
Detroit Leadership Academy

**Report to the Board of Directors
June 30, 2020**

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, 2020. In addition to our audit report, we are providing the following results of the audit and informational items that impact the Academy:

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We are grateful for the opportunity to be of service to Detroit Leadership Academy. We would also like to extend our thanks to Kerri Smith, Brian McMillan, and the entire business office for their assistance and preparedness 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

September 23, 2020

Results of the Audit

September 23, 2020

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, 2020 and have issued our report thereon dated September 23, 2020. 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 August 14, 2020, 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 September 23, 2020 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 August 18, 2020.

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 the year ended June 30, 2020.

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.

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 September 23, 2020.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 23, 2020.

Management Consultations with Other Independent Accountants

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

To the Board of Directors
Detroit Leadership Academy

September 23, 2020

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 black ink that reads "Paul D. Bryant". The signature is written in a cursive style with a large initial "P" and "B".

Paul D. Bryant, CPA

Informational Items

State Aid Funding

2019-2020 State Aid, Foundation Allowance, and Proration

Background

Beginning of the 2020 School Year: School funding for 2019-2020 started out with little clarity; as the year progressed, the funding picture only increased in complexity and uncertainty. Due to conflicting priorities between the governor and the Legislature, school aid funding was not set on July 1, 2019, the start of the Academy's fiscal year. This meant the Academy was required to enact a budget with little to no guidance as to what the school aid funding picture would look like. It also meant the Academy would need to revisit budget assumptions once the final state aid package was enacted. Once the funding was settled, the focus moved to what 2020-2021 would look like. The January 2020 Revenue Estimating Conference painted a positive picture for the School Aid Fund and the General Fund looking forward, and the governor started the budget process with the administration's budget recommendations.

State Budget Crisis: The normal budget development process was halted in March 2020 as the State began dealing with the implications of COVID-19. Schools moved to remote learning, meals were served for whole communities, federal financial resources were quickly infused into the economy, and "stay home, stay safe" was the theme as the entire state worked to see a way through the challenges of COVID-19. In May 2020, the regularly scheduled Revenue Estimating Conference addressed two key questions: What was the status of state revenue for the 2020 fiscal year, and what projections can be made looking forward to 2021 and 2022? The conclusions reached at the meeting were dire. It was estimated the 2020 School Aid Fund would end the year with an approximate \$1 billion deficit, roughly translated to a \$685/pupil shortfall, that would need to be absorbed with the 2020 school year all but over. In addition, the estimates suggested there would be no improvement until 2022. These conclusions caused many districts and academies to adjust their final 2020 budgets to reflect a potential proration of as much as \$650 to \$700 per pupil.

Financial Picture Improves: In the months that followed the May Revenue Estimating Conference, and well after the 2020 school year had ended, the State concluded it could balance its school aid budget with a \$175 per pupil proration cut, significantly less than the expected \$650 - \$700 per pupil estimate. In addition, in August 2020, a special Revenue Estimating Conference was held with the same goals as the May conference. With better data, the conference concluded that it is possible the \$175 per pupil proration would not need to recur in 2021, and the School Aid Fund will end in a better position than anticipated. While those conclusions are hopeful, significant unknowns remain related to an economic rebound and how resources will be allocated to funding priorities within school aid. The data will be used to craft a school funding plan for 2021; once complete, districts and academies will once again need to revisit their 2021 budgets to reflect the budget priorities and funding levels provided by the 2021 amendments to the School Aid Act.

2020 Funding Implications for the Academy

2019-2020 Foundation: For the 2019-2020 fiscal year, the public school academy maximum foundation allowance increased by \$240, from \$7,871 to \$8,111. Additionally, using the “2X formula,” the minimum foundation allowance increased by \$240 per pupil to \$8,111. Before applying proration, the Academy received a \$240 increase in its foundation allowance, representing an increase of 3 percent. When a proration is applied, it does not change the actual foundation allowance. Instead it is essentially “taken off the top” of the funds provided to each district and academy. For practical purposes, after applying proration, which occurred subsequent to June 30, 2020, the net result was effectively an increase of \$65 per pupil funding.

COVID-19 Waivers and Flexibilities: With the onset of COVID-19, many waivers were put in place and flexibilities made available to allow for the continued operation of schools. Examples include waivers for in-person attendance and days and hours requirements, since learning was now using a remote model, and approval and use of a Continuity of Learning Plan to qualify for continued state funding.

2021 Funding Implications for the Academy

Due to the conclusions drawn from the August 2020 Revenue Estimating Conference, the funding implications for 2021 continue to unfold. Before September 30, 2020, the state budget is required to be finalized and the amendments to the School Aid Act implemented. Careful monitoring of legislative, gubernatorial, and Michigan Department of Education actions will be essential for the Academy to understand and plan for all of its potential revenue, identify requirements to receive and utilize current and future revenue, and craft methodologies to allocate costs to ensure reimbursement. In the early stages of the 2021 school year, several elements that impact school financial management are summarized below:

- **2020-2021 Foundation:** The Academy’s foundation allowance will not be known until the amendments to the School Aid Act are finalized. Based on the August 2020 Revenue Estimating Conference, it appears that a reduction in foundation allowance from the 2019-2020 level would not occur, and the \$175 per pupil proration would not continue. It would be prudent to assume any increases would be nominal, if at all.
- **Pupil Membership Blend for 2020-2021:** Typically, the pupil count methodology is defined when the School Aid Act is amended. For the 2021 fiscal year, a modified weighting process was crafted in July 2020 under the “Return to Learn” plan agreed to by the Legislature and the governor. The methodology attempts to address the variety of education delivery methods under the extended COVID-19 learning plans used by districts and academies as fall instruction begins. The process provides for seat time waivers, waives the days and hours of instruction minimums, and changes the weighting of the pupil counts. The new method is a 75 percent/25 percent “super blending.” Step one under this method requires an academy to complete its calendar year spring and fall counts for 2019 and 2020. The weighting of those counts continues to be at 90 percent fall and 10 percent spring. Then each of those counts is blended, with the 2019 calendar year count blend weighted at 75 percent and the 2020 count blend weighted at 25 percent. The net result of this is that academies experiencing a student count decline will see slower revenue reductions. Academies with a growing student count would see a slower revenue rise.
- **Extended Learning Plan:** Similar to the requirements in the spring to obtain a continuity of learning plan, each academy is required to craft and submit its plan for approval to its intermediate school district (ISD) by October 1, 2020. Approval from the ISD of its extended COVID-19 learning plan is required in order to receive state funding. This framework is designed so each district and academy has flexibility in its learning plan and design. For many districts and academies, this involves providing learning options for students and also provides a framework for the academy to modify its education delivery as circumstances change.

