

The Dearborn Academy

**Financial Report
with Supplemental Information
June 30, 2017**

The Dearborn Academy

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Independent Auditor's Report

To the Board of Directors
The Dearborn 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 Academy (the "Academy") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Academy as of June 30, 2017 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
The Dearborn Academy

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the major fund budgetary comparison schedule, the schedule of the Academy's contributions to the Michigan Public School Employees' Retirement System, and the schedule of the Academy's proportionate share of the net pension liability of the Michigan Public School Employees' Retirement System, as identified on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 October 25, 2017 on our consideration of 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 Academy's internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 25, 2017

The Dearborn Academy

Management's Discussion and Analysis

This section of The Dearborn Academy's (the "Academy") annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2017. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Using this Annual Report

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

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

Basic Financial Statements

Government-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for the General Fund

Schedule of The Dearborn Academy's Proportionate Share of the Net Pension Liability
Michigan Public School Employees' Retirement System Determined as of the Plan Year
Ended September 30

Schedule of The Dearborn Academy's Contributions to the Michigan Public School
Employees' Retirement System Determined as of the Year Ended June 30

The Dearborn Academy

Management's Discussion and Analysis (Continued)

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

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets, 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 and deferred outflows and liabilities and deferred inflows, 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.

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 maintains another fund to help it control and manage money for particular purposes (the Food Service Fund). The governmental funds of the Academy use the following accounting approach:

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

The Dearborn Academy

Management's Discussion and Analysis (Continued)

The Academy as a Whole

Recall that the statement of net position provides the perspective of the Academy as a whole. Table I provides a summary of the Academy's net position as of June 30, 2017 and 2016:

Table I	Governmental Activities	
	June 30	
	2017	2016
	(in thousands)	
Assets		
Current and other assets	\$ 2,140.9	\$ 2,177.0
Capital assets	281.3	306.4
Total assets	2,422.2	2,483.4
Deferred Outflows of Resources	31.1	23.9
Total assets and deferred outflows of resources	2,453.3	2,507.3
Liabilities		
Current liabilities	950.4	780.7
Long-term liabilities	185.3	224.4
Total liabilities	1,135.7	1,005.1
Deferred Inflows of Resources	6.3	5.4
Total liabilities and deferred inflows of resources	1,142.0	1,010.5
Net Position		
Net investment in capital assets	281.3	306.4
Unrestricted	1,030.0	1,190.4
Total net position	<u>\$ 1,311.3</u>	<u>\$ 1,496.8</u>

The above analysis focuses on the net position (see Table I). The change in net position (see Table 2) of the Academy's governmental activities is discussed below. The Academy's net position was \$1.3 million at June 30, 2017. A total of \$281,350 is the original cost less depreciation of the Academy's capital assets.

The \$1.0 million 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.

The Dearborn Academy

Management's Discussion and Analysis (Continued)

The results of this year's operations for the Academy as a whole are reported in the statement of activities (Table 2), which shows the changes in net position for fiscal years 2017 and 2016.

Table 2

	Governmental Activities	
	2017	2016
	(in thousands)	
Revenue		
Program revenue:		
Charges for services	\$ 5.7	\$ -
Operating grants and contributions	1,519.0	1,396.5
General revenue:		
State foundation allowance	3,809.3	3,809.2
Other	8.3	16.6
Total revenue	5,342.3	5,222.3
Functions/Program Expenses		
Instruction	2,457.8	2,381.3
Support services	2,543.5	2,583.1
Athletics	29.3	31.1
Food services	437.7	405.6
Community services	34.5	12.2
Depreciaton (unallocated)	25.0	25.0
Total functions/program expenses	5,527.8	5,438.3
Change in Net Position	(185.5)	(216.0)
Net Position - Beginning of year	1,496.8	1,712.8
Net Position - End of year	<u>\$ 1,311.3</u>	<u>\$ 1,496.8</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$5.5 million. Certain activities were partially funded by other governments and organizations that subsidized certain programs with grants and contributions (\$1.5 million). We paid for the remaining "public benefit" portion of our governmental activities with \$3.8 million in state foundation allowance and with our other revenue (i.e., interest and general entitlements).

The Academy experienced a decrease in net position of \$185,449. The key reasons for the change in net position were the increase in instruction, food service, and community service program expenses.

