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# Detroit Leadership Academy

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**Financial Report  
with Supplemental Information  
June 30, 2021**

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## **Independent Auditor's Report**

To the Board of Directors  
Detroit Leadership Academy

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

We have audited the accompanying financial statements of the governmental activities, the major fund, and the remaining fund information of Detroit Leadership Academy (the "Academy") as of and for the year ended June 30, 2021 and the related notes to the financial statements, which collectively comprise Detroit Leadership Academy's basic financial statements, as listed in the table of contents.

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

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

### **Auditor's Responsibility**

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

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the remaining fund information of Detroit Leadership Academy as of June 30, 2021 and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors  
Detroit Leadership Academy

**Required Supplemental Information**

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

**Other Supplemental Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Detroit Leadership Academy's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other supplemental 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. Such 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 other supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2021 on our consideration of Detroit Leadership Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely 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 Detroit Leadership 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 Detroit Leadership Academy's internal control over financial reporting and compliance.

October 26, 2021



## **Detroit Leadership Academy**

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

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This section of Detroit Leadership Academy's (the "Academy") annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2021. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

#### ***Using This Annual Report***

This annual report consists of a series of financial statements and notes to those financial statements. These statements are organized so the reader can understand Detroit Leadership Academy financially as a whole. The academy-wide financial statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term and what remains for future spending. The fund financial statements look at the Academy's operations in more detail than the academy-wide financial statements by providing information about the Academy's most significant fund, the General Fund, with the other fund presented in one column as the School Lunch Fund. This report is composed of the following elements:

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

##### **Basic Financial Statements**

Academy-wide Financial Statements

Fund Financial Statements

Notes to Financial Statements

##### **Required Supplemental Information**

Budgetary Comparison Schedule - General Fund

##### **Other Supplemental Information**

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

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

These two statements report the Academy's net position - the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, as reported in the statement of net position - as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net position, as reported in the statement of activities, are indicators of whether its financial health is improving or deteriorating. The relationship between revenue and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the Academy.

The statement of net position and the statement of activities report the governmental activities for the Academy, which encompass all of the Academy's services, including instruction, support services, community services, athletics, and food services. Unrestricted state aid (foundation allowance revenue) and state and federal grants finance most of these activities.

## **Detroit Leadership Academy**

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

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

The Academy's fund financial statements provide detailed information about the most significant funds, not the Academy as a whole. Some funds are required to be established by state law. However, the Academy establishes other funds to help it control and manage money for particular purposes (the School Lunch Fund is an example).

#### **Governmental Funds**

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

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

Recall that the statement of net position provides the perspective of the Academy as a whole. The following table provides a summary of the Academy's net position as of June 30, 2021 and 2020:

	Governmental Activities	
	2021	2020
	(in thousands)	
<b>Assets</b>		
Current and other assets	\$ 2,276.5	\$ 2,183.3
Capital assets	1,445.7	89.4
Total assets	3,722.2	2,272.7
<b>Liabilities</b>		
Current liabilities	919.1	1,324.9
Noncurrent liabilities	755.7	-
Total liabilities	1,674.8	1,324.9
<b>Net Position</b>		
Net investment in capital assets	690.0	89.4
Restricted - Food service	96.3	71.7
Unrestricted	1,261.1	786.7
Total net position	<b>\$ 2,047.4</b>	<b>\$ 947.8</b>

The above analysis focuses on net position. The change in net position of the Academy's governmental activities is discussed below. The Academy's net position was \$2,047.4 thousand at June 30, 2021. The portion of net position identified as invested in capital assets represents the original cost of the capital assets less depreciation. The portion of net position identified as restricted represents the School Lunch Fund balance. The remaining amount of net position of approximately \$1,261.1 thousand was unrestricted.

The \$1,261.1 thousand in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The unrestricted net position balance enables the Academy to meet working capital and cash flow requirements, as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

## Detroit Leadership Academy

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

The results of this year's operations for the Academy as a whole are reported in the condensed statement of activities below, which shows the changes in net position for the years ended June 30, 2021 and 2020:

	Governmental Activities	
	2021	2020
	(in thousands)	
<b>Revenue</b>		
Program revenue - Operating grants	\$ 3,633.1	\$ 2,876.2
General revenue:		
State foundation allowance	5,886.9	5,503.9
Other	118.1	22.7
Total revenue	9,638.1	8,402.8
<b>Expenses</b>		
Instruction	3,514.1	3,204.4
Support services	4,662.1	4,568.6
Athletics	31.9	39.8
Food services	192.1	401.7
Community services	-	18.0
Debt service	82.3	-
Depreciation (unallocated)	66.0	59.2
Total expenses	8,538.5	8,291.7
<b>Change in Net Position</b>	1,099.6	111.1
<b>Net Position - Beginning of year</b>	947.8	836.7
<b>Net Position - End of year</b>	<b>\$ 2,047.4</b>	<b>\$ 947.8</b>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$8.5 million. Certain activities were partially funded by other governments and organizations that subsidized certain programs with grants and contributions of approximately \$3.6 million. We paid for the remaining public benefit portion of our governmental activities with approximately \$5.9 million in state foundation allowance and our other revenue.

The Academy experienced an increase in net position of \$1,099.6 thousand. Key reasons for the change in net position were increases in revenue and investments in capital assets.

As discussed above, the net cost shows the financial burden that was placed on the State and the Academy's taxpayers by each of these functions. Since unrestricted state aid constitutes the vast majority of the Academy's operating revenue source, the board of directors and administration must annually evaluate the needs of the Academy and balance those needs with state-prescribed available unrestricted resources.

#### **The Academy's Funds**

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

As the Academy completed this year, the governmental funds reported a combined fund balance of \$1,357.5 thousand, which is an increase of approximately \$499.1 thousand from last year. The primary reasons for the increase are as follows:

In the General Fund, our principal operating fund, fund balance increased by approximately \$474.5 thousand to \$1,261.1 thousand. The change is mainly due to increases in state and federal revenue. The General Fund balance is available to fund costs related to allowable school operating purposes.

In the special revenue fund, the School Lunch Fund, fund balance increased to approximately \$96.3 thousand.

# **Detroit Leadership Academy**

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

### **General Fund Budgetary Highlights**

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted in June 2021. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

There were significant revisions made to the 2020-2021 General Fund original budget revenue and expenditures based on an originally anticipated decrease in foundation allowance payments due to the COVID-19 pandemic and subsequent federal awards for COVID-19 relief.

There were significant variances between the final budget and actual amounts for federal revenue based on the ultimate COVID-19 revenue recognized by the Academy during the fiscal year ended June 30, 2021.

### **Capital Assets and Debt Administration**

#### **Capital Assets**

As of June 30, 2021, the Academy had \$1,445.7 thousand invested in capital assets, primarily related to equipment, buildings, and building/leasehold improvements.

#### **Debt**

At the end of this year, the Academy had \$1,105 thousand in bonds and other debt outstanding versus \$650 thousand in the previous year. This debt consisted of the following:

	<u>2021</u>	<u>2020</u>
Bonds - Net of current portion	\$ 686,545	\$ -
Current portion of bonds	69,179	-
State aid anticipation note	349,523	650,000
Total	<u>\$ 1,105,247</u>	<u>\$ 650,000</u>

During the year, the Academy issued \$800,000 in general obligation (revenue) bonds with an interest rate of 3.62 percent.

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

The Academy's board and administration consider many factors when setting the Academy's 2021-2022 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The 2022 budget was adopted in June 2021, based on an estimate of students that will be enrolled in October 2021. Approximately 76 percent of total General Fund revenue is from the foundation allowance. Under state law, the Academy cannot assess additional property tax revenue for general operations. As a result, funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2022 school year, we anticipate that the fall student count will be higher than the estimates used in creating the 2022 budget. 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.



