The Dearborn Academy

Report to the Board of Directors

June 30, 2018

plante moran

Plante & Moran, PLLC
Suite 100
1111 Michigan Ave.
East Lansing, MI 48823
Tel: 517.332.6200
Fax: 517.332.8502
plantemoran.com

To the Board of Directors
The Dearborn Academy

We have recently completed our audit of the basic financial statements of The Dearborn Academy (the "Academy") as of and for the year ended June 30, 2018. In addition to our audit report, we are providing the following results of the audit and informational items that impact the Academy:

We are grateful for the opportunity to be of service to The Dearborn Academy. We would also like to extend our thanks to Zeina Hamdan for her 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

October 24, 2018

Results of the Audit

plante moran

Plante & Moran, PLLC
Suite 100
1111 Michigan Ave.
East Lansing, MI 48823
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Fax: 517.332.8502
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October 24, 2018

To the Board of Directors
The Dearborn Academy

We have audited the financial statements of The Dearborn Academy (the "Academy") as of and for the year ended June 30, 2018 and have issued our report thereon dated October 24, 2018. 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 May 22, 2018, 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, grant agreements, certain instances of error or fraud, illegal acts applicable to government agencies, and significant deficiencies in internal control that we identify during our audit. Toward this end, we issued a separate letter dated October 24, 2018 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 October 3, 2018.

To the Board of Directors
The Dearborn Academy

October 24, 2018

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.

As described in Note 2, the Academy adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Accordingly, the accounting change has been retrospectively applied to July 1, 2017, as required by the standard.

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.

The most sensitive estimates affecting the financial statements were the Academy's share of the MPSERS net liabilities for the pension and other postemployment benefit (OPEB) plans recorded on the government-wide statements related to GASB Statements No. 68 and 75, respectively. The Academy's estimates as of June 30, 2018 were $196,026 and $66,689 for the pension and OPEB plans, respectively, based on data received from the Office of Retirement Services. We evaluated the key factors and assumptions used to develop the accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

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. Management has corrected all such misstatements.

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 October 24, 2018.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 24, 2018.

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.

This information is intended solely for the use of board of directors and management of The Dearborn 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

Michael D. Foster

Michael D. Foster, CPA, CGMA
Partner

Informational Items

INVESTMENTS

The Academy continues to hold a significant amount of cash in a savings account. We recommend exploring other investment alternatives to maximize the potential return to create additional revenue for the Academy. State law restricts which investments may be held, but several options do exist that can provide improved rates of return.

STATE AID FUNDING

State Aid and the Foundation Allowance

State of Michigan funding for academies continued to focus on several recurring themes and some new ones for the fiscal year ended June 30, 2018: limited increases in the foundation allowance; additional funding boosts for districts at the minimum foundation; continued student count blending formula; and additional resources dedicated to assisting with funding the Academy's retirement/postretirement healthcare obligation (MPSERS), including implications from changes in plan assumptions and costs incurred from changes to retirement system programs. A new revenue source provided an additional $25 per pupil for high school enrollment. This was in addition to the Academy's foundation allowance funding.

2017-2018 Foundation: For the 2017-2018 fiscal year, the base foundation increased once again by $60, from $8,229 to $8,289. The State continued its use of the "2X formula," providing districts at the minimum foundation with an increase of $120 per pupil to $7,631. The Academy's foundation allowance was increased to $7,631.

2018-2019 Foundation: For the 2018-2019 fiscal year, the Public School Academy Maximum foundation allowance increases by $240, from $7,631 to $7,871. Additionally, using the "2X formula," the minimum foundation allowance increases by $240 per pupil to $7,871. Based on these changes, the Academy will receive a $240 increase in its foundation allowance, representing an increase of 3.1 percent.

In an attempt to consider the fact that educating high school students is more costly than those of lower grades, an additional $25 per high school pupil allocation was created in 2017-2018 and continues for 2018-2019. This Section 22n funding is not rolled into the foundation calculation. Cyber schools and shared-time programs received significant attention during budget development, but, in the end, funding for these programs was not changed for 2018-2019.

