Government-Wide Statements

The government-wide statements present information about the school using accounting methods similar to private-sector organizations. The Statement of Net Position includes all of the school's assets and liabilities. All current year revenues and expenses are reported under the accrual method and regardless of when cash is received or paid.

The government-wide statements report the school's net position and how it has changed. Net position – the difference between assets and liabilities – is one way to measure the school's economic health or position.

Increases or decreases in the school's net position is an indicator of whether its financial position is improving or deteriorating, respectively. In addition, to fully assess the overall health of the school you need to consider non-financial factors such as enrollment changes and condition of the facilities.

The following summarizes the net assets as of the end of the fiscal year, June 30, 2018.

Net Position Summary

| | |
|------------------------------------|-------------------|
| Assets | |
| Current Assets | <u>\$ 420,798</u> |
| Total Assets | <u>\$ 420,798</u> |
| | |
| Liabilities | |
| Current Liabilities | <u>\$ 418,067</u> |
| Total Liabilities | <u>\$ 418,067</u> |
| | |
| Net Position | |
| Unrestricted Net Position | <u>\$ 2,731</u> |
| | |
| Total Liabilities and Net Position | <u>\$ 420,798</u> |

Fund Financial Statements

The school's financial statements are maintained using fund accounting principles. For fiscal 2018, the school's inaugural year, all activity has been captured in the business-type fund, which records all school economic activity.

The funds focus on how cash and other financial assets that can readily be converted to cash flow in and out of the school. Fund net position left at year-end is available for spending.

Fund Operations

The School's expenses exceeded revenues by \$102,044 for the fiscal year ended June 30, 2018.

State Aid Allowance was \$7,631 per pupil.

Results of Operations:

For the period ended June 30, 2018, the school's results of operations were as follows:

Revenues

| | |
|---|------------------|
| State of Michigan unrestricted foundation aid | \$ 1,988,251 |
| Other local revenues | 169,434 |
| Federal | <u>329,481</u> |
| Total Revenues | <u>2,487,166</u> |

Expenses

| | |
|---|------------------|
| Instruction and added needs | 970,393 |
| Instruction staff support..... | 82,491 |
| General administration | 452,863 |
| School administration..... | 303,649 |
| Other support services (Business, Operations & Maintenance) | <u>779,814</u> |
| Total Expenses | <u>2,589,210</u> |

| | |
|---|-------------------------|
| Increase (Decrease) in Fund Net Position | (102,044) |
| Beginning | - |
| Ending | <u>(102,044)</u> |

FUND BUDGET & ACTUAL REVENUES & EXPENSES

| | Final Budget | Final Actual | Variance % |
|----------|--------------|--------------|------------|
| Revenues | \$2,451,497 | \$2,487,166 | Plus 1.45% |
| Expenses | \$2,443,497 | \$2,589,210 | Plus 5.96% |

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

Distinctive College Prep can amend its budget after the September headcount and thereafter during the fiscal year, with June being the final budget.

State of Michigan Unrestricted Aid (State Aid Foundation Allowance)

The State of Michigan aid, unrestricted, is determined with the following variables:

- State of Michigan State Aid Act per student foundation allowance
- Student Enrollment-Blended at 90% of the current school year and 10% of the prior February count. This provision was not applicable due to fiscal 2018 being the school's first year of operation.
- The school's enrollment for fiscal 2018 was 248 students.

Contacting the School's Financial Management

This financial report is designed to provide our students, parents and creditors 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 require additional information, contact the school's business office at 19630 Harper Avenue, Harper Woods, MI 48225.

STATEMENT OF NET POSITIONJune 30, 2018

ASSETS**CURRENT ASSETS**

| | | |
|--|----|---------|
| Cash | \$ | 28,191 |
| Receivables from Governmental Agencies | | 392,200 |
| Prepaid Expenses | | 407 |

\$ 420,798

LIABILITIES**CURRENT LIABILITIES**

| | | |
|---------------------------|----|----------------|
| Accounts Payable | \$ | 15,167 |
| Accrued Expenses | | 6,879 |
| Due to Management Company | | 396,021 |
| Total Current Liabilities | | <u>418,067</u> |

NET POSITION

| | | |
|--------------|--|-------|
| Unrestricted | | 2,731 |
|--------------|--|-------|