# Detroit Leadership Academy

## Statement of Net Position

June 30, 2021

	Governmental Activities
<b>Assets</b>	
Cash (Note 4)	\$ 875,291
Receivables - Due from other governmental units	1,314,004
Prepaid expenses and other assets	87,227
Capital assets - Net (Note 5)	<u>1,445,677</u>
Total assets	3,722,199
<b>Liabilities</b>	
Accounts payable	569,533
State aid anticipation note (Note 6)	349,523
Noncurrent liabilities: (Note 7)	
Due within one year	69,179
Due in more than one year	<u>686,545</u>
Total liabilities	<u>1,674,780</u>
<b>Net Position</b>	
Net investment in capital assets	689,953
Restricted - Food service	96,337
Unrestricted	<u>1,261,129</u>
Total net position	<u><u>\$ 2,047,419</u></u>

# Detroit Leadership Academy

## Statement of Activities

Year Ended June 30, 2021

	Program Revenue		Operating Grants and Contributions	Governmental Activities
	Expenses	Charges for Services		
\$	3,514,136	\$ -	\$ 1,451,271	\$ (2,062,865)
	4,652,120	-	1,965,067	(2,687,053)
	31,858	-	-	(31,858)
	192,054	-	216,721	24,667
	19,566	-	-	(19,566)
	62,715	-	-	(62,715)
	65,978	-	-	(65,978)
	<b>\$ 8,538,427</b>	<b>\$ -</b>	<b>\$ 3,633,059</b>	<b>(4,905,368)</b>

### Functions/Programs

#### Primary government - Governmental

activities:

Instruction				
Support services				
Athletics				
Food services				
Interest				
Other debt costs				
Depreciation expense (unallocated) (Note 5)				

Total primary government

General revenue:

State aid not restricted to specific purposes	5,886,873
Other	118,164

Total general revenue

**Change in Net Position**

**Net Position - Beginning of year**

**Net Position - End of year**

**\$ 2,047,419**

# Detroit Leadership Academy

## Governmental Funds Balance Sheet

June 30, 2021

	General Fund	Nonmajor Governmental Special Revenue Fund - School Lunch Fund	Total Governmental Funds
<b>Assets</b>			
Cash (Note 4)	\$ 875,291	\$ -	\$ 875,291
Receivables - Due from other governmental units	1,314,004	-	1,314,004
Due from other funds (Note 8)	-	96,337	96,337
Prepaid expenses and other assets	87,227	-	87,227
Total assets	<b>\$ 2,276,522</b>	<b>\$ 96,337</b>	<b>\$ 2,372,859</b>
<b>Liabilities</b>			
Accounts payable	\$ 569,533	\$ -	\$ 569,533
Due to other funds (Note 8)	96,337	-	96,337
State aid anticipation note (Note 6)	349,523	-	349,523
Total liabilities	1,015,393	-	1,015,393
<b>Fund Balances</b>			
Nonspendable - Prepaid expenses	87,227	-	87,227
Restricted - Food service	-	96,337	96,337
Unassigned	1,173,902	-	1,173,902
Total fund balances	1,261,129	96,337	1,357,466
Total liabilities and fund balances	<b>\$ 2,276,522</b>	<b>\$ 96,337</b>	<b>\$ 2,372,859</b>

**Detroit Leadership Academy**

Governmental Funds  
Reconciliation of the Balance Sheet to the Statement of Net Position

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**June 30, 2021**

<b>Fund Balances Reported in Governmental Funds</b>	\$ 1,357,466
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds:	
Cost of capital assets	2,359,662
Accumulated depreciation	<u>(913,985)</u>
Net capital assets used in governmental activities	1,445,677
Bonds payable are not due and payable in the current period and is not reported in the funds	<u>(755,724)</u>
<b>Net Position of Governmental Activities</b>	<b>\$ <u><u>2,047,419</u></u></b>

# Detroit Leadership Academy

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2021

	General Fund	Nonmajor Governmental Special Revenue Fund - School Lunch Fund	Total Governmental Funds
<b>Revenue</b>			
Local sources	\$ 187,331	\$ -	\$ 187,331
State sources	7,406,846	21,525	7,428,371
Federal sources	1,827,198	195,196	2,022,394
Total revenue	9,421,375	216,721	9,638,096
<b>Expenditures</b>			
Current:			
Instruction	3,514,136	-	3,514,136
Support services	4,774,363	-	4,774,363
Athletics	31,858	-	31,858
Food services	-	192,054	192,054
Debt service	126,557	-	126,557
Capital outlay	1,300,000	-	1,300,000
Total expenditures	9,746,914	192,054	9,938,968
<b>Excess of Revenue (Under) Over Expenditures</b>	(325,539)	24,667	(300,872)
<b>Other Financing Sources - Face value of debt issued</b>	800,000	-	800,000
<b>Net Change in Fund Balances</b>	474,461	24,667	499,128
<b>Fund Balances - Beginning of year</b>	786,668	71,670	858,338
<b>Fund Balances - End of year</b>	<b>\$ 1,261,129</b>	<b>\$ 96,337</b>	<b>\$ 1,357,466</b>

## Detroit Leadership Academy

### Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities

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Year Ended June 30, 2021

<b>Net Change in Fund Balances Reported in Governmental Funds</b>	\$	499,128
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:		
Capitalized capital outlay		1,422,243
Depreciation expense		(65,978)
Issuing debt, net of premiums and discounts, provides current financial resources to governmental funds but increases long-term liabilities in the statement of net position		(800,000)
Repayment of bond principal is an expenditure in the governmental funds but not in the statement of activities (where it reduces long-term debt)		44,276
		<u>44,276</u>
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b><u><u>1,099,669</u></u></b>

**June 30, 2021**

### **Note 1 - Nature of Business**

Detroit Leadership Academy (the "Academy") is an academy in the state of Michigan that provides educational services to students.

### **Note 2 - Significant Accounting Policies**

#### ***Accounting and Reporting Principles***

The Academy follows accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies used by the Academy:

#### ***Reporting Entity***

The Academy was formed as a charter school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994.

On July 1, 2017, the Academy entered into a five-year contract with Central Michigan University to charter a public school academy. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the state constitution. The Central Michigan University board of trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Central Michigan University board of trustees 3 percent of state aid foundation allowance as administrative fees. Administrative fees for the year ended June 30, 2021 totaled approximately \$172,000.

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the Academy. Based on application of the criteria, the entity does not contain component units.

#### ***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 nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. 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 revenue are reported instead as general revenue.

Separate financial statements are provided for governmental funds. The major individual governmental fund is reported as a separate column in the fund financial statements.

June 30, 2021

### Note 2 - Significant Accounting Policies (Continued)

#### *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

##### Academy-wide Financial Statements

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

As a general rule, the effect of interfund activity has been eliminated from the academy-wide financial statements.

When an expense is incurred for the purpose 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 the purpose for 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.

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

##### 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. Revenue not meeting this definition is classified as a deferred inflow of resources. For this purpose and under normal operating conditions, the Academy considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Revenue not meeting this definition is classified as a deferred inflow of resources. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

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

The Academy reports the following major governmental fund:

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

Additionally, the Academy reports the following nonmajor fund type:

*School Lunch Fund* - The special revenue fund is 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 School Lunch Fund. Revenue sources for the School Lunch Fund include grants received from state and federal sources. Any operating deficit generated by these activities is the responsibility of the General Fund.

##### ***Specific Balances and Transactions***

##### Cash

Cash includes cash on hand and demand deposits.



**Note 2 - Significant Accounting Policies (Continued)**

**Receivables and Payables**

In general, outstanding balances between funds are reported as due to/from other funds.

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 is recorded.

**Capital Assets**

Capital assets, which include leasehold improvements, furniture and fixtures, computer equipment, and buses, 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 \$2,000 and an estimated useful life in excess of three years. 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:

Leasehold improvements	5 years
Furniture and fixtures	7 years
Buses	5 years
Computer equipment	3 years

**Prepaid Expenses**

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both academy-wide and fund financial statements.

**Long-term Obligations**

In government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bond. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond issuances and premiums as other financing sources and bond discounts as other financing uses. The General Fund is generally used to liquidate governmental long-term debt.