As discussed above, the net cost shows the financial burden that was placed on the State by each of these functions. Since unrestricted state aid constitutes the vast majority of the Academy's operating revenue sources, 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 Dearborn Academy

Management's Discussion and Analysis (Continued)

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

As the Academy completed this year, the governmental funds reported a combined fund balance of \$1.2 million, which has decreased from last year. The primary reason for the change in fund balance was the increase in basic program instructional costs.

General Fund fund balance is available to fund costs related to allowable school operating purposes.

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

There were significant revisions made to the 2016-2017 General Fund original budget resulting from the Academy's revised operating plan due to the fluctuations in revenue and grant program activities.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2017, the Academy had \$281,350 invested in capital assets, which include a modular building, furniture, and equipment.

There were no additions to capital assets during the year.

No major capital projects are planned for the 2017-2018 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

The Academy has no outstanding long-term debt at June 30, 2017.

The Dearborn Academy

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

Our appointed officials and administration consider many factors when setting the Academy's 2017-2018 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2018 fiscal year is expected to be 10 percent and 90 percent of the February 2017 and October 2017 student counts, respectively. The 2018 budget was adopted in May 2017, based on an estimate of students that will be enrolled in September 2017. Approximately 78 percent of total General Fund revenue is from the foundation allowance. As a result, the Academy's funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2018 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2018 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. If the State estimates funds are not sufficient to fund the appropriation, the legislature must revise the appropriation or proration of state aid will occur.

The Dearborn Academy

Statement of Net Position June 30, 2017

	Governmental Activities
Assets	
Cash (Note 3)	\$ 1,158,608
Receivables from other governmental units	950,926
Prepaid costs	31,382
Capital assets - Net (Note 5)	<u>281,350</u>
Total assets	2,422,266
Deferred Outflows of Resources - Deferred outflows related to pensions (Note 9)	
	<u>31,089</u>
Total assets and deferred outflows of resources	2,453,355
Liabilities	
Accounts payable (Note 8)	942,915
Unearned revenue (Note 4)	7,461
Net pension liability (Note 9)	<u>185,360</u>
Total liabilities	1,135,736
Deferred Inflows of Resources	
Revenue in support of pension contributions made subsequent to measurement date (Note 1)	5,733
Deferred inflows related to pensions (Note 9)	<u>553</u>
Total deferred inflows of resources	<u>6,286</u>
Total liabilities and deferred inflows of resources	<u>1,142,022</u>
Net Position	
Net investment in capital assets	281,350
Unrestricted	<u>1,029,983</u>
Total net position	<u><u>\$ 1,311,333</u></u>

The Dearborn Academy

Statement of Activities Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenue		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
Primary government - Governmental activities:				
Instruction	\$ 2,457,851	\$ -	\$ 523,486	\$ (1,934,365)
Support services	2,543,460	-	547,957	(1,995,503)
Athletics	29,293	-	-	(29,293)
Food services	437,663	5,676	431,987	-
Community services	34,484	-	15,667	(18,817)
Depreciation expense (unallocated) (Note 5)	25,022	-	-	(25,022)
Total primary government	\$ 5,527,773	\$ 5,676	\$ 1,519,097	(4,003,000)
General revenue:				
State aid not restricted to specific purposes				3,809,271
Interest and investment earnings				1,057
Other				7,223
Total general revenue				3,817,551
Change in Net Position				(185,449)
Net Position - Beginning of year				1,496,782
Net Position - End of year				\$ 1,311,333

The Dearborn Academy

Governmental Funds Balance Sheet June 30, 2017

	General Fund	Nonmajor Food Service Fund	Total Governmental Funds
Assets			
Cash (Note 3)	\$ 1,158,608	\$ -	\$ 1,158,608
Receivables from other governmental units	930,314	20,612	950,926
Prepaid costs	31,382	-	31,382
Total assets	<u>\$ 2,120,304</u>	<u>\$ 20,612</u>	<u>\$ 2,140,916</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable (Note 8)	\$ 922,303	\$ 20,612	\$ 942,915
Unearned revenue (Note 4)	7,461	-	7,461
Total liabilities	929,764	20,612	950,376
Fund Balances			
Nonspendable - Prepaid costs	31,382	-	31,382
Unassigned	1,159,158	-	1,159,158
Total fund balances	<u>1,190,540</u>	<u>-</u>	<u>1,190,540</u>
Total liabilities and fund balances	<u>\$ 2,120,304</u>	<u>\$ 20,612</u>	<u>\$ 2,140,916</u>