Looking Forward to 2022 and Beyond

Given that 2021 is not yet settled, looking past 2021 is difficult. The August 2020 Revenue Estimating Conference did provide a look into 2022. While 2021 did project a surplus to carry over to 2022, the estimates suggest 2022 would be essentially breakeven. Once again, the projections do not build in any specific foundation allowance increases. Factors that will impact projections include the following:

- The extent of economic “bounce back or backwards” that will be experienced by the State
- The impact of any future federal stimulus provided, as the projections do not include any stimulus other than what is already in place
- The ability to return to in-class instruction
- Student enrollment
- Health of the State’s General Fund
- Cost trends for the retirement system and extent state support is used from the School Aid Fund

The next Revenue Estimating Conference will occur in January 2021. Academies will need to carefully monitor those results and compare projections to the August 2020 conference results. That information will allow districts and academies to better project the extent of recovery and implications for school funding.

New Federal Funding Considerations - 2020 and 2021

Academies are experiencing a significant flow of new federal grant funding, the likes of which have not been seen since the Great Recession. These federal grants have compliance strings attached and require additional time and attention by school districts and academies to evaluate and ensure proper use.

The Families First Coronavirus Response Act and the Coronavirus Aid, Relief, and Economic Security Act appropriated billions of dollars in supplemental and new education grant programs. In addition, these acts, and numerous waivers issued by federal agencies, have provided flexibilities for states, intermediate school districts, and local education authorities responsible for administering and monitoring new and previously existing federal grant programs.

Specific guidance related to the funding awarded to the Academy under these acts has only recently been made available or, in some cases, is still forthcoming. The following is a summary of the more significant federal grants that have already been awarded to the Academy or those to which the Academy may consider applying:

- *Coronavirus Relief Fund* - The CARES Act established the Coronavirus Relief Fund (CRF) and appropriated these funds to states and large governmental municipalities. The funds are designed to help academies cover the supplemental costs related to their response to COVID-19. In July and August 2020, the State of Michigan appropriated \$530 million of the State’s federal CRF funds to local education agencies (LEAs), which has since been distributed via the state aid payment system. In addition, \$125 million of Michigan CRF funds are earmarked to provide support to eligible child care providers.

Academies are required to use the funds in accordance with federal rules and regulations, subject to further interpretation by the State of Michigan. The CARES Act outlines three broad requirements that pertain 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 coronavirus disease 2019 (COVID-19)

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, 2020

In early September 2020, the U.S. Treasury issued clarified guidance specific to school districts and academies' use of CRF funds and related documentation required to support eligible costs. This guidance broadly states that CRF payments may be used to cover costs associated with providing distanced or in-person learning and that, "as an administrative convenience, 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." This recent guidance provided significant relief to the complex documentation rules surrounding these funds.

The Academy's July and August 2020 state aid payments included a total of \$254,000 in CRF funds that must be recognized as revenue during fiscal year 2021 for eligible expenses incurred from March 1, 2020 through December 30, 2020.

- *Elementary and Secondary School Emergency Relief (ESSER) Fund* - The CARES Act also established a \$30.75 billion Education Stabilization Fund. Of the total \$389 million allocation to Michigan, the Michigan Department of Education (MDE) is required to apportion a minimum of 90 percent to LEAs based on the previous year's Title I formula. Although the State has no discretion in how this portion of the funding is to be allocated to eligible LEAs, school districts and academies are still required to complete an application and budget by September 30, 2020 to be granted the award. ESSER grant funds can be applied toward a variety of allowable uses, including, but not limited to, coordination of efforts in response to coronavirus; provision of resources necessary to address the needs of individual schools, including learning materials and professional development; and other activities that are necessary to maintain the operation of and continuity of services in the school district or academy and continue to employ existing staff.

A portion (9.5 percent) of the State ESSER Fund allocation is to be awarded competitively to school districts or academies demonstrating the most need for remote learning connectivity and student mental health resources. Awards to individual school districts or academies out of this reserve, known as ESSER Equity, are limited to 20 percent of the formula allocations. Applications are also due by September 30, 2020, and expenditures must have been incurred during the period from March 13, 2020 through September 30, 2021 to be eligible for reimbursement.

The Academy's formula ESSER allocation is \$418,000.

- *Governor's Education Emergency Relief (GEER) Fund* - GEER funds will be awarded to school districts and academies that are determined to be most significantly impacted by COVID-19. A total of \$60 million will be distributed to school districts or academies based on the number of students in high-need student groups, including those that are economically disadvantaged, special education students, and English language learners. To be eligible for funding, the concentration of economically disadvantaged pupils compared to total enrollment must exceed 50 percent for the Academy. Applications for GEER funds are expected to be available on or around September 14, 2020, and academies will have until the end of 2020 to apply. GEER funds must be 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; and other health, safety, and wellness needs identified, required, or recommended in the MI Safe Schools Return to School Roadmap.