**Interfund Activity**

During the course of operations, the Academy has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Furthermore, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

**Note 2 - Significant Accounting Policies (Continued)**

**Net Position**

Net position of the Academy is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. The restricted component of net position relates to food service. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

**Net Position Flow Assumption**

The Academy will sometimes fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the academy-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.

**Fund Balance Flow Assumptions**

The Academy will sometimes fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order 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 considered to be 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.

**Fund Balance Policies**

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Academy itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Academy's highest level of decision-making authority. The board of directors is the highest level of decision-making authority for the Academy that can, by prior to the end of the fiscal year, commit fund balance. Once imposed, the commitment remains in place until a similar action is taken to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The board of directors may assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally exist only temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**Grants and Contributions**

The Academy receives federal, state, and local grants. Revenue from grants and contributions is recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue.

**Note 2 - Significant Accounting Policies (Continued)**

**Use of Estimates**

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

**Subsequent Events**

The financial statements and related disclosures include evaluation of events up through and including October 26, 2021, which is the date the financial statements were available to be issued.

**Upcoming Accounting Pronouncement**

In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Academy is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement were originally effective for the Academy's financial statements for the year ended June 30, 2021 but were extended to June 30, 2022 with the issuance of GASB Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance*.

**Note 3 - 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 and the School Lunch Fund. All annual appropriations lapse at fiscal year end. The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. 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 academies 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. Encumbrances (e.g., purchase orders and contracts) are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

**Excess of Expenditures Over Appropriations in Budgeted Funds**

During the year, the Academy incurred expenditures in the General Fund that were in excess of the amounts budgeted as follows:

	<u>Budget</u>	<u>Actual</u>
Support services - General administration	\$ 957,624	\$ 983,797
Debt service	-	126,557

**Note 4 - 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, certificates of deposit, commercial paper rated prime at the time of purchase that matures no 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 statutory authority. As of June 30, 2021, the Academy does not have any investments.

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

The Academy's cash is subject to custodial credit risk, which is examined in more detail below:

**Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy does not have a deposit policy for custodial credit risk. At year end, the Academy had bank deposits totaling \$625,291 that were uninsured and uncollateralized. The Academy evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Note 5 - Capital Assets**

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

**Governmental Activities**

	Balance July 1, 2020	Additions	Disposals and Adjustments	Balance June 30, 2021
Capital assets being depreciated:				
Buildings/Leaseholds and improvements	\$ 190,305	\$ 1,374,044	-	\$ 1,564,349
Furniture and fixtures	285,389	-	-	285,389
Buses	10,400	-	-	10,400
Computer equipment	451,325	48,199	-	499,524
Subtotal	937,419	1,422,243	-	2,359,662
Accumulated depreciation:				
Buildings/Leaseholds and improvements	178,706	25,204	-	203,910
Furniture and fixtures	279,218	1,029	-	280,247
Buses	10,400	-	-	10,400
Computer equipment	379,683	39,745	-	419,428
Subtotal	848,007	65,978	-	913,985
Net governmental activities capital assets	\$ 89,412	\$ 1,356,265	-	\$ 1,445,677

Depreciation expense was not charged to activities, as the Academy's assets benefit multiple activities, and allocation is not practical.

**Note 6 - Short-term Debt**

***State Aid Anticipation Note***

The Academy has direct borrowings from Chemical Bank (the "Lender") to provide sufficient resources before receiving its scheduled state aid. This liability is recorded as a fund liability in the General Fund.

During the year, the Academy redeemed \$2,200,477 of these state aid anticipation notes (the "notes") and issued new notes of \$1,900,000, resulting in an outstanding balance of \$349,523 at June 30, 2021. The current notes bear interest at 3.5 percent. The notes are due in monthly principal and interest payments of \$175,662 beginning on October 22, 2020 through August 22, 2021. The notes were paid in full subsequent to year end.

In September 2021, the Academy borrowed \$1,800,000 in state aid anticipation notes with an interest rate of 3.69 percent. The notes mature in August 2022 and have similar terms and provisions as the notes outstanding at June 30, 2021.

In the event of default, the notes are fully collateralized by the Academy's future state aid funding, and the Lender has the authority to intercept state aid payments at its discretion. In the event that all or a portion of the required payments at maturity are not made, a penalty interest rate will go into effect that could exceed 3 percent, and interest becomes due on demand. If the Lender has reason to believe that the Academy will be unable to fulfill the required repayments, the Lender has the sole discretion to accelerate the principal and interest repayments.

**Note 7 - Long-term Debt**

Long-term debt activity for the year ended June 30, 2021 can be summarized as follows:

***Governmental Activities***

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds payable - Other debt	\$ -	\$ 800,000	\$ (44,276)	\$ 755,724	\$ 69,179

***Revenue Bonds***

Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Revenue bonds are full faith and credit obligations of the Academy payable solely from the Academy's state aid school payments. The Academy granted a first lien mortgage on the Project. Proceeds from the bonds provided financing for the purchase of the Virgil building.

Revenue bonds consist of the following at June 30, 2021:

Purpose	Remaining Monthly Installments	Interest Rate	Maturing September 30	Outstanding
\$800,000 Revenue Bond (2020)	\$5,004 - \$443,465	3.62%	2025	\$ 755,724

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

***Debt Service Requirements to Maturity***

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

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
2022	\$ 69,179	\$ 26,584	\$ 95,763
2023	71,762	24,002	95,764
2024	74,383	21,380	95,763
2025	77,217	18,547	95,764
2026	463,183	4,580	467,763
Total	\$ 755,724	\$ 95,093	\$ 850,817

***Assets Pledged as Collateral***

**Other Debt**

The Academy's outstanding revenue bonds are secured with collateral of Academy's Virgil building.

***Significant Terms***

**Other Debt**

The outstanding revenue bonds contain covenants commencing with the year ended June 30, 2021, including a debt service coverage ratio.

**Note 8 - Interfund Receivables, Payables, and Transfers**

Interfund balances include \$96,337 due to the School Lunch Fund from the General Fund. These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

**Note 9 - Leases**

***Operating Leases***

The Academy entered into an operating lease agreement for its facility, which serves as the elementary school for grades kindergarten through five. The facility was subleased from the Academy's former management company. Rent expense in connection with its building lease was \$264,000 for the year ended June 30, 2021, due in equal monthly installments on the first day of each month, as well as an annual maintenance fee of approximately \$22,000. The lease expires on June 30, 2023. There are no additional extensions.

The Academy has also entered into operating lease agreements for modular facilities. Rent expense in connection with its modular lease was \$242,000 for the year ended June 30, 2021, due in equal monthly installments ranging from \$8,530 to \$11,626. The leases began on September 1, 2018 and expire in August 2022.

**Note 9 - Leases (Continued)**

Future minimum lease payments for these leases are as follows:

Years Ending	Amount
2022	\$ 469,929
2023	306,161
Total	\$ 776,090

**Note 10 - Risk Management**

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. Employment-related claims for management company staff are covered by insurance policies held by the management company. The Academy has purchased commercial insurance for all other claims. There have been no claims brought against the Academy since inception.

**Note 11 - Management Agreement**

The Academy entered into a management agreement with a nonprofit corporation that expires on June 30, 2023. The management company is responsible for substantially all of the management, operation, administration, education, and food services at the Academy. The Academy subcontracts all employees from the management company and reimburses the management company for services provided. At June 30, 2021, \$207,988 is owed to the management company for unreimbursed costs incurred by the Academy. The management fee is calculated based on an amount equal to 11 percent of the funds received from the State of Michigan pursuant to the School Aid Act of 1979. The management fees, including payroll administration fees charged to the Academy by the management company, were approximately \$726,000 for the year ended June 30, 2021.