The Dearborn Academy

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position June 30, 2017

Fund Balance Reported in Governmental Funds \$ 1,190,540

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	\$ 600,372	
Accumulated depreciation	<u>(319,022)</u>	281,350

Deferred outflows related to pension investment returns and changes in assumptions are not reported in the governmental funds 16,117

Deferred outflows related to pension payments made subsequent to the measurement date 14,972

Deferred inflows related to revenue in support of pension contributions made subsequent to measurement date are not reported in the governmental funds (5,733)

Net pension obligations do not present a claim on current financial resources and are not reported as fund liabilities (185,360)

Deferred inflows related to pension investment returns and changes in assumptions are not reported in the governmental funds (553)

Net Position of Governmental Activities **\$ 1,311,333**

The Dearborn Academy

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2017

	General Fund	Nonmajor Food Service Fund	Total Governmental Funds
Revenue			
Local sources	\$ 8,280	\$ 5,676	\$ 13,956
State sources	4,229,903	9,284	4,239,187
Federal sources	632,951	422,703	1,055,654
Intergovernmental sources	34,492	-	34,492
Total revenue	4,905,626	437,663	5,343,289
Expenditures			
Current:			
Instruction	2,457,851	-	2,457,851
Support services	2,589,707	-	2,589,707
Athletics	29,293	-	29,293
Food services	-	437,663	437,663
Community services	34,484	-	34,484
Total expenditures	5,111,335	437,663	5,548,998
Net Change in Fund Balances	(205,709)	-	(205,709)
Fund Balances - Beginning of year	1,396,249	-	1,396,249
Fund Balances - End of year	<u>\$ 1,190,540</u>	<u>\$ -</u>	<u>\$ 1,190,540</u>

The Dearborn Academy

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2017

Net Change in Fund Balances - Total Governmental Funds	\$	(205,709)
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:		
Depreciation expense	\$	(25,022)
Capitalized capital outlay	<u> -</u>	(25,022)
Reduction to building rent expense for government-wide statement of activities not recorded in the governmental funds		48,158
Revenue in support of pension contributions made subsequent to measurement date		(965)
Change in pension expense related to deferred items		<u>(1,911)</u>
Change in Net Position of Governmental Activities	\$	<u>(185,449)</u>

The Dearborn Academy

Notes to Financial Statements June 30, 2017

Note I - Nature of Business and Significant Accounting Policies

The accounting policies of The Dearborn Academy (the "Academy") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy:

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. The Academy provides education for students in grades K through 8.

In July 2007, the Academy entered into a five-year contract with Central Michigan University to charter a public school academy, which has been extended through June 30, 2018. 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 3.0 percent of state aid foundation allowance as administrative fees. The total administrative fees for the year ended June 30, 2017 were approximately \$112,000.

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 the application of the criteria, the entity does not contain component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally 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.

Note I - Nature of Business and Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes 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. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements - The government-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 government-wide financial statements.

When an expense is incurred for purposes for which both restricted and unrestricted net position or fund balance are available, the Academy's policy is to first apply restricted resources. When an expense is incurred for purposes 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 fund balance, assigned fund balance, and unassigned fund balance.

Amounts reported as program revenue include 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.

Note I - Nature of Business and Significant Accounting Policies (Continued)

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, 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. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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 fund type:

Special Revenue Fund - Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The Academy's special revenue fund is the Food Service Fund. Revenue sources for the Food Service Fund are derived primarily from grants received from state and federal sources. Any operating deficit generated by these activities is the responsibility of the General Fund.

Assets, Liabilities, and Net Position or Equity

Cash - Cash includes cash on hand and demand deposits.

Receivables - 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 accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

The Dearborn Academy

Notes to Financial Statements June 30, 2017

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Prepaid Costs and Other Assets - Certain payments to vendors and security deposits reflect costs applicable to future fiscal years and deposits that the Academy is eligible to receive when leases expire. These are recorded as prepaid costs and other assets in both the government-wide and fund financial statements.

Capital Assets - Capital assets are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition 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:

Buildings and building additions	10 - 29 years
Furniture and other equipment	7 - 20 years

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position or fund balance that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Academy only has one item that qualifies for reporting in this category. It is the amount for the deferred outflow related to the pension plan of \$31,089.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows at June 30, 2017 include amounts for funding received through state appropriations for contributions to the MPSERS pension plan after the measurement date of \$5,733 and amounts related to the pension plan of \$553 (Note 9).