In addition to the CARES Act funding described above, the Academy also may have 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

- Federal assistance from the intermediate school district

In order to maximize available funding 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 time period in which eligible expenses must be incurred.
- Verify that procedures and internal controls are adequately in place to adhere to Uniform Guidance rules related to procurement, cash management, allowable costs, and subrecipient monitoring, as applicable.
- Ensure that policies and procedures have been created or amended in accordance with requirements set forth in OMB Memorandums M-20-17 (rescinded by and replaced with M-20-26 on June 18, 2020) and M-20-26 (expires September 30, 2020), which provide agencies the ability to extend administrative relief to federal grant recipients.
- Document all decisions made to determine eligibility of emergency-funded costs.
- Refer regularly to accounting guidance 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.

The COVID-19 pandemic has created a continuously changing environment for recipients of federal funding, including the Academy. As future legislation is developed, guidance is updated, and additional challenges and opportunities are uncovered, we are committed to assisting you in navigating the complexities.

Significant Changes in the Future to the Financial Reporting Model for Schools

Under the current Governmental Accounting Standards Board (GASB) standards, school districts and academies have been reporting using the current framework for approximately two decades. While the current financial statement presentation has worked, the GASB is looking to improve its effectiveness for all governments.

This project kicked off in August 2013. Recently, exposure drafts were issued in June 2020 titled “Financial Reporting Model Improvements” and “Recognition of Elements of Financial Statements.” The GASB’s goal is to have final standards issued by June 2022.

Once adopted by the GASB, these new standards will have a significant impact on the accounting and financial reporting for school districts and academies. Currently, school districts and academies account for activity in the funds using the modified accrual basis of accounting. The exposure drafts argue that, under the current model, there is no sufficient framework that ensures that governmental entities are consistently reporting similar types of transactions in their financial statements. They also argue that the time period looked at for certain transactions in fund accounting is too short and that the current method has too many piecemeal guidance points rather than a conceptual framework against which transactions can be applied in order to determine the correct accounting. Some of the proposed changes in the exposure drafts (which are significantly different compared to the current model) include the following:

- Requiring additional information in the management’s discussion and analysis (MD&A)
- In the budget-to-actual statements, requiring a column that would show the variances between the original and amended budget
- In the fund-based statements:
 - Significant terminology changes - “Revenue” will be referred to as “inflows of resources” and “expenditures” as “outflows of resources.” In addition, many of the statements will be renamed, and some of the fund-type definitions will be changed.

- “Modified accrual” accounting would change to “short-term financial resources measurement focus.” Generally, transactions would be accounted for in the governmental funds if they are expected to be converted to cash or paid in cash within 12 months of the school district’s or academy’s year end. A typical example would be revenue recognition. Under today’s rules, if a receivable is not collected within 60 days of the Academy’s year end, then the related revenue, generally, must be deferred until the following year. Under the proposed changes, the revenue can be recognized in the current period as long as it will be collected within one year of the current period end. In this example, revenue in the funds may be recognized sooner in the proposed new model as compared to the current model. This change will impact the timing of when revenue and expenditures are recorded in the governmental funds; in addition, the actual financial statements themselves will actually look quite different from a presentation perspective. This is a significant change.

The exposure draft allows for a phased adoption. Districts or academies with total annual revenue (across all funds) over \$75 million will adopt in the year ending June 30, 2025. Those under \$75 million will adopt in the year ending June 30, 2026. We will continue to monitor progression very closely. When the new standards ultimately get issued, we will work with your business office to ensure smooth and efficient adoption.

GASB Statement No. 87 - Leases

This statement was originally effective for the Academy’s June 30, 2021 financial statements; however, it was postponed 18 months with the issuance of GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, in response to the COVID-19 pandemic. With the deferral, GASB Statement No. 87 is now 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-of-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. 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 contracts and contracts that may have embedded lease arrangements that were not previously considered.

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-of-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.

Planning for the Future with Enrollment Projections

Because academies rely heavily on student enrollment to determine funding, define future academic offerings, and make facility decisions, we recommend the Academy conduct a pupil enrollment projection annually. Detailed projections allow your school board to adequately plan for expansion, contraction, renovation, construction, and academic opportunities, maneuvering the board into the best position to fulfill your mission.

To the extent it would be helpful, we would be happy to introduce Plante & Moran, PLLC's real estate consulting team, Plante Moran Cresa (one of four authorized enrollment projection service providers in the state of Michigan). The team has developed a projection model that has proven to be more than 99 percent accurate in helping districts and academies predict enrollment for years into the future.

Detroit Leadership Academy

**Financial Report
with Supplemental Information
June 30, 2020**

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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, 2020 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, 2020 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2020 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Detroit Leadership Academy's internal control over financial reporting and compliance.

Plante & Moran, PLLC

September 23, 2020

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, 2020. 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, as well as 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

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, 2020 and 2019:

	Governmental Activities	
	2020	2019
	(in thousands)	
Assets		
Current and other assets	\$ 2,183.3	\$ 3,324.8
Capital assets	89.4	80.8
Total assets	2,272.7	3,405.6
Liabilities - Current liabilities	1,324.9	2,568.9
Net Position		
Net investment in capital assets	89.4	80.8
Restricted - Food service	71.7	65.6
Unrestricted	786.7	690.3
Total net position	\$ 947.8	\$ 836.7

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 \$947.8 thousand at June 30, 2020. 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 \$786.7 thousand was unrestricted.