\$ 420,798

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2018

| FUNCTIONS/PROGRAMS | Expenses | Charges for Services | Operating Grants | Business-Type Activities |
|----------------------------------|---------------------|-------------------------|---------------------|---|
| | | | | Net (Expenses) Revenue and Changes in Net Position |
| Business-Type Activities: | | | | |
| Instructional and Added Needs | \$ 970,393 | \$ — | \$ 329,481 | \$ (640,912) |
| Support Services | | | | — |
| Pupil | 82,491 | | | (82,491) |
| General Administration | 452,863 | | | (452,863) |
| School Administration | 303,649 | | | (303,649) |
| Technology Lease | — | | | — |
| Pupil Transportation | 123,163 | | | (123,163) |
| Operations and Maintenance | 656,651 | | | (656,651) |
| Total Expenses | <u>\$ 2,589,210</u> | <u>\$ —</u> | <u>\$ 329,481</u> | <u>(2,259,729)</u> |
| General Revenues: | | | | |
| State Sources | | | | 2,093,026 |
| Local Sources | | | | |
| Donated Services | | | | 150,000 |
| Other Revenue | | | | 19,434 |
| Total General Revenues | | | | <u>2,262,460</u> |
| CHANGE IN NET POSITION | | | | 2,731 |
| NET POSITION - Beginning of Year | | | | — |
| NET POSITION - END OF YEAR | | | | <u>\$ 2,731</u> |

STATEMENT OF FUND NET POSITION

June 30, 2018

| | <u>General Fund</u> | <u>Total Governmental Fund</u> |
|---------------------------------------|---------------------|--|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 28,191 | \$ 28,191 |
| Receivables | 392,200 | 392,200 |
| Prepaid Expenses | 407 | 407 |
| | <u>420,798</u> | <u>420,798</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| | — | — |
| | <u>\$ 420,798</u> | <u>\$ 420,798</u> |
| LIABILITIES | | |
| Accounts Payable | \$ 15,167 | \$ 15,167 |
| Accrued Expenses | 6,879 | 6,879 |
| Due to Management Company | 396,021 | 396,021 |
| Total Liabilities | <u>418,067</u> | <u>418,067</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Unavailable Revenue | 104,775 | 104,775 |
| Total Deferred Inflows of Resources | <u>104,775</u> | <u>104,775</u> |
| FUND NET POSITION | | |
| Unrestricted | (102,044) | (102,044) |
| | <u>\$ 420,798</u> | <u>\$ 420,798</u> |

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION

Year Ended June 30, 2018

| | General Fund | Total Governmental Funds |
|--|---------------------|--------------------------------|
| REVENUES | | |
| Federal Sources | \$ 329,481 | \$ 329,481 |
| State Sources | 1,988,251 | 1,988,251 |
| Local Sources | 169,434 | 169,434 |
| Total Revenues | <u>2,487,166</u> | <u>2,487,166</u> |
| EXPENSES | | |
| Instruction and Added Needs | 970,393 | 970,393 |
| Support Services | | |
| Pupil | 82,491 | 82,491 |
| General Administration | 452,863 | 452,863 |
| School Administration | 303,649 | 303,649 |
| Pupil Transportation | 123,163 | 123,163 |
| Operations and Maintenance | 656,651 | 656,651 |
| Total Expenses | <u>2,589,210</u> | <u>2,589,210</u> |
| NET CHANGE IN FUND NET POSITION | (102,044) | (102,044) |
| FUND NET POSITION - Beginning of Year | — | — |
| FUND NET POSITION - END OF YEAR | <u>\$ (102,044)</u> | <u>\$ (102,044)</u> |

RECONCILIATION OF STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION TO
THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

NET CHANGE IN FUND NET POSITION \$ (102,044)

Amounts reported for business-type activities in the statement of net position are different because:

Revenue is recorded on the accrual method in the statement of activities; in the funds
it is recorded on the modified accrual method and not considered available:

Unavailable Revenue 104,775

CHANGE IN NET POSITION \$ 2,731

STATEMENT OF CASH FLOWSYear Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|------------------|
| Net Change in Fund Net Position | \$ (102,044) |
| Adjustments to Reconcile Net Change in Fund Net Position to Net Cash Provided by Operating Activities: | |
| Accounts Receivable | (392,200) |
| Prepaid Expenses | (407) |
| Accounts Payable | 15,167 |
| Accrued Expenses | 6,879 |
| Due to Management Company | 396,021 |
| Unavailable Revenue | <u>104,775</u> |
| Total Adjustments | <u>130,235</u> |
| Net Cash Provided by Operating Activities | 28,191 |
| Cash, Beginning | <u>—</u> |
| CASH, ENDING | \$ 28,191 |

NOTES TO FINANCIAL STATEMENTS

NOTE 1—ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**ORGANIZATION**

Distinctive College Prep (the “Organization”) 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 Organization’s first academic year commenced in August 2017. The Organization’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 Organization is dependent upon and substantially receives its revenues from grants and contracts with the State of Michigan and funds passed through from the federal government. Approximately 86% of total revenue for the year ended June 30, 2018 is from the State of Michigan and 8% is from the Federal government.