Fund Balance - Fund balance classifications comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications are comprised of the following - nonspendable, restricted, committed, assigned, and unassigned.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

In the fund financial statements, governmental funds report the following components of fund balance:

- **Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed:** Amounts that have been formally set aside by the board of directors for use for specific purposes. Commitments are made and can be rescinded only via resolution of the board of directors.
- **Assigned:** Intent to spend resources on specific purposes expressed by the board of directors
- **Unassigned:** Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

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.

Comparative Data - Comparative data is not included in the Academy's financial statements.

Pensions - For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. MPERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the benefit terms. Related plan investments are reported at fair value.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund and Food Service 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. 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 adjusted budgeted amounts during the year in response to actual and projected activity.

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

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Academy did not have significant expenditure budget variances.

Note 3 - Deposits and Investments

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

The Academy has designated one bank for the deposit of its funds.

The investment policy adopted by the board of directors in accordance with state statutes has authorized investment in bonds and securities of the United States government; agency obligations of the State; certificates of deposit issued by financial institutions organized and authorized to operate in this state; commercial paper rated prime 1 or prime 2 at the time of purchase and maturing not more than 270 days after the date of purchase; and Michigan Investment Liquid Asset Fund Plus (MILAF) investment pools, but not the remainder of state statutory authority as listed above.

The Dearborn Academy

Notes to Financial Statements June 30, 2017

Note 3 - Deposits and Investments (Continued)

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the Academy's deposits for custodial credit risk. At year end, the Academy's deposit balance of \$1,159,104 included \$823,272 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, 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 4 - Unavailable/Unearned Revenue

Governmental funds report unavailable revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the Academy had unearned revenue of \$7,461 for grant payments received prior to meeting all eligibility requirements.

Note 5 - Capital Assets

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

Governmental Activities	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2017</u>
Capital assets:				
Buildings and building improvements	\$ 505,948	\$ -	\$ -	\$ 505,948
Furniture and equipment	94,424	-	-	94,424
Total capital assets	600,372	-	-	600,372
Accumulated depreciation:				
Buildings and building improvements	233,248	19,411	-	252,659
Furniture and equipment	60,752	5,611	-	66,363
Total accumulated depreciation	294,000	25,022	-	319,022
Net capital assets	<u>\$ 306,372</u>	<u>\$ (25,022)</u>	<u>\$ -</u>	<u>\$ 281,350</u>

Depreciation expense was not charged to activities, as the Academy considers its assets to impact multiple activities and allocation is not practical.

The Dearborn Academy

Notes to Financial Statements June 30, 2017

Note 6 - Operating Lease

The Academy has entered into an operating lease agreement for its facility. The lease expired on June 30, 2017 and the Academy is month to month as the lease renewal terms are in negotiations. Total payments for the lease were \$504,000 for the current year.

Note 7 - 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. Employee-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 during the year ended June 30, 2017.

Note 8 - Management Agreement

In July 1997, the Academy entered into a management agreement with a for-profit corporation. The management company is responsible for substantially all of the management, operation, administration, education, and food services at the Academy. The Academy subcontracts most employees from the management company and reimburses the management company for operating costs. Accounts payable owed to the management company at June 30, 2017 totaled approximately \$921,000. The operating costs charged to the Academy by the management company were approximately \$4,399,000 for the year ended June 30, 2017. The agreement is in effect through June 30, 2018.

Note 9 - Michigan Public School Employees' Retirement System

Plan Description - The Academy participates in the Michigan Public School Employees' Retirement System (MPSERS or the "System"), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the Academy. Certain Academy employees also receive defined contribution retirement and healthcare benefits through the System. The System provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The System also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the pension and postemployment healthcare plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System (ORS) at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Note 9 - Michigan Public School Employees' Retirement System (Continued)

Contributions - Public Act 300 of 1980, as amended, required the Academy to contribute amounts necessary to finance the coverage of pension benefits of active and retired members. Contribution provisions are specified by state statute and may be amended only by action of the state legislature. Under these provisions, each school district's contribution is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance a portion of the unfunded accrued liability.

The Academy's contributions are determined based on employee elections. There are seven different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by the ORS.

The range of rates is as follows:

School District

October 1, 2015 - September 30, 2016	14.56% - 18.95%
October 1, 2016 - June 30, 2017	15.27% - 19.03%

Depending on the plan selected, plan member contributions range from 0 percent up to 7.0 percent of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

The Academy's required and actual contributions to the plan for the year ended June 30, 2017 totaled \$18,036, which includes the Academy's contributions required for those members with a defined contribution benefit. The Academy's required and actual contributions include an allocation of \$5,733 received from the State of Michigan, and remitted to the System, to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate for the year ended June 30, 2017.