The \$786.7 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, 2020 and 2019:

	Governmental Activities	
	2020	2019
	(in thousands)	
Revenue		
Program revenue:		
Charges for services	\$ 22.6	\$ 27.7
Operating grants	2,876.2	2,765.8
General revenue - State foundation allowance	5,504.0	5,980.9
	<hr/>	<hr/>
Total revenue	8,402.8	8,774.4
Expenses		
Instruction	3,204.4	2,720.8
Support services	4,568.6	4,951.6
Athletics	39.8	41.5
Food services	401.7	601.1
Community services	18.0	9.9
Depreciation (unallocated)	59.2	50.3
	<hr/>	<hr/>
Total expenses	8,291.7	8,375.2
Change in Net Position	111.1	399.2
Net Position - Beginning of year	836.7	437.5
	<hr/>	<hr/>
Net Position - End of year	\$ 947.8	\$ 836.7

As reported in the statement of activities, the cost of all of our governmental activities this year was \$8.3 million. Certain activities were partially funded by other governments and organizations that subsidized certain programs with grants and contributions of approximately \$2.9 million. We paid for the remaining public benefit portion of our governmental activities with approximately \$5.5 million in state foundation allowance and our other revenue of approximately \$23,000.

The Academy experienced an increase in net position of \$111.1 thousand. Key reasons for the change in net position were an increased investment in talent, offset by decreased operating expenses associated with the COVID-19 pandemic shutdown.

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 \$858.3 thousand, which is an increase of approximately \$102.4 thousand from last year. The primary reasons for the increase are as follows:

In the General Fund, our principal operating fund, the fund balance increased by approximately \$96.4 thousand to \$786.7 thousand. The change is mainly due to decreased operating costs during the COVID-19 pandemic and the recognition of Coronavirus Aid, Relief, and Economic Security Act (CARES Act) federal funding in the current fiscal year. The General Fund balance is available to fund costs related to allowable school operating purposes.

Detroit Leadership Academy

Management's Discussion and Analysis (Continued)

In the special revenue fund, the School Lunch Fund, the fund balance increased to approximately \$71.7 thousand.

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 2020. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

There were significant revisions made to the 2019-2020 General Fund original budget revenue and expenditures based on an unanticipated decrease in foundation allowance payments by \$175 per pupil due to the COVID-19 pandemic.

There were significant variances between the final budget and actual amounts for state revenue based on the ultimate COVID-19 revenue cuts that occurred after the final budget submission deadline and for various support services expenditures particularly related to technology support for students during the pandemic. Refer to Note 3 for additional information.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2020, the Academy had \$89.4 thousand invested in capital assets, primarily related to equipment and leasehold improvements.

Debt

At the end of this year, the Academy had \$650.0 thousand in outstanding state aid anticipation notes.

Economic Factors and Next Year's Budgets and Rates

The Academy's board and administration consider many factors when setting the Academy's 2020-2021 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 2021 budget was adopted in June 2020, based on an estimate of students that will be enrolled in October 2020. Approximately 69 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 2021 school year, we anticipate that the fall student count will be slightly higher than the estimates used in creating the 2021 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.

Since the Academy's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenue to fund its appropriation to academies. The State periodically holds a Revenue Estimating Conference to estimate revenue. Based on the results of the most recent conference, it is uncertain whether state funds are sufficient to fund the appropriation. The ultimate impact of the COVID-19 pandemic on 2020-2021 funding is currently unknown. The Academy has budgeted based on information available but will monitor the budget and revise accordingly when information becomes available. Management's budget may materially change as events unfold. Budgeted expenditures are constantly being reviewed in preparation for additional cuts in the foundation allowance.

Contacting the Academy

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

June 30, 2020

	<u>Governmental Activities</u>
Assets	
Cash (Note 4)	\$ 801,193
Receivables - Due from other governmental units	1,353,068
Prepaid expenses and other assets	29,017
Capital assets - Net (Note 5)	<u>89,412</u>
Total assets	2,272,690
Liabilities	
Accounts payable	674,940
State aid anticipation note (Note 6)	<u>650,000</u>
Total liabilities	<u>1,324,940</u>
Net Position	
Net investment in capital assets	89,412
Restricted - Food service	71,670
Unrestricted	<u>786,668</u>
Total net position	<u><u>\$ 947,750</u></u>

Detroit Leadership Academy

Statement of Activities

Year Ended June 30, 2020

Functions/Programs	Program Revenue			Governmental
	Expenses	Charges for Services	Operating Grants and Contributions	Activities Net (Expense) Revenue and Changes in Net Position
Primary government - Governmental activities:				
Instruction	\$ 3,204,371	\$ -	\$ 1,019,767	\$ (2,184,604)
Support services	4,568,574	-	1,447,498	(3,121,076)
Athletics	39,820	22,643	-	(17,177)
Food services	401,731	-	407,753	6,022
Community services	17,989	-	1,200	(16,789)
Depreciation expense (unallocated) (Note 5)	59,270	-	-	(59,270)
Total primary government	\$ 8,291,755	\$ 22,643	\$ 2,876,218	(5,392,894)
General revenue - State aid not restricted to specific purposes				5,503,902
Change in Net Position				111,008
Net Position - Beginning of year				836,742
Net Position - End of year				\$ 947,750

Detroit Leadership Academy

Governmental Funds Balance Sheet

June 30, 2020

	General Fund	Nonmajor Governmental Special Revenue Fund - School Lunch Fund	Total Governmental Funds
Assets			
Cash (Note 4)	\$ 801,193	\$ -	\$ 801,193
Receivables - Due from other governmental units	1,353,068	-	1,353,068
Due from other funds (Note 7)	-	71,670	71,670
Prepaid expenses and other assets	29,017	-	29,017
Total assets	<u>\$ 2,183,278</u>	<u>\$ 71,670</u>	<u>\$ 2,254,948</u>
Liabilities			
Accounts payable	\$ 674,940	\$ -	\$ 674,940
Due to other funds (Note 7)	71,670	-	71,670
State aid anticipation note (Note 6)	650,000	-	650,000
Total liabilities	1,396,610	-	1,396,610
Fund Balances			
Nonspendable - Prepaid expenses	29,017	-	29,017
Restricted - Food service	-	71,670	71,670
Assigned - Subsequent year's budget	619,820	-	619,820
Unassigned	137,831	-	137,831
Total fund balances	786,668	71,670	858,338
Total liabilities and fund balances	<u>\$ 2,183,278</u>	<u>\$ 71,670</u>	<u>\$ 2,254,948</u>