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## Required Supplemental Information

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# Detroit Leadership Academy

## Required Supplemental Information Budgetary Comparison Schedule General Fund

Year Ended June 30, 2021				
	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Revenue</b>				
Local sources	\$ 62,603	\$ 148,130	\$ 187,331	\$ 39,201
State sources	6,643,791	7,415,809	7,406,846	(8,963)
Federal sources	1,220,749	2,181,954	1,827,198	(354,756)
Total revenue	7,927,143	9,745,893	9,421,375	(324,518)
<b>Expenditures</b>				
Current:				
Instruction:				
Basic programs	2,419,795	2,441,076	2,419,657	(21,419)
Added needs	1,119,102	1,116,028	1,094,479	(21,549)
Total instruction	3,538,897	3,557,104	3,514,136	(42,968)
Support services:				
Pupil	453,802	627,210	620,098	(7,112)
Instructional staff	836,101	1,173,897	1,092,760	(81,137)
General administration	927,170	957,624	983,797	26,173
School administration	779,323	656,592	653,812	(2,780)
Business	73,748	89,521	69,854	(19,667)
Operations and maintenance	1,007,791	2,561,093	2,516,418	(44,675)
Pupil transportation services	243,178	85,712	88,830	3,118
Central	250	48,807	48,794	(13)
Total support services	4,321,363	6,200,456	6,074,363	(126,093)
Athletics	58,000	43,607	31,858	(11,749)
Community services	2,000	2,000	-	(2,000)
Debt service	-	-	126,557	126,557
Total expenditures	7,920,260	9,803,167	9,746,914	(56,253)
<b>Excess of Revenue Over (Under) Expenditures</b>	6,883	(57,274)	(325,539)	(268,265)
<b>Other Financing Sources - Face value of debt issued</b>	-	746,485	800,000	53,515
<b>Net Change in Fund Balance</b>	6,883	689,211	474,461	(214,750)
<b>Fund Balance - Beginning of year</b>	786,668	786,668	786,668	-
<b>Fund Balance - End of year</b>	<b>793,551</b>	<b>1,475,879</b>	<b>1,261,129</b>	<b>(214,750)</b>

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## Other Supplemental Information

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**Detroit Leadership Academy**

**Other Supplemental Information  
Schedule of Bonded Indebtedness**

**June 30, 2021**

<u>Years Ended June 30</u>	<u>Term Bond Due 2025 Principal</u>
2022	\$ 69,179
2023	71,762
2024	74,383
2025	77,217
2026	463,183
<b>Total remaining payments</b>	<b>\$ 755,724</b>
<b>Principal and interest payments due</b>	<b>Monthly</b>
<b>Interest rate</b>	<b>3.62%</b>
<b>Original issue</b>	<b>\$ 800,000</b>

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# *Detroit Leadership Academy*

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**Federal Awards Supplemental Information**

**June 30, 2021**

**Independent Auditor's Reports**

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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  
Detroit Leadership Academy

We have audited the financial statements of the governmental activities, the major fund, and the remaining fund information of Detroit Leadership Academy (the "Academy") as of and for the year ended June 30, 2021 and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements. We issued our report thereon dated October 26, 2021, which contained an unmodified opinion on the 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 26, 2021.

The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis, as required by the Uniform Guidance, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Plante & Moran, PLLC*

October 26, 2021

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*

**Independent Auditor's Report**

To Management and the Board of Directors  
Detroit Leadership Academy

We have audited, 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, the financial statements of the governmental activities, the major fund, and the remaining fund information of Detroit Leadership Academy (the "Academy") as of and for the year ended June 30, 2021 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 26, 2021.

**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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 may exist that have not been identified.

**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 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*.

To Management and the Board of Directors  
Detroit Leadership Academy

**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.

A handwritten signature in black ink that reads "Aente & Moran, PLLC". The signature is written in a cursive, professional style.

October 26, 2021



Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance  
Required by the Uniform Guidance

**Independent Auditor's Report**

To the Board of Directors  
Detroit Leadership Academy

**Report on Compliance for Each Major Federal Program**

We have audited Detroit Leadership Academy's (the "Academy") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on the Academy's major federal program for the year ended June 30, 2021. The Academy's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Academy's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Academy's compliance.

**Opinion on Each Major Federal Program**

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 the major federal program for the year ended June 30, 2021.

**Report on Internal Control Over Compliance**

Management of the Academy is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Academy's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over compliance.

To the Board of Directors  
Detroit Leadership Academy

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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

*Alente & Moran, PLLC*

October 26, 2021

**Schedule of Expenditures of Federal Awards**

**Year Ended June 30, 2021**

Federal Agency/Pass-through Agency/Program Title	Pass-through Entity Identifying Number	CFDA Number	Award Amount	(Memo Only) Prior Year Expenditures	Accrued Revenue at July 1, 2020	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Federal Expenditures	Accrued Revenue at June 30, 2021	Current Year Cash Transferred to Subrecipients
<b>Clusters:</b>										
Child Nutrition Cluster - U.S. Department of Agriculture - Passed through the Michigan Department of Education: Noncash assistance (Commodities) - Entitlement commodities - 2020-21	N/A	10.555	\$ 3,837	\$ -	\$ -	\$ -	\$ 3,837	\$ 3,837	\$ -	\$ -
Summer Food Service Program 2020-2021 Lunch Extended Summer Food Service Program 2020-2021	200900 210904	10.559	20,301 156,174	-	-	-	20,301 156,174	20,301 171,058	- 14,884	-
Summer Food Service Program subtotal		10.559	176,475	-	-	-	176,475	191,359	14,884	-
Total Child Nutrition Cluster			180,312	-	-	-	180,312	195,196	14,884	-
Special Education Cluster - U.S. Department of Education - Passed through Wayne RESA Intermediate School District - IDEA, Part B:										
IDEA, Part B 1920	200450	84.027	167,352	167,352	5,048	-	5,048	-	-	-
IDEA, Part B 2021	210450	84.027	168,880	-	-	-	155,479	168,880	13,401	-
Total IDEA, Part B		84.027	336,232	167,352	5,048	-	160,527	168,880	13,401	-
Total clusters			516,544	167,352	5,048	-	340,839	364,076	28,285	-
<b>Other federal awards - U.S. Department of Education:</b>										
Passed through the Michigan Department of Education: Title I, Part A:										
Title I, Part A 1920	201530	84.010	511,839	511,839	18	-	18	-	-	-
Title I, Part A 2021	211530	84.010	486,247	-	-	-	476,774	476,774	-	-
Total Title I, Part A		84.010	998,086	511,839	18	-	476,792	476,774	-	-
Title II, Part A - Improving Teacher Quality:										
Title II, Part A 1920	200520	84.367	60,134	60,134	90	-	90	-	-	-
Title II, Part A 2021	210520	84.367	52,480	-	-	-	52,480	52,480	-	-
Total Title II, Part A		84.367	112,614	60,134	90	-	52,570	52,480	-	-
Title IV, Part A - Student Support & Academic Enrichment - Title IV, Part A 2021	210750	84.424	37,314	-	-	-	37,078	37,078	-	-
Education Stabilization Fund Program - U.S. Department of Education - Passed through Michigan Department of Education:										
COVID-19 ESSER Formula Fund I	203710	84.425D	418,891	285,000	285,000	-	418,891	133,891	-	-
COVID-19 ESSER Education Equity Fund I	203720	84.425D	62,833	-	-	-	62,833	62,833	-	-
COVID-19 ESSER Formula Fund II	213712	84.425D	573,687	-	-	-	573,687	573,687	-	-
Total ESSER			1,055,411	285,000	285,000	-	1,055,411	770,411	-	-
COVID-19 Governor's Emergency Education Relief Fund (GEER)	201200	84.425C	66,089	-	-	-	66,089	66,089	-	-
Total Education Stabilization Fund Program		84.425	1,121,500	285,000	285,000	-	1,121,500	836,500	-	-

# Detroit Leadership Academy

## Schedule of Expenditures of Federal Awards (Continued)

Year Ended June 30, 2021

Federal Agency/Pass-through Agency/Program Title	Pass-through Entity Identifying Number	CFDA Number	Award Amount	(Memo Only) Prior Year Expenditures	Accrued Revenue at July 1, 2020	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Federal Expenditures	Accrued Revenue at June 30, 2021	Current Year Cash Transferred to Subrecipients
Other federal awards - U.S. Department of Education (continued):										
Coronavirus Relief Fund - U.S. Department of the Treasury:										
Passed through Michigan Department of Education:										
COVID-19 103(2) - District COVID Costs	20-21	21.019	\$ 8,649	\$ -	\$ -	\$ -	\$ 8,649	\$ 8,649	\$ -	\$ -
COVID-19 11p-CRF School Aid	20-21	21.019	245,721	-	-	-	245,721	245,721	-	-
Passed through Champions Education Network (f/k/a Equity Education)		21.019	1,116	-	-	-	1,116	1,116	-	-
COVID-19 Workplace Safety Grant										
Total Coronavirus Relief Fund		21.019	255,486	-	-	-	255,486	255,486	-	-
Total noncluster programs			2,525,000	856,973	285,108	-	1,943,426	1,658,318	-	-
Total federal awards			\$ 3,041,544	\$ 1,024,325	\$ 290,156	\$ -	\$ 2,284,265	\$ 2,022,394	\$ 26,285	\$ -

Year Ended June 30, 2021

### Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Detroit Leadership Academy (the "Academy") under programs of the federal government for the year ended June 30, 2021. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Academy, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Academy.

### Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the same basis of accounting as the basic financial statement. Such expenditures, except for those related to CFDA 21.019, Coronavirus Relief Fund (CRF), are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

CRF does not apply the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, but rather applies the U.S. Department of the Treasury's guidance and frequently asked questions, as codified in the Federal Register.

The pass-through entity identifying numbers are presented where available.

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

### Note 3 - 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.

### Note 4 - Noncash Assistance

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

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## Schedule of Findings and Questioned Costs

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**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  No
  - Significant deficiency(ies) identified that are not considered to be material weaknesses?  Yes  None reported
- Noncompliance material to financial statements noted?  Yes  None reported

**Federal Awards**

Internal control over major programs:

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

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)?

Yes  No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
84.425	Education Stabilization Fund Program
	Dollar threshold used to distinguish between type A and type B programs: \$750,000
	Auditee qualified as low-risk auditee? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

**Section II - Financial Statement Audit Findings**

Current Year None

**Section III - Federal Program Audit Findings**

Current Year None

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*Detroit Leadership Academy*

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**Report to the Board of Directors**

**June 30, 2021**





**Plante & Moran, PLLC**  
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To the Board of Directors  
Detroit Leadership Academy

We have recently completed our audit of the basic financial statements of Detroit Leadership Academy (the "Academy") as of and for the year ended June 30, 2021. In addition to our audit report, we are providing the following results of the audit, other recommendations, and informational items that impact the Academy:

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<b>Results of the Audit</b>	1-4
<b>Other Recommendations</b>	5-6
<b>Informational Items</b>	7-16

We are grateful for the opportunity to be of service to Detroit Leadership Academy. We would also like to extend our thanks to Frank Patterson, Sarah Campbell, and the entire business office for their assistance during the audit. We recognize that preparing for the audit is carried out in addition to your staff's normal daily activities. Should you have any questions regarding the comments in this report, please do not hesitate to call.

*Plante & Moran, PLLC*

October 26, 2021

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## Results of the Audit

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October 26, 2021

To the Board of Directors  
Detroit Leadership Academy

We have audited the financial statements of Detroit Leadership Academy (the "Academy") as of and for the year ended June 30, 2021 and have issued our report thereon dated October 26, 2021. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated March 22, 2021, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the Academy. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

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.

Our audit of the Academy's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we are obligated to communicate certain matters that come to our attention related to our audit to those responsible for the governance of the Academy, including compliance with certain provisions of laws, regulations, contracts, and grant agreements; certain instances of error or fraud; illegal acts applicable to government agencies; and significant deficiencies in internal control that we identify during our audit. Toward this end, we issued a separate letter dated October 26, 2021 regarding our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 20, 2021.

**Significant Audit Findings**

***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Academy are described in Note 2 to the financial statements.

No new accounting policies were adopted, and the application of existing policies was not changed during 2021.

We noted no transactions entered into by the Academy during the year for which there is a lack of authoritative guidance or consensus.

We noted no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

There were no significant balances, amounts, or disclosures in the financial statements based on sensitive management estimates.

The disclosures in the financial statements are neutral, consistent, and clear.

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

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

***Disagreements with Management***

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.

We are pleased to report that no such disagreements arose during the course of our audit.

***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.

We did not detect any misstatements as a result of audit procedures.

***Significant Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Academy, and business plans and strategies that may affect the risks of material misstatement, with management each year prior to our 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 of our retention.

The following is a summary of significant issues that were discussed or were the subject of correspondence with management prior to or during our audit:

As required by 2 CFR Part 200, we have also completed an audit of the federal programs administered by the Academy. The results of that audit are provided to the board of directors in our report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with 2 CFR Part 200 dated October 26, 2021.

***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated October 26, 2021.

To the Board of Directors  
Detroit Leadership Academy

October 26, 2021

This information is intended solely for the 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.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in cursive script that reads "Paul D. Bryant".

Paul D. Bryant, CPA  
Partner

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## Other Recommendations

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Based on the effective dates of certain upcoming accounting pronouncements and guidance, we recommend the Academy begin planning for the guidance below given its potential impact on the Academy, along with other recommendations noted during our audit.

### **GASB Implementation Guide Update 2021-1**

The GASB recently issued an implementation guide that clarifies certain points in the accounting standards. The guide includes an update to existing guidance from a past implementation guide related to accounting for fixed assets. It clarifies that items purchased in a group that are individually below an academy's capitalization threshold but exceeds the capitalization threshold in the aggregate should be reported in the academy's fixed asset records. The clarified guidance goes into effect commencing in the year ending June 30, 2024. The Academy should review its current practices and written policies to ensure that they align with this clarified guidance.

### **GASB Statement No. 87 - Leases**

This statement is effective for the Academy's June 30, 2022 financial statements. The statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows or outflows of resources based on payment provisions of the lease. The statement was issued to improve accounting and financial reporting for leases by governments. The statement establishes a single model for lease accounting for both lessees and lessors based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset on the lessee's government-wide financial statements, and a lessor is required to recognize a lease receivable and a deferred inflow of resources on the lessor's government-wide financial statements. Furthermore, there are additional financial statement disclosures required for the lessee and lessor as a result of the standard.

To adopt the standard, the Academy will have to identify and analyze all significant lease contracts to determine the lease asset and lease liability or deferred inflow or outflow of resources that will be required to be recognized upon implementation of the standard. This review should include all existing lease agreements and other contracts that may have embedded lease arrangements that were not previously considered. Other departments outside of the business office may need to be involved in order to properly identify and locate all agreements subject to the new leasing standard. It is important to begin the process of inventorying lease agreements early on to then determine the financial impact upon adoption.

### **Lessee Accounting Under GASB 87**

A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the maximum lease term per the lease contract is 12 months or less or it transfers ownership of the underlying asset. The lease liability is measured at the present value of lease payments expected to be made during the lease term (less any lease incentives). The right-to-use asset is measured at the amount of initial measurement of the lease liability, plus any payments made to the lessor at or before commencement of the lease term and certain direct costs incurred to place the leased asset in service. The lessee should reduce the lease liability as payments are made and recognize an outflow of resources (i.e., expense) for interest on the liability. The lease asset should be amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.

### **Food Service Fund Balance**

We noted that the fund balance of the Food Service Fund exceeds the U.S. Department of Education's maximum allowance of three months' worth of operating expenditures. The Academy should use this opportunity to upgrade or replenish equipment utilized by the food service department in order to reduce the fund balance in that fund.

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## Informational Items

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### A Year Like No Other

The past year has been challenging for everyone, particularly those who have continued to keep our schools running throughout this pandemic. While some businesses and employees were able to seamlessly transition to the work-from-home environment, educators and administrators faced a number of hurdles. The Academy has faced a continuously changing environment during the pandemic. New federal grants and targeted state funding have placed new accounting and compliance requirements on the Academy. Planning will become increasingly important to put the Academy in the best position to take advantage of the substantial new, nonrecurring resources provided.