Benefits Provided - Benefit provisions of the defined benefit pension plan are established by state statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan.

Depending on the plan option selected, member retirement benefits are calculated as final average compensation times years of service times a pension factor ranging from 1.25 percent to 1.50 percent. The requirements to retire range from attaining the age of 46 to 60 with years of service ranging from 5 to 30 years, depending on when the employee became a member. Early retirement is computed in the same manner as a regular pension, but is permanently reduced 0.50 percent for each full and partial month between the pension effective date and the date the member will attain age 60. There is no mandatory retirement age.

Note 9 - Michigan Public School Employees' Retirement System (Continued)

Members are eligible for nonduty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. The disability benefits plus authorized outside earnings are limited to 100 percent of the participant's final average compensation with an increase of 2 percent each year thereafter.

Benefits may transfer to a beneficiary upon death and are determined in the same manner as retirement benefits, but with an actuarial reduction.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustment, if applicable, is 3 percent. For some members who do not receive an annual increase, they are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions.

Net Pension Liability, Deferrals, and Pension Expense - At June 30, 2017, the Academy reported a liability of \$185,360 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015, which used updated procedures to roll forward the estimated liability to September 30, 2016. The Academy's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2016, the Academy's proportion was 0.000743 percent.

For the year ended June 30, 2017, the Academy recognized pension expense of \$20,147, inclusive of payments to fund the MPSERS UAAL Stabilization Rate. At June 30, 2017, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

The Dearborn Academy

Notes to Financial Statements June 30, 2017

Note 9 - Michigan Public School Employees' Retirement System (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 2,310	\$ (439)
Changes of assumptions	2,898	-
Net difference between projected and actual earnings on pension plan assets	3,081	-
Changes in proportion and differences between the Academy's contributions and proportionate share of contributions	7,828	(114)
The Academy's contributions subsequent to the measurement date	14,972	-
Total	<u>\$ 31,089</u>	<u>\$ (553)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30	Amount
2018	\$ 3,940
2019	3,698
2020	6,537
2021	1,389
Total	<u>\$ 15,564</u>

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year.

Note 9 - Michigan Public School Employees' Retirement System (Continued)

Actuarial Assumptions - The total pension liability as of September 30, 2016 is based on the results of an actuarial valuation date of September 30, 2015 and rolled forward:

Actuarial cost method	Entry age normal cost actuarial cost method
Investment rate of return	7.00 to 8.00 percent, net of investment expenses based on the groups
Salary increases	3.50 to 12.3 percent, including wage inflation of 3.5 percent
Mortality basis	RP2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB
Cost-of-living pension adjustments	3 percent annual noncompounded for MIP members

Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

Discount Rate - The discount rate used to measure the total pension liability was 7.00 - 8.00 percent depending on the plan option. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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Notes to Financial Statements June 30, 2017

Note 9 - Michigan Public School Employees' Retirement System (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Investment Category	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	28.0 %	5.9 %
Private equity pools	18.0	9.2
International equity pools	16.0	7.2
Fixed-income pools	10.5	0.9
Real estate and infrastructure pools	10.0	4.3
Real return, opportunistic, and absolute pool	15.5	6.0
Short-term investment pools	2.0	- %
Total	100.0 %	

On February 23, 2017, MPSERS approved a decrease in the discount rate for the September 30, 2016 annual actuarial valuation of 0.5 percent. As a result, the actuarial computed employer contributions and the net pension liability will increase for the measurement period ending on September 30, 2017.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the Academy calculated using the discount rate of 7.00 - 8.00 percent, depending on the plan option. The following also reflects what the Academy's net pension liability would be if it were calculated using a discount rate that is 1.0 percentage point lower (6.0 - 7.0 percent) or 1.0 percentage point higher (8.0 - 9.0 percent) than the current rate:

1.0 Percent Decrease (6.0 - 7.0 Percent)	Current Discount Rate (7.0 - 8.0 Percent)	1.0 Percent Increase (8.0 - 9.0 Percent)
\$ 238,697	\$ 185,360	\$ 140,392

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS financial report.