Detroit Leadership Academy

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

June 30, 2020

Fund Balances Reported in Governmental Funds	\$ 858,338
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	937,419
Accumulated depreciation	<u>(848,007)</u>
Net capital assets used in governmental activities	<u>89,412</u>
Net Position of Governmental Activities	<u><u>\$ 947,750</u></u>

Detroit Leadership Academy

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

Year Ended June 30, 2020

	General Fund	Nonmajor Governmental Special Revenue Fund - School Lunch Fund	Total Governmental Funds
Revenue			
Local sources	\$ 70,572	\$ -	\$ 70,572
State sources	6,862,404	17,094	6,879,498
Federal sources	1,062,034	390,659	1,452,693
Total revenue	7,995,010	407,753	8,402,763
Expenditures			
Current:			
Instruction	3,204,371	-	3,204,371
Support services	4,636,463	-	4,636,463
Athletics	39,820	-	39,820
Food services	-	401,731	401,731
Community services	17,989	-	17,989
Total expenditures	7,898,643	401,731	8,300,374
Net Change in Fund Balances	96,367	6,022	102,389
Fund Balances - Beginning of year	690,301	65,648	755,949
Fund Balances - End of year	\$ 786,668	\$ 71,670	\$ 858,338

Detroit Leadership Academy

Governmental Funds

**Reconciliation of the Statement of Revenue, Expenditures, and Changes in
Fund Balances to the Statement of Activities**

Year Ended June 30, 2020

Net Change in Fund Balances Reported in Governmental Funds	\$	102,389
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		67,889
Depreciation expense		<u>(59,270)</u>
Change in Net Position of Governmental Activities	\$	<u>111,008</u>

June 30, 2020

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, 2020 totaled approximately \$169,000.

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.

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. 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:

Special Revenue 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.

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.

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.

Note 2 - Significant Accounting Policies (Continued)

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 only exist 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.

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.

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. The Academy decreased budgeted amounts during the year in response to refined enrollment, related spending projections, and onset of the COVID-19 pandemic.

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, which were in excess of the amounts budgeted, as follows:

	Budget	Actual
Support services - Pupil	\$ 420,873	\$ 542,573
Support services - Instructional staff	498,494	632,596
Support services - Business	80,006	86,480
Support services - Operations and maintenance	1,260,104	1,270,457
Support services - Central	125,098	154,384
Athletics	35,864	39,820
Community services	16,789	17,989

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 not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Academy's deposits are in accordance with statutory authority. As of June 30, 2020, 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 \$551,288 of bank deposits 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, 2019	Additions	Disposals and Adjustments	Balance June 30, 2020
Capital assets being depreciated:				
Furniture and fixtures	\$ 278,189	\$ 7,200	\$ -	\$ 285,389
Buses	10,400	-	-	10,400
Leasehold improvements	186,618	3,687	-	190,305
Computer equipment	394,323	57,002	-	451,325
Subtotal	869,530	67,889	-	937,419
Accumulated depreciation:				
Furniture and fixtures	278,189	1,029	-	279,218
Buses	10,400	-	-	10,400
Leasehold improvements	157,310	21,396	-	178,706
Computer equipment	342,838	36,845	-	379,683
Subtotal	788,737	59,270	-	848,007
Net governmental activities capital assets	<u>\$ 80,793</u>	<u>\$ 8,619</u>	<u>\$ -</u>	<u>\$ 89,412</u>

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 \$1,900,000 of these state aid anticipation notes (the "notes") and issued new notes of \$650,000, resulting in an outstanding balance of \$650,000 at June 30, 2020. The current note bears interest at 3.5 percent. The note is due in monthly principal and interest payments of \$60,096 beginning on July 22, 2020 through June 22, 2021. The September 22, 2020 payment is interest only in the amount of \$1,606, and the final payment on June 22, 2021 is in the amount of \$60,104.

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 fulfil the required repayments, the Lender has the sole discretion to accelerate the principal and interest repayments.

Note 7 - Interfund Receivables, Payables, and Transfers

Interfund balances include \$71,670 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 8 - 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, 2020, 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 an operating lease agreement for its facility, which serves as the middle school and high school for grades 6 through 12. The lease originally expired on June 30, 2018. Rent expense in connection with its building lease was \$275,297 for the year ended June 30, 2020, due in equal monthly installments of approximately \$23,000. The lease was extended during the year and expires on June 30, 2023.

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, 2020, due in equal monthly installments ranging from \$8,530 to \$11,626. The leases began on September 1, 2018 and expire in August 2022.

Future minimum lease payments for these leases are as follows:

<u>Years Ending</u>	<u>Amount</u>
2021	\$ 781,169
2022	695,869
2023	<u>562,549</u>
Total	<u>\$ 2,039,587</u>

Note 9 - 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 10 - 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, 2020, \$161,985 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 \$701,000 for the year ended June 30, 2020.

June 30, 2020

Note 11 - Upcoming Accounting Pronouncement

In June 2017, the Governmental Accounting Standards Board 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 ending 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 12 - Subsequent Events

Following the passing of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was signed into law on March 27, 2020 to combat the COVID-19 pandemic, the U.S. Department of Treasury distributed Coronavirus Relief Fund (CRF) payments to the State of Michigan. During July and August 2020, the Academy received \$254,370 of these restricted CRF funds from the Michigan Department of Education. The CRF funds can only be used for eligible costs and are subject to certain Uniform Guidance and grant-specific reporting requirements.