We have worked closely with state and federal decision-makers throughout the pandemic. As the Academy's strategic partner, our goal has been to advocate for academies by meeting with these decision-makers before actions are finalized so that these groups can be well-informed of the implications their actions will have on the Academy, your business office, and your financial statements. New or revised accounting and compliance guidance continues to be released from numerous agencies, and academies are left with the task of deciphering this information to ensure adherence to these new requirements. To that end, as guidance is updated and opportunities are identified, we will continue to work with the Academy in navigating the complexities and make sure that your team is always aware of the most current information that impacts the Academy. We want to recognize the hard work that everyone at the Academy has put in over the past year. We appreciate all that you have done for the students in your communities, and we want to thank you for the opportunity to work side by side with your team during these difficult times.

### State Aid Funding

#### **Background**

**From 18 Months of Financial Uncertainty to Projected Stability:** Since the winter of 2020, the factors surrounding school funding have been uncertain, difficult to predict, and even more difficult to manage.

- **Pre-pandemic:** Prior to the onset of the pandemic, the State's financial resources were stable, predictable, and suggested a predictable, improving financial picture for Michigan schools.
- **Financial Concerns During the Onset of the Pandemic:** During the spring of 2020, predictions were made that there would be significant negative impacts to the State's School Aid Fund and the potential for substantial proration of state aid for academies due to the grinding halt that the pandemic placed on Michigan's economy. The specific impact was difficult to predict, resulting in two Revenue Estimating Conferences: the normally scheduled one in May 2020 and an additional conference in August 2020. The May conference suggested substantial proration would need to occur (estimated at \$685 per pupil), and many academies adopted a final budget amendment in 2020 to reflect this estimate. By August 2020, the economic impacts of the pandemic were slightly clearer, and the result was a proration of \$175 per pupil for the 2019-2020 fiscal year. While significant, it was much less than what was predicted in May 2020.
- **Federal Resources:** Beginning in March 2020, the federal government initiated financial assistance that directly impacted academies, with the funding being provided in several waves throughout 2020 and 2021. As is the case with most federal resources, unique spending requirements were attached; however, the guidance and stipulations continued to evolve and change. This resulted in significant uncertainty throughout the year in terms of how and when to expend the available funds. Ultimately, the COVID-19 relief funds did provide more flexibility in spending than traditional federal grants.
- **2020-2021 State Funding:** With a more predictable revenue stream into the School Aid Fund, sustainable school funding was put in place. The foundation allowance was held at the 2019-2020 level, no prorations were required, and a \$65 one-time per pupil payment was provided to academies. The State also provided additional funding to those districts that did not receive a minimum threshold of per pupil funding from the new Educational Stabilization Fund federal program.

## Detroit Leadership Academy

### Informational Items (Continued)

- **2021-2022 State Funding:** Stability within the School Aid Fund continues to improve, and the fund was predicted to have a surplus for fiscal year 2021 and would have sustainable revenue looking out the next few years. This provided the governor and the Legislature an opportunity to increase the State's investments in public education. The most significant outcome from their efforts was improved equity in the foundation allowance funding. All schools will be at the target foundation allowance of \$8,700 per pupil. This means the equity gap between the base foundation and the target foundation has finally been eliminated. In addition, all schools, including hold harmless districts, will receive at least a \$171 per pupil increase. In addition, funding progress was made related to recommendations resulting from the School Finance Research Collaborative, which includes increased funding levels for special education; At-Risk; wraparound services, such as nurses and counselors; and Great Start School Readiness (GSRP).
- **Looking Forward:** The most recent Revenue Estimating Conference estimates that the School Aid Fund will remain healthy when projecting out the financial picture over the next few years. Based on the current facts and circumstances, it is expected there will be room for continued foundation allowance funding increases over time, in addition to the ability to invest in specific programming or educational support. However, the key funding lesson from the last 18 months is that predictions are a best estimate based on the current facts and circumstances, and those estimates can be significantly impacted by subsequent events.

#### **2021 Funding Implications for the Academy**

**2020-2021 Foundation:** Due to pandemic-related funding concerns, foundation allowance levels were maintained at 2019-2020 levels. For the 2020-2021 fiscal year, the public school academy maximum foundation allowance was \$8,111. The minimum foundation allowance remained at \$8,111; however, the Academy did receive a one-time per pupil payment of \$65. This was not added to the foundation allowance formula and was not retained for 2021-2022.

**A Unique 2020-2021 Pupil Count:** In order to smooth the impacts of reduced pupil counts during the remote learning period, a temporary one-year change was made to the pupil count method used for the purpose of the foundation allowance formula. For 2020-2021, a super blend was used, combining the pupil counts from the 2019-2020 school year and the 2020-2021 school year. The 2019-2020 count was weighted at 75 percent, and the 2020-2021 count was weighted at 25 percent. This blended pupil count was multiplied by the foundation allowance per pupil to determine the Academy's total foundation allowance funding for the year.

**Coronavirus Relief Fund (CRF):** At the close of the 2019-2020 school year, there was significant confusion regarding availability and use of CRF. In the summer of 2020, approximately \$362 per pupil was provided to academies from the Michigan Department of Education through the summer state aid payments. The total available for the Academy was approximately \$254,000. Even though these funds were received with the final state aid payments for the 2019-2020 school year, since the funding was not approved until July 2020, the funds were required to be deferred at June 30, 2020 and not recognized as revenue until fiscal year 2021. Similar to other federal grants, there were requirements for how the funds can be used, and the Academy would determine usage by applying the guidelines. For the year ended June 30, 2021, the Academy fully expended the award and recognized the related federal revenue.

**Pandemic-related Federal Funding:** Since March 2020, several iterations of federal funding impacting academies have occurred. Two key funding sources include the Education Stabilization Fund (ESF) and the Coronavirus Relief Fund (CRF). Each fund provides resources under multiple programs. The principal programs under ESF are the Elementary and Secondary School Emergency Relief (ESSER) Fund and the Governor's Education Emergency Relief (GEER) Fund. CRF programs include the \$362 per pupil passed through by the MDE in addition to some academies receiving certain funding made available from other nonfederal entities. The common elements to all these revenue sources are that the funds are designed to assist with pandemic relief and the Academy must have a specific plan for use of the funds. In general, reimbursement claims could reach back to costs incurred as early as March 2020. Program end dates vary depending on when funds were provided and will require academies to carefully plan for their use.

## Detroit Leadership Academy

### Informational Items (Continued)

**ESSER:** Academies are being awarded ESSER grants in three different waves: ESSER I, ESSER II (further divided between phase 1 and 2), and ESSER III. The Academy's ESSER I and II award amounts were approximately \$482,000 and \$574,000, respectively. Academies awarded ESSER I funds were able to recognize the revenue during fiscal year 2021 to the extent allowable expenditures were incurred to claim for reimbursement in alignment with the federal requirements. Due to the timing of when award letters were issued to academies for phase 1 of ESSER II, academies were eligible to recognize this revenue during fiscal year 2021 to the extent that a grant award letter was received by June 30, 2021. The Academy received its grant award letter by June 30, 2021, and, therefore, the revenue from phase 1 of ESSER II can be recognized in the fiscal year 2021. Phase 2 of ESSER II and ESSER III awards will be made available during fiscal year 2022.

The allocation of ESSER funds is based on the Title I allocation model. The allocation model uses economically disadvantaged demographics to determine the level of funding to be provided to each Academy. As a result, some academies were provided substantial funding from ESSER, while others received substantially less. The Legislature and the governor concluded districts should receive a minimum amount per pupil, and if ESSER did not provide at least that amount per pupil, then funding from the State should provide an equalization payment to bring a district up to the minimum amount. These state funds would follow similar usage requirements as ESSER funds. The floor amount of funding was \$450 per pupil related to ESSER II. The Academy's level of ESSER II funding was above the floor, and, therefore, equalization payments were not received.