The Organization is governed by a Board of Directors. The Organization has delegated its duty to manage and operate the school to a management company under an agreement which covers the five academic years commencing on July 1, 2017 and ending on June 30, 2022. The agreement is conditional on a continued contract from CMU and continued state per capita funding. For 2017-2018 and 2018-2019 school years, the contract calls for annual management fee of \$375,000, plus an amount, not to exceed \$325,000, computed as ten percent of all payments in excess of \$3,750,000 that the Organization receives, less amounts retained by CMU and all donations that are made to the Organization. For the year ended June 30, 2018, the management fee amounted to \$375,000 of which \$150,000 was donated back as an in-kind contribution from the management company. For all subsequent school years, the annual fee shall be the higher of \$375,000, or twelve percent of all payments that the Organization receives, less amounts retained by CMU and all donations that are made to the Organization.

In addition, the Organization 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 educational 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 Organization, including teaching, food service, secretarial, transportation and other staff will be employed, trained and supervised by the management company. The Organization 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 purchased services on the statement of functional expenses.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the Organization. All of the Organization’s activities are classified as business-type activities.

NOTES TO FINANCIAL STATEMENTS

**NOTE 1—ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

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

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

Fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Organization considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenses generally are recorded when a liability is incurred, as under accrual accounting.

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

The Organization reports the following major fund:

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

GASB PRONOUNCEMENTS

The Organization has implemented GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". The objective of this Statement is to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effect on a government's net position.

The Organization has implemented GASB Statement No. 65 "*Items Previously Reported as Assets and Liabilities*". The objective of this statement is to establish accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The Statement also recognizes as outflows of resources or inflows of resources certain items that were previously reported as assets and liabilities.

NOTES TO FINANCIAL STATEMENTS

**NOTE 1—ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)****CASH**

Cash consists of cash held in checking accounts. Management believes the Organization is not exposed to any significant credit risk on cash and cash equivalents.

RECEIVABLES

The Organization is recording revenues that have been earned but not yet received as receivables. Receivables consist entirely of federal and state grants and are reported at net realizable value, which is the amount management expects to collect from balances outstanding at year-end. The Organization establishes an allowance for doubtful accounts based on past experience and analyses of collectability of the various receivables. No allowance for doubtful accounts was deemed necessary at June 30, 2018. Amounts considered uncollectible are recorded as bad debt expense.

PREPAID EXPENSES

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as an expense when consumed rather than when purchased.

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources represent an acquisition of net position that applies to one or more future periods, and so will not be recognized as inflow of resources (revenue) until that time. The fund financial statements report unavailable revenues, which arise only under a modified accrual basis of accounting that are reported as deferred inflows of resources. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The amounts were received by the Organization in September 2018.

GRANT REVENUE

Grant revenue is recognized when the qualifying costs are incurred for cost-reimbursement grants or contracts, or when a unit of service is provided for performance grants. Grant revenue from federal agencies is subject to independent audit under the Office of Management and Budget Uniform Grant Guidance and also by grantor agencies. The review could result in the disallowance of expenses under the terms of the grant or reductions of future grant funds.

FUND NET POSITION

In the fund financial statements, the Organization has reported a deficit in its fund net position. This deficit resulted from a deferred inflow of resources that were unavailable as the funds were not received within 60 days of the Organization's fiscal year-end.

INCOME TAX STATUS

The Organization has applied for tax-exempt status with the Internal Revenue Service as a public charity under Section 501(c)(3) of the Internal Revenue Code. Once the federal tax exemption is received, the Organization will apply for similar classification by the State of Michigan. The Organization has no unrelated business income during the year ended May 31, 2018, and therefore, no provision for federal or state income taxes has been made in the accompanying financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 2—OPERATING LEASE COMMITMENTS

The Organization rents its facilities on a month-to-month basis from its management company under a sublease agreement. Rent expense was \$254,966 for the year ended June 30, 2018.

Additionally, the Organization entered into an equipment and technology agreement with the management company whereby the Organization pays for the use of all equipment, other school supplies including textbooks and technology services costs incurred during its initial year of operations ended June 30, 2018 totaling \$258,200. The monthly payments of \$5,275 are to be made over a 48-month period commencing October 1, 2018. The expense for the year ended June 30, 2018 was \$50,650.