Required Supplemental Information

Detroit Leadership Academy

Required Supplemental Information Budgetary Comparison Schedule General Fund

Year Ended June 30, 2020

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 11,826	\$ 30,279	\$ 70,572	\$ 40,293
State sources	7,396,843	6,738,803	6,862,404	123,601
Federal sources	1,186,926	1,083,494	1,062,034	(21,460)
Total revenue	8,595,595	7,852,576	7,995,010	142,434
Expenditures				
Current:				
Instruction:				
Basic programs	2,545,794	2,476,473	2,453,925	(22,548)
Added needs	829,272	820,026	750,446	(69,580)
Total instruction	3,375,066	3,296,499	3,204,371	(92,128)
Support services:				
Pupil	359,712	420,873	542,573	121,700
Instructional staff	695,310	498,494	632,596	134,102
General administration	1,063,646	963,014	960,387	(2,627)
School administration	938,394	754,766	731,812	(22,954)
Business	72,091	80,006	86,480	6,474
Operations and maintenance	1,295,410	1,260,104	1,270,457	10,353
Pupil transportation services	310,000	262,527	257,774	(4,753)
Central	86,759	125,098	154,384	29,286
Total support services	4,821,322	4,364,882	4,636,463	271,581
Athletics	39,000	35,864	39,820	3,956
Community services	72,704	16,789	17,989	1,200
Total expenditures	8,308,092	7,714,034	7,898,643	184,609
Net Change in Fund Balance	287,503	138,542	96,367	(42,175)
Fund Balance - Beginning of year	690,301	690,301	690,301	-
Fund Balance - End of year	\$ 977,804	\$ 828,843	\$ 786,668	\$ (42,175)

Detroit Leadership Academy

Federal Awards Supplemental Information
June 30, 2020

Independent Auditor's Reports

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	1
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	2-3
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	4-5
Schedule of Expenditures of Federal Awards	6
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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, 2020 and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements. We issued our report thereon dated September 23, 2020, 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 September 23, 2020.

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

September 23, 2020

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, 2020 and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated September 23, 2020.

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.

Plante & Moran, PLLC

September 23, 2020

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, 2020. 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, 2020.

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.

Plante & Moran, PLLC

September 23, 2020

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, 2019	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Federal Expenditures	Accrued Revenue at June 30, 2020	Current Year Cash Transferred to Subrecipients
Clusters:										
Child Nutrition Cluster - U.S. Department of Agriculture - Passed through the Michigan Department of Education:										
Noncash assistance (Commodities) - Entitlement commodities - 2019-20										
	N/A	10.555	\$ 20,652	\$ -	\$ -	\$ -	\$ 20,652	\$ 20,652	\$ -	\$ -
Cash assistance:										
National School Lunch Program 2018-19	191960	10.555	338,433	296,913	20,520	-	62,040	41,520	-	-
National School Lunch Program 2019-20	201960	10.555	179,172	-	-	-	179,172	179,172	-	-
National School Lunch Program subtotal incl. commodities		10.555	538,257	296,913	20,520	-	261,864	241,344	-	-
National School Breakfast Program 2018-19	191970	10.553	184,764	161,825	11,879	-	34,818	22,939	-	-
National School Breakfast Program 2019-20	201970	10.553	92,975	-	-	-	92,975	92,975	-	-
National School Breakfast Program subtotal		10.553	277,739	161,825	11,879	-	127,793	115,914	-	-
National Afterschool Snack Program 2018-19	191980	10.555	49,068	41,355	2,996	-	10,709	7,713	-	-
National Afterschool Snack Program 2019-20	201980	10.555	18,322	-	-	-	18,322	18,322	-	-
National Afterschool Snack Program subtotal		10.555	67,390	41,355	2,996	-	29,031	26,035	-	-
Total Child Nutrition Cluster			883,386	500,093	35,395	-	418,688	383,293	-	-
Special Education Cluster - U.S. Department of Education - Passed through Wayne RESA Intermediate School District - IDEA, Part B:										
IDEA, Part B 1819	190450	84.027	151,637	151,637	35,329	-	35,329	-	-	-
IDEA, Part B 1920	200450	84.027	167,352	-	-	-	162,304	167,352	5,048	-
Total IDEA, Part B		84.027	318,989	151,637	35,329	-	197,633	167,352	5,048	-
Total clusters			1,202,375	651,730	70,724	-	616,321	550,645	5,048	-
Other federal awards - U.S. Department of Education: Passed through the Michigan Department of Education:										
Title I, Part A -										
Title I, Part A 1920	201530	84.010	511,839	-	-	-	511,821	511,839	18	-
Title II, Part A - Improving Teacher Quality -										
Title II, Part A 1920	200520	84.367	60,134	-	-	-	60,044	60,134	90	-
Title IV, Part A - Student Support & Academic Enrichment -										
Title IV, Part A 1920	200750	84.424	36,250	-	-	-	36,250	36,250	-	-
ESSER: Education Stabilization Fund 1920	203710	84.425	418,891	-	-	-	-	285,000	285,000	-
Passed through Wayne RESA Intermediate School District -										
Title III - Limited English Proficient Students 1819	N/A	84.365	1,459	-	-	-	1,459	1,459	-	-
Other federal awards - U.S. Department of Agriculture - Passed through the Michigan Department of Education - Fresh Fruit and Vegetable Program 1920										
	200950	10.582	7,366	-	-	-	7,366	7,366	-	-
Total noncluster programs			1,035,939	-	-	-	616,940	902,048	285,108	-
Total federal awards			\$ 2,238,314	\$ 651,730	\$ 70,724	\$ -	\$ 1,233,261	\$ 1,452,693	\$ 290,156	\$ -

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2020

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, 2020. 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 modified accrual basis of accounting. Such expenditures 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. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

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.