#### ***2022 Funding Implications for the Academy***

The May 2021 Revenue Estimating Conference provided an optimistic view of the School Aid Fund's financial picture for 2022, 2023, and 2024. The School Aid Fund is predicted to complete the State's 2021 fiscal year with a fund balance and is expected to continue to generate funding growth from nonfederal sources for the next few years. As a result, amendments to the State Aid Act for the 2022 fiscal year included several additions to the school funding picture. These included the following:

- **2021-2022 Foundation Allowance:** With the goal of improving equity among academies, all academies receive at least a minimum level of funding, which was established as the target foundation allowance. Any academy that was not at the target level in 2021 was increased to the new target foundation of \$8,700 per pupil. For academies already at the target, they received a \$171 per pupil increase from the former target level of \$8,529. For the few academies in the state above the target, those academies also received the \$171 per pupil increase. Based on these changes, the Academy's foundation allowance per pupil is going to be \$8,700, representing an increase of \$589 from the 2021 funding level.
- **ESSER:** As previously noted, the Academy will receive certain ESSER awards during fiscal year 2022. Similar to the ESSER II floor of \$450 per student, the State also set a funding floor of \$1,093 per student for ESSER III. These funds follow the same restrictions on allowable use as compared to the ESSER III federal funds. The expectation was that this state-funded equalization payment would be received during fiscal year 2022; however, in recent announcements, it has become known that the federal government is now questioning the legality of this payment, putting this anticipated funding source into question.
- **Pupil Membership Blend for 2021-2022:** Pupil count determinations return to the pre-fiscal year 2021 super blend method for 2021-2022. As it is expected students will be returning to the classroom, it was concluded there was little need for a super blend that was in effect during 2020-2021. As defined in the School Aid Act, the Academy is required to complete its calendar year spring and fall counts for 2021. The weighting of those counts continues to be at 90 percent of the fall count and 10 percent of the spring count. The computed pupil count will be used to determine the total foundation allowance paid to the Academy. Since schools will be transitioning to in-class instruction in the fall, it may be difficult to predict what enrollments might be. Clearly the level of student attendance will have a significant impact on total revenue generated from the foundation allowance.

## Detroit Leadership Academy

### Informational Items (Continued)

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- **Summer School and Learning Assistance:** As part of the process to return to in-person learning in the fall of 2021, significant emphasis was placed on summer school. As a result, significant resources were made available to academies for the summer of 2021 to assist in this effort. Resources included federal funding for summer programming, credit recovery, and before- and after-school programming as part of the Elementary and Secondary School Emergency Relief II Fund. In addition, state aid funding was appropriated for innovative summer programming or credit recovery programs. Academies were required to establish a plan to use these funds for supplemental programming.

#### ***Looking Forward to 2023 and Beyond***

The May 2021 Revenue Estimating Conference provided a look into 2023 and 2024. 2021 has a projected surplus to carry over to 2022, and surpluses are expected for 2023 and 2024. These surpluses are uncharted territory for school funding in Michigan. In the short term, two supplemental funding measures were put in place. Most of the funds provided were related to appropriating federal funds provided to the State for the benefit of academies. Other elements of the funding measures leveraged state resources, with the principal element being the ESSER equalization payments tied to ESSER II and ESSER III funding. As we have learned from the past, the Revenue Estimating Conferences provide projections based on the best facts in hand. Experience has told us that those facts can change with the potential for both a positive or negative impact on the projections. Factors to monitor as we look into the future include the following:

- The extent of a continuing economic “bounce back” currently experienced by the State
- The impact as federal stimulus provided tails off during the next two years and the extent of state funding to assist in replacing those resources for recurring services
- The success of returning to in-class instruction
- Extent and duration of resources needed to address learning loss resulting from the pandemic
- Short-term and longer-term student enrollment changes resulting from the pandemic
- Personnel shortages and the impact on providing learning-related services
- Potential staffing cost increases
- Cost trends for the retirement system and the extent to which state support is used from the School Aid Fund

The next Revenue Estimating Conference will occur in January 2022. Academies will need to carefully monitor those results and compare projections to the May 2021 conference results. That information will allow academies to better project the longer-term implications for school funding.

## Detroit Leadership Academy

### Informational Items (Continued)

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#### New Federal Funding Considerations - 2021 and 2022

As a result of the pandemic, academies began to experience a significant flow of new federal grant funding, essentially coming in three waves. The initial wave occurred shortly after the start of the pandemic in 2020, with resources becoming available in late spring 2020. The second wave began in late 2020 and into 2021. The third wave began in August 2021 when the grant application window opened for the most recent round of grant funding. As is the case with most federal funding, these federal grants have compliance strings attached and require additional time and attention by academies to evaluate and ensure proper use. In addition, for many academies, the amount of funding available is substantial, creating a unique challenge regarding how best to use the funds, in accordance with the rules, to impact public education. The key awards impacting public education include the following:

- *Elementary and Secondary School Emergency Relief Fund* - ESSER has four release periods. ESSER I was made available in the spring of 2020. However, guidance was limited, and few academies elected to spend ESSER I funding until the start of the 2020-2021 school year. Due to political issues within the state government, ESSER II was released in two phases. The first phase was awarded to districts in the summer of 2021, and the second phase will follow in fiscal year 2022. ESSER III, which is about four times the size of the total ESSER II funding, was made available beginning in August 2021. Several compliance requirements are applicable for all the ESSER awards, and ESSER III is more narrowly targeted at addressing learning loss in students. Planning how best to use each set of the funds awarded will be important for each academy.
  - *Coronavirus Relief Fund* - The CRF funds are designed to help academies cover the supplemental costs related to their response to COVID-19 and were provided to districts in July and August 2020. In addition, Michigan CRF funds were provided to support eligible child care providers, including those operated by academies. Three broad requirements pertained to payments from the Coronavirus Relief Fund; the funds may be used only to cover expenses that:
    1. Are necessary expenditures incurred due to the public health emergency with respect to the coronavirus disease pandemic
    2. Were not accounted for in the budget most recently approved as of March 27, 2020 (the date of enactment of the CARES Act) for the State or government
    3. Were incurred during the period from March 1, 2020 through December 30, 2021
- Clarifying guidance provided flexibility: “as an administrative convenience, the U.S. Department of the Treasury will presume expenses of up to \$500 per elementary and secondary school student to be eligible expenditures, such that schools do not need to document the specific use of funds up to that amount.” While the treasury guidance provides flexibility relative to the tracking of costs that can be applied to CRF funds, there remains a presumption that use of the funds complies with the allowability parameters outlined above. One area of confusion that impacted many academies was related to funding received related to child care. These payments labeled the Academy as a “beneficiary,” a term not typically used in grants management. Ultimately, it was concluded that funds received with this label are not considered federal awards, simplifying compliance requirements for the Academy related to these funds.
- *Governor’s Education Emergency Relief Fund* - GEER funds were awarded in two waves, GEER I in the fall of 2020 and GEER II in the spring of 2021. These funds were awarded to academies that are determined to be most significantly impacted by COVID-19. This covered high-need student groups, including those that are economically disadvantaged, special education students, and English language learners. GEER funds are used to support connectivity and out-of-school learning time; address learning loss and student mental health; provide for remote learning materials and professional development; provide a portion summer school compensation to address learning loss; and provide for other health, safety, and wellness needs identified, required, or recommended in the MI Safe Schools Return to School Roadmap.

## **Detroit Leadership Academy**

### **Informational Items (Continued)**

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In addition to the CARES Act funding described above, the Academy may have also received or may be eligible to apply for the following grants designed to assist with responding to impacts of the pandemic:

- Child Care and Development Block Grant - CARES Act Supplemental Payments
- Head Start - CARES Act Supplemental Payments
- Federal Emergency Management Agency (FEMA) Grants
- Coronavirus Food Assistance Program (CFAP) Commodities
- Personal protective equipment (PPE) funded with federal grants received from outside organizations
- Federal assistance from the intermediate school district, a municipality or county, or other organizations

In order to optimize available funding, address learning and operational needs, plan for the longer term, and ensure compliance with federal rules and regulations, the Academy should do the following:

- Obtain a clear understanding of program requirements, including allowable uses and the time period in which eligible expenses must be incurred, some of which are modified once the American Rescue Plan funding (generally ESSER III) becomes available.
- Update and maintain procedures and internal controls to adhere to Uniform Guidance rules related to procurement, cash management, allowable costs, subrecipient monitoring, and reporting, as applicable.
- Incorporate MDE guidance regarding accounting for state and federal pandemic-related funding activity.
- Document all decisions made to determine allowability of pandemic-related costs.
- Refer regularly to accounting guidance, which is updated frequently and issued by the Michigan Department of Education to ensure that federal grant revenue is recorded correctly and expenditures are tracked using the proper grant codes.