Note 9 - Michigan Public School Employees' Retirement System (Continued)

Payable to the Pension Plan - At June 30, 2017, the Academy reported a payable of \$1,043 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

Postemployment Benefits Other Than Pensions (OPEB) - Under the MPSERS act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate ranged from 6.4 percent to 6.83 percent of covered payroll for the period from July 1, 2016 to September 30, 2016 and from 5.69 percent to 5.91 percent of covered payroll for the period from October 1, 2016 through June 30, 2017 dependent upon the employee's date of hire and plan election as noted above. Members can choose to contribute 3 percent of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit or they can elect to not pay the 3 percent contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date and create a 2 percent employer match into the employee's 403B account.

The Academy's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2017, 2016, and 2015 were \$3,630, \$3,531, and \$2,180, respectively. In addition, a portion ranging from 35-100 percent of the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate is considered a contribution to the retiree healthcare plan.

Note 10 - Upcoming Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the Academy to recognize on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in the MPSERS plan. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Academy is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Academy's financial statements for the year ending June 30, 2018.

In June 2017, the Governmental Accounting Standards Board issued GASB 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 were previously 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 are effective for the Academy's financial statements for the year ending June 30, 2021.

Required Supplemental Information

The Dearborn Academy

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Over (Under) <u>Final Budget</u>
Revenue				
Local sources	\$ 3,800	\$ 8,180	\$ 8,280	\$ 100
State sources	4,182,665	4,250,174	4,229,903	(20,271)
Federal sources	595,241	716,612	632,951	(83,661)
Intergovernmental sources	-	42,452	34,492	(7,960)
Total revenue	<u>4,781,706</u>	<u>5,017,418</u>	<u>4,905,626</u>	<u>(111,792)</u>
Expenditures - Current				
Instruction:				
Basic program	1,295,000	1,406,545	1,507,763	101,218
Added needs	932,287	1,148,092	950,088	(198,004)
Support services:				
Pupil	255,000	300,653	295,783	(4,870)
Instructional staff	272,510	298,709	292,005	(6,704)
General administration	562,855	572,208	539,255	(32,953)
School administration	197,000	206,168	207,349	1,181
Business	231,000	208,983	210,059	1,076
Operations and maintenance	981,072	921,465	918,421	(3,044)
Pupil transportation services	75,000	75,000	73,269	(1,731)
Central	61,150	53,332	53,566	234
Athletics	31,500	29,293	29,293	-
Community services	16,000	36,670	34,484	(2,186)
Total expenditures	<u>4,910,374</u>	<u>5,257,118</u>	<u>5,111,335</u>	<u>(145,783)</u>
Net Change in Fund Balance	<u>(128,668)</u>	<u>(239,700)</u>	<u>(205,709)</u>	<u>33,991</u>
Fund Balance - Beginning of year	<u>1,396,249</u>	<u>1,396,249</u>	<u>1,396,249</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 1,267,581</u>	<u>\$ 1,156,549</u>	<u>\$ 1,190,540</u>	<u>\$ 33,991</u>

The Dearborn Academy

Required Supplemental Information Schedule of The Dearborn Academy's Proportionate Share of the Net Pension Liability Michigan Public School Employees' Retirement System Determined as of the Plan Year Ended September 30

	2016	2015	2014
Academy's proportion of the net pension liability	0.00074 %	0.00072 %	0.00069 %
Academy's proportionate share of the net pension liability	\$ 185,360	\$ 176,217	\$ 152,730
Academy's covered employee payroll	62,115	60,087	58,718
Academy's proportionate share of the net pension liability as a percentage of its covered employee payroll	298.41 %	293.27 %	260.11 %
Plan fiduciary net position as a percentage of the total pension liability	63.01 %	62.92 %	66.20 %

The Dearborn Academy

Required Supplemental Information Schedule of The Dearborn Academy's Contributions Michigan Public School Employees' Retirement System Determined as of the Year Ended June 30

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 18,036	\$ 16,930	\$ 10,769
Contributions in relation to the statutorily required contribution	18,036	16,930	10,769
Contribution deficiency (excess)	-	-	-
Academy's covered employee payroll	65,901	60,873	59,818
Contributions as a percentage of covered employee payroll	27.37 %	27.81 %	18.00 %

The Dearborn Academy

Note to Pension Required Supplemental Information Schedules Year Ended June 30, 2017

Benefit Changes - There were no changes of benefit terms for the plan year ended September 30, 2016.

Changes in Assumptions - There were no changes of benefit assumptions for the plan year ended September 30, 2016.

Change in Size or Composition of Covered Population - There were no significant changes in size or composition of the covered population for the plan year ended September 30, 2016.