Schedule of Findings and Questioned Costs

Schedule of Findings and Questioned Costs

Year Ended June 30, 2020

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
84.010	Title I, Part A

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

Auditee qualified as low-risk auditee? Yes No

Section II - Financial Statement Audit Findings

Reference Number	Finding
Current Year	None

Section III - Federal Program Audit Findings

Reference Number	Finding	Questioned Costs
Current Year	None	



DETROIT LEADERSHIP
A C A D E M Y

Pre- K – 8th Grade
13550 Virgil Street
Detroit, Michigan 48223
(o) 313.242.1500

High School
5845 Auburn Street
Detroit, Michigan 48228
(o) 313.769.2015

September 23, 2020

Plante & Moran, PLLC
2601 Cambridge Court Suite 500
Auburn hills, MI 48326

Auditors:

We are providing this letter in connection with your audit of the basic financial statements of Detroit Leadership Academy (the "Academy") as of June 30, 2020 and for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, and changes in financial position of Detroit Leadership Academy in accordance with accounting principles generally accepted in the United States (U.S. GAAP). We accept responsibility for the preparation and fair presentation of the financial position, and changes in financial position, in accordance with accounting principles generally accepted in the United States. We also confirm that we are responsible for the presentation of any required supplemental (RSI) to which you have provided an opinion in relation to the financial statements as a whole. We believe that this information, including its form and content, is fairly presented in accordance with the applicable criteria.

We acknowledge our responsibility for the completeness of the financial statements, and 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 and for the design, implementation, and maintenance of internal control to prevent and detect fraud. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud. We also acknowledge our responsibility for providing you with all relevant information and access.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

For purposes of disclosure in this letter, individual matters related to financial amounts and disclosures should be considered material if in excess of \$40,000. However, materiality limits do not apply to representations that are not directly related to amounts included in the financial statements or to any item regarding fraud by management or employees who have significant roles in internal control.

We confirm, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves, as of the date of this letter, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated August 14, 2020, for the preparation and fair presentation of the basic financial statements in accordance with U.S. GAAP.
2. We are unaware of any violations of U.S. GAAP in the Academy's accounting principles and the practices and methods followed in applying them.

- a. The Academy does not have any component units.
 - b. No joint ventures or related organizations exist that require recording or disclosure, outside of the relationship with Equity for management services.
 - c. The accounts of the Academy are maintained in accordance with accounting policies prescribed by the State of Michigan, Department of Education "Financial Accounting for Michigan School Districts" (Bulletin 1022 revised).
 - d. All funds and activities have been properly classified in accordance with GASB Statement No. 34, 54, and related Statements.
 - e. All funds that meet the quantitative criteria in GASB Statement No. 34 for presentation as major are identified and presented as such. Any other funds that are presented as major are particularly important to financial statement users.
 - f. Capital assets are properly capitalized, reported and depreciated. The Academy does not have material infrastructure assets.
 - g. Net position components (net investment in capital assets; restricted; and unrestricted) and fund balance components (nonspendable, restricted, committed, assigned and unassigned) are properly categorized and approved in accordance with GASB Statement No. 54.
 - h. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
 - i. Revenues are appropriately classified in the statement of activities as either program revenues or general revenues.
 - j. Interfund, internal and intra-entity activity and balances are appropriately classified and reported.
 - k. Special and extraordinary items are appropriately classified and reported.
 - l. Deposits and investment securities are properly classified in the Deposit and Investment footnote in accordance with GASB Statement No. 40 and GASB Statement No. 72.
3. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
 4. There have been no changes during the year in the Academy's accounting principles and practices or in the methods of applying them.
 5. We are not aware of any litigation, claims, unasserted claims or assessments that should be accrued or disclosed in the financial statements. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with GASB 62, paragraphs 100-110, "*Contingencies*".
 6. The Academy has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities or fund balance/net position.
 7. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.
 8. There are no:
 - a. Related party transactions and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing agreements, guarantees and pledges of the Academy's assets as collateral, including the provision of products or services without charge except for those disclosed in the financial statements.
 - b. Guarantees or pledges, whether written or oral, under which the Academy is contingently liable.
 - c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances.
 - d. Lines-of-credit or similar arrangements.

- e. Agreements to repurchase assets previously sold.
 - f. Violations or possible violations of laws or regulations whose effect should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - g. Circumstances that we are aware of that make it reasonably possible that the Academy would be named a responsible party in the remediation of environmental contamination.
 - h. Other material liabilities or loss contingencies for which the risk that the Academy will suffer a loss in excess of \$40,000 is more than remote.
9. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
 10. Adequate provision has been made to cover possible losses that may result from:
 - a. The collection of receivables.
 - b. Significant purchase or sales commitments.
 - c. Impairments of long-lived assets.
 11. The Academy has satisfactory title to all owned assets and there are no liens or encumbrances on such assets nor has any asset been pledged.
 12. All significant contracts and contracts not in the normal course of business entered into by the Academy have been presented to you for your evaluation.
 13. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
 14. The adoption, approval and amendments of budgets have been done in accordance with state law. The Board of Education has adopted budgets for the following funds: General Fund and School Lunch Fund.
 15. All significant estimates and material concentrations, as hereinafter defined, known to us have been disclosed to you. Significant estimates are those estimates used in the development of accounting information that could change materially within the next year. Material concentrations refer to concentrations in the volume of business, revenue sources, or the sources of supply that make us vulnerable to events that could occur within the next year that would have a significant disruptive effect on the Academy.
 16. There are no interim financial statements available as of a date subsequent to the date of the statements you are auditing.
 17. If we publish our financial statements in any manner that includes your auditor's report or any other reference to Plante Moran, it is understood that we will allow you to review such publication prior to production.