Future minimum lease payments with terms in excess of one year are:

| Year Ending June 30 | |
|--|-------------------|
| 2019 | \$ 47,475 |
| 2020 | 63,300 |
| 2021 | 63,300 |
| 2022 | 63,300 |
| Thereafter | <u>15,825</u> |
| Aggregate Future Minimum Rentals | <u>\$ 253,200</u> |

NOTE 3—SUPPORT FROM GOVERNMENTAL AGENCIES AND CONTINGENCIES

The Organization received approximately 93% of its revenue from federal and state governments in 2018. A significant reduction in the level of this support, if this were to occur, may have a significant effect on the Organization's programs and activities. Grants receivable are entirely comprised of receivables from federal and state government agencies at June 30, 2018.

Amounts received and expended by the Organization under various government programs are subject to review by government agencies. The reviews of certain of these programs for the year ended June 30, 2018 have not yet been conducted. Accordingly, the Organization's compliance with applicable requirements will be established at some future date. In the opinion of management, adjustments of expenses that may be disallowed by the governmental agencies, if any, cannot be determined at this time and will not have a significant effect on the financial position of the Organization.

NOTE 4—RISK MANAGEMENT

The Organization is exposed to various risks related to torts; theft of, damage to, and destruction of assets; errors and omissions and financial losses. The Organization maintains insurance coverage to mitigate these risks

NOTE 5—SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 14, 2018, the date which the financial statements were available for issue. There were no subsequent events which require disclosure.

SUPPLEMENTAL SCHEDULE

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION - BUDGET AND ACTUAL

Year Ended June 30, 2018

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Over (Under)</u> |
|---------------------------------------|------------------------|---------------------|------------------|--|
| REVENUES | | | | |
| Federal Sources | \$ 377,650 | \$ 200,650 | \$ 211,447 | \$ 10,797 |
| State Sources | 2,846,550 | 2,113,702 | 2,109,083 | (4,619) |
| Local Sources | 200,000 | 137,145 | 166,636 | 29,491 |
| Total Revenues | <u>3,424,200</u> | <u>2,451,497</u> | <u>2,487,166</u> | <u>35,669</u> |
| EXPENSES | | | | |
| Instruction and Added Needs | 1,295,800 | 962,047 | 970,393 | 8,346 |
| Support Services | | | | |
| Pupil | 79,333 | 77,421 | 82,491 | 5,070 |
| Staff Support | 23,333 | — | — | — |
| General Administration | 538,452 | 451,581 | 452,863 | 1,282 |
| School Administration | 357,000 | 297,859 | 303,649 | 5,790 |
| Business Services | 60,000 | — | — | — |
| Pupil Transportation | 275,000 | 136,758 | 123,163 | (13,595) |
| Operations and Maintenance | 596,167 | 517,831 | 656,651 | 138,820 |
| Total Expenses | <u>3,225,085</u> | <u>2,443,497</u> | <u>2,589,210</u> | <u>145,713</u> |
| NET CHANGE IN FUND NET POSITION | 199,115 | 8,000 | (102,044) | (110,044) |
| FUND NET POSITION - Beginning of Year | — | — | — | — |
| FUND NET POSITION - END OF YEAR | \$ 199,115 | \$ 8,000 | \$ (102,044) | \$ (110,044) |



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

Board of Directors
Distinctive College Prep
Harper Woods, MI

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of business-type activities and the major fund of DISTINCTIVE COLLEGE PREP (the "Organization"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements and have issued our report thereon dated November 14, 2018.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described below, we identified a certain deficiency in internal control that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency to be a material weakness.

Controls over financial reporting - The financial closing process did not detect certain liabilities that should have been accrued in connection with expenses incurred but not paid for during the year. A material audit adjustment was required to correct the understatement of expenses and liabilities. This adjustment resulted in an additional donation of management company fees to the Organization.

Management Response:

Management of the Organization agrees with the recommendation that rent should have been recorded for the technical services agreement in advance of payments being required due to services having been performed.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency to be a significant deficiency.

Limited controls over document retention - During the testing of controls over the cash receipts cycle it was noted that several payments received by the Organization could not be substantiated by supporting documentation. Although these amounts were not deemed significant, the missing documentation evidenced a significant control deficiency as the controls over the maintenance of documentation to support the revenue recorded in the general ledger were lacking.

Management Response:

Management of the Organization agrees with the significant deficiency identified and will ensure that in the future all supporting documentation is maintained.

Organization's Response to Findings

The Organization's response to the findings identified in our audit is described previously. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 result of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



November 14, 2018