#### ***Budgeting Considerations***

The pandemic will have a substantive impact on academy budgeting considerations for years to come. This includes both state and federal funding sources.

As we have seen, funding from the School Aid Fund has varied widely over the last 18 months. Fortunately, School Aid Fund projections suggest funding stability through 2024. However, that stability presumes a continually improving financial picture for the State of Michigan. If assumptions do not hold, there is a risk for continued variability in school funding. Any variability would have a direct impact on funds made available for school operations.

Federal funds have been made available in waves since March 2020. As of June 30, 2021, pandemic-related funding has been substantial, but academies have yet to access all the funds being made available. Primarily, these funds are provided as grants with program end dates laddered through 2024. The terms and conditions of the different grant funding streams are unique. This means schools must plan carefully for the use of funds to both optimize the value received and ensure compliance with the grant requirements. Also, these resources are not recurring, so academies should carefully consider their use. If funds are used for recurring activities, the Academy will need to redirect other revenue once the grant is complete to continue the activity or discontinue the program. Understanding the full value of the resources received through 2024 will have a dramatic impact on the Academy's strategic planning efforts and related budget projections.

Another key variable impacting academy budgets is enrollment. Since foundation allowance payments are computed using a per pupil allocation, the pupil count will drive the total funding provided for school operations. As schools begin to return to in-class instruction, tracking enrollment will be an important step in estimating total state aid revenue. Clearly, the hope and expectation are that students will return to the Academy. Tracking attendance and comparing it to expectations will be essential in determining whether budget adjustments may be necessary if total enrollment is not consistent with expectations.

## **Detroit Leadership Academy**

### **Informational Items (Continued)**

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Budget management in 2021-2022 and beyond includes many new challenges, many not seen previously within school finance. In summary, some key budget focus items academies should be building into the budget management process include the following:

- Understanding the specifics of pandemic-related federal aid and strategically planning for its use
- Understanding the specifics of pandemic-related state aid provided and strategically planning for its use
- Crafting a multiyear revenue forecast for recurring school operating revenue, including foundation allowance and recurring categorical aid funding
- Projecting and carefully monitoring pupil counts and adjusting budget projections for significant variations
- Assessing payroll-related costs in two categories: recurring payroll costs based on contractual agreements and variable payroll costs resourced with pandemic-related resources
- Identifying and budgeting for one-time uses of federal and state pandemic-related assistance

In summary, plan for 2021-2022 and beyond but understand there are still many moving parts. Continue to be flexible, and plan to adapt to a potentially changing financial and operational landscape.

#### **Fund Balance**

This past school year, more than ever, highlighted the importance of having adequate fund balance due to the uncertainty of the state budget and the impact on the foundation allowance. While fund balance for many academies ultimately increased during the 2020-2021 school year due to COVID-19 relief funding, that uncertainty a year ago led many academies to initially budget for a significant decline in fund balance. The Academy benefited from having sufficient fund balance because it allowed the Academy to continue to provide an adequate level of programming for the year. It also provided peace of mind by avoiding the need for sudden or drastic reactions to the adverse circumstances.

The 2021-2022 school year will face many challenges that will have a direct effect on the Academy's fund balance. The Consumer Price Index (CPI) continues to grow, which will put inflationary pressures on nearly all academies. Couple that with the budgeting pressures faced with how to spend the COVID-19 relief funds, and business offices will have a lot to consider and plan for when projecting out fund balance for the upcoming school year.

During the 2020-2021 school year, the Academy's General Fund revenue exceeded expenditures by approximately \$470,000. This resulted in increasing the General Fund fund balance to approximately \$1,261,000 at June 30, 2021. Fund balance goals are often stated in terms of a percentage of total expenditures. As a point of reference, the statewide average for academies at June 30, 2020 was approximately 15.90 percent of expenditures. Fund balance at the statewide average would approximately equal the Academy's average operating costs for an eight-week period. The Academy's fund balance percentage is 13 percent and equals approximately seven weeks of operation.

#### **Significant Changes Coming to the Auditor's Report Letter Next Year**

In May 2019, the AICPA Auditing Standards Board (ASB) issued Statement on Auditing Standards (SAS) No. 134, *Auditor Reporting and Amendments, including Amendments Addressing Disclosures in the Audit of Financial Statements*. The update, which is the first significant change to auditor's reports in years, requires changes in the form and content of the auditor's report issued as a result of an audit of financial statements in order to provide financial statement users with more meaningful information about the audit process and meaning of auditor opinions. The statement also introduces the potential for auditors to be engaged to report on key audit matters within the opinion letter. These changes will take effect for the first time in your June 30, 2022 audited financial statements.

The significant key changes that you can expect to see in the auditor's report letter next year include the following:

- Revised order for elements of the opinion letter, including moving the auditor's opinion to the top of the letter
- Expansion of information to be included within a basis of opinion section, as well as notification to the user that the auditor is required to be independent of the entity and meet other ethical responsibilities
- Explanation of how misstatements to financial statements are determined to be material

Addition of definition of reasonable assurance and identifying that the risk of material misstatement due to fraud is greater than the risk due to error

- Enhanced reporting related to going concern, including a description of management's responsibilities when required by the applicable reporting framework
- Description of the auditor's responsibilities, including responsibilities relating to professional judgment and professional skepticism, internal controls, identification of risks of material misstatement to the financial statements, evaluation of accounting policies used, conclusion on the entity's ability to continue as a going concern, and the auditor's communications with those charged with governance
- Introduction of the concept of key audit matters and clarification of the relationship between communication of key audit matters and the use of an emphasis of matter or other matter paragraph
- Alignment of reporting requirements when the audit is conducted under both generally accepted auditing standards (GAAS) and another set of auditing standards or when the auditor's opinion is other than an unmodified opinion

#### **Understanding and Managing Potential Threats to Your Data**

Education continues to be one of the top targets for ransomware attacks. Legislation called the "Enhancing K-12 Cybersecurity Act" was introduced in the House in June 2021 and would appropriate \$10 million yearly for two years to fund a program to improve cybersecurity in academies.

Working remotely during the pandemic has led to a global rise in cyberattacks. Academies shifted to remote learning quickly; in so doing, security controls may have been relaxed. In today's age of continual reports of cyberattacks, academies need to be aware of where potential risks lie and how they are addressed and communicated to employees and the public.



When it comes to cybersecurity, the human element is still the weakest link and most targeted, as passwords like August2021 can be easily guessed, and emails continue to trick people into clicking links and opening attachments. Information security is an academy-wide issue, not just an IT department responsibility, requiring a combination of people, processes, and technology to effectively secure student, employee, and financial data. Now is the time to take a step back and assess exactly where your data is and the controls surrounding it. Key questions to ask include the following:

- Are our teachers and staff appropriately aware of phishing and other cyberattacks?
- Do you know where all of the various data resides in the Academy? Are employees storing academy data with personally identifiable information (PII) or data that is subject to FERPA on file-sharing sites or flash drives? Is the data being emailed to personal accounts?
- How secure is your data with at least a portion of your students and teachers working remotely?

Having an external party do an assessment on vulnerabilities may provide additional support to the IT team for initiatives it is implementing, providing peace of mind for the board that vulnerabilities have been assessed and addressed and allowing for confident communication to the public that its student and employee data is secure. If you are interested in discussing this further, we would be happy to continue the conversation.