Information Provided

1. We have provided you with:
 - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters;
 - b. Additional information that you have requested from us for the purpose of the audit;
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence;
 - d. Minutes of meetings of the legislative body held to the date of this letter, or summaries of actions of recent meetings for which minutes have not yet been prepared.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

3. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a. Management;
 - b. Employees who have significant roles in internal control; or
 - c. Others when the fraud could have a material effect on the financial statements.
4. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the Academy's financial statements communicated by employees, former employees, analysts, regulators or others.
5. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
6. Required supplementary information (RSI) has been measured and presented within prescribed guidelines. Methods of measurement or presentation of the RSI and SI have not changed from those used in the prior period.
7. We have disclosed to you all significant assumptions or interpretations underlying the measurement or presentation of the RSI and SI.
8. All borrowings are in accordance with the State of Michigan requirements.
9. The ISD audited pupil counts for the Academy for the February and September 2019 counts are 741.36 and 697.70 respectively and have been reported to the State of Michigan Department of Education (MDE) as required. These counts are accurate and determined in accordance with applicable laws, regulations, and MDE policy.
10. The Academy has transferred certain risks to third-party insurance carriers and shared-risk insurance pools and the financial statements reflect assessments or other liabilities, if any, related to these transactions. The Academy also retains the risk for certain insurance liabilities and any liabilities related to such risks are properly reflected in the financial statements.
11. Management has received assistance from you, the auditors in the drafting of the financial statements and related notes. We acknowledge that we have assumed responsibility for the preparation of these statements and have evaluated the adequacy and results of these services performed and have accepted responsibility for the results of these services.
12. Management has identified and disclosed to the auditor the requirements of laws, regulations and the provisions of contracts and grant agreements that are considered to have a direct and material effect on the determination of financial statement amounts. Management has made available all documentation related to the compliance requirements. Management's interpretations of any compliance requirements that have varying interpretations have been provided.
13. Management identified and disclosed to the auditor violations (or possible violations) of laws, regulations, and provisions of contracts and grant agreements or questioned costs whose effects should be considered for disclosure in the financial statements, as a basis for recording a loss contingency or for the auditor reporting on noncompliance.
14. Management has a process to track the status of audit findings and recommendations.
15. Management has provided views on the auditors' reported findings, conclusions, and recommendations, as well as management's planned corrective actions, for the report.
16. Related to your audit of our federal awards:
 - a. Management is responsible for complying, and has complied, with the requirements of the Uniform Guidance.
 - b. In regards to the schedule of expenditures of federal awards (SEFA):
 - 1) Management is responsible for and has accurately prepared the schedule in accordance with the Uniform Guidance which includes expenditures made during the period being audited for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative

- agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.
- 2) The methods of measurement or presentation have not changed from those used in the prior period.
 - 3) There were no significant assumptions or interpretations underlying the measurement or presentation of the SEFA.
 - 4) Management will make the audited financial statement readily available to all intended users of the schedule no later than the issuance date by the entity of the schedule of expenditures of federal awards and the auditor's report thereon.
- c. Management is responsible for, and has accurately prepared:
- 1) The summary schedule of prior audit findings, which includes all findings, required to be included by the Uniform Guidance, if applicable.
 - 2) The appropriate sections of the data collection form.
- d. Management is responsible for complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of its federal programs.
- e. Management is responsible for the design, implementation, and maintenance of internal control relevant to financial reporting and compliance for federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements.
- f. Management has identified and disclosed to the auditor the requirements of laws, regulations and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each federal program and on financial statement amounts. Management has made available all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements. Management's interpretations of any compliance requirements that have varying interpretations have been provided.
- g. Management has provided:
- 1) Access to all information, of which management is aware that is relevant to the preparation and fair presentation of the financial statements such as all contracts and grant agreements (including amendments, if any) and any other correspondence relevant to the programs and related activities subject to audit;
 - 2) Additional information that the auditor has requested from management for the purpose of the audit;
 - 3) Unrestricted access to persons within the entity from whom the auditor determined it necessary to obtain audit evidence.
- h. Management has disclosed to the auditor any communications from grantors and pass-through entities concerning possible noncompliance with the applicable compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- i. Management has disclosed to the auditor the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken, including all management decision, both throughout the audit period as well as from the end of the period covered by the compliance audit to the date of the auditor's report.
- j. Management has complied with the applicable compliance requirements in connection with federal awards, except as disclosed to the auditor. In addition, management has disclosed all known

instances of noncompliance or suspected noncompliance, if any, occurring subsequent to the period for which compliance is audited.

- k. Management identified and disclosed to the auditor violations (or possible violations) of laws, regulations, and provisions of contracts and grant agreements or questioned costs whose effects should be considered for disclosure in the financial statements, as a basis for recording a loss contingency or for the auditor reporting on noncompliance.
- l. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared, and are prepared on a basis consistent with that presented in the schedule of expenditures of federal awards. The copies of federal program financial reports provided to the auditor are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
- m. Management has accepted responsibility for the preparation of the SEFA, the adequacy and completeness of the SEFA, and has designated an individual with appropriate skills, knowledge or experience to review the final SEFA.
- n. Management acknowledges its responsibility for taking corrective action on audit findings of the compliance audit. Management has taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that the auditor reports.
- o. Management has a process to track the status of audit findings and recommendations.
- p. Management has provided views on the auditors' reported findings, conclusions, and recommendations, as well as management's corrective action plan, for the report.
- q. Related to awards provided to its subrecipients, if any, management has
 - 1) Monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and has met the requirements of the Uniform Guidance.
 - 2) If applicable, issued management decisions on a timely basis after their receipt of subrecipients' auditor's reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements, and has ensured that subrecipients have taken the appropriate and timely corrective action on findings.
 - 3) Considered the results of subrecipient audits and has made any necessary adjustments to their own books and records.
- r. If applicable, management has disclosed all contracts or other agreements with the service organizations and all communications from the service organization relating to noncompliance at the service organization.
- s. Management has disclosed whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies (including material weaknesses), have occurred subsequent to the date as of which compliance is audited.
- t. We have informed you of all Coronavirus Aid, Relief, and Economic Security Act (CARES Act) funds received and expended.

LaKeisha M. Florence

LaKeisha Florence, Board Treasurer

Kerri Smith

Kerri Smith (Sep 24, 2020 12:15 EDT)

Kerri Smith, Equity Education