Pupil Membership Blend for 2017-2018 and 2018-2019: The method for counting students was the same for 2017-2018 and for 2018-2019. The funding formula uses calendar year counts with a weighting of 90 percent of the fall count and 10 percent of the February count. The 2017 calendar year counts were used to for the 2017-2018 fiscal year funding, and 2018 calendar year counts are used for the 2018-2019 fiscal year funding. The shared-time program enrollment count cap of .75 for students enrolled in a shared-time program was retained. As in 2017-2018, the Academy cannot generate more than a .75 FTE for a student participating in a shared-time program.

MPSERS Cost Support: During 2017-2018, the contribution rate the Academy is required to pay continued to rise, though the growth rate has slowed. In addition, as a result of PA 92, the program offerings have changed and increased in complexity. The Academy has no ability to influence the rate and no choice regarding its participation in the program. To aid the Academy in meeting its obligation, the 2017-2018 State Aid Act continued to include two funding sources and added three more to help pay for some of the increased cost. Each categorical aid section is formula driven using the Academy's MPSERS payroll participation data, and each is designed to support a specific cost factor in the retirement contribution. Funding is provided in three separate sections of the State Aid Act, Sections 147a, 147c, and 147e. The Academy received a total of $899 in 147a1, $396 in 147a2, $7,761 in 1471c1, and $1,491 in 147c2 categorical aid to help offset the impact of its retirement costs. Each of these sources continues for 2018-2019 except for 147c2, which was designed as a one-time payment to offset a one-time retirement cost. In general terms, this means that the total cost of the retirement system contributions in 2017-2018, representing approximately 37 percent of covered payroll, is recognized as an expenditure in the Academy's financial statements along with related revenue that was previously considered state support to the system. The net effect is that the Academy is responsible for approximately a 26 percent contribution to the retirement system. The Academy budgeted for additional state revenue and additional retirement expenditures in order to accommodate this funding mechanism, but may encounter some budget variances due to the fact that the state revenue provided is based on prior year Academy payroll information, and some amounts were adjusted with the August 2018 state aid payment.

The changes referenced above are the result of many factors. A discussion of the key changes impacting retirement contributions and retirement funding follows. The first is the fact that the assumed rate of return within the retirement plan decreased to 7.5 percent from 8 percent. When this assumption is reduced, it has the net effect of increasing the value of the retirement obligation for the plan. This then increases the required contributions to fund the plan. Second, for staff hired on or after February 1, 2018, the default employee election will be into a defined contribution (DC) plan; however, an employee can elect the hybrid plan within a specified time frame. District contributions and state support are also modified for employees electing the new DC plan. This created a change in the Academy's cost of the benefit for employees new to the retirement system beginning in February 2018. Additional funding is provided under a new State Aid Act, Section 147e, to help support the shift to the new design.

Other State Aid Act Changes Impacting 2018-2019

Overall, 2018-2019 State Aid Act amendments did not include significant new program initiatives. This is a key reason why the per pupil foundation allowance funding was double what was provided in 2017-2018. Several changes of note that could impact the Academy include the following:

Partnership Model: Section 21h continues funding to assist districts assigned by the MDE to participate in a partnership to improve student achievement, including funds for professional development, increased instructional time, mentors, and other costs impacting student achievement. The requirements were updated for 2018-2019, allowing the state superintendent to waive burdensome administrative rules for partnership districts and to require districts to include the crafting of goals that put students on track to meet or exceed grade level proficiency. In addition, the 2018-2019 amendments included new requirements for partnership districts to meet to receive the discretionary portion of their foundation allowance. The Partnership Model appears to be the primary approach to assist underperforming districts.

Assessment Changes: The grades were changed for the summative science test to be taken from fourth and seventh grades to fifth and eighth grades, and the Michigan Department of Education is required to provide guidance to districts on optionally adopting and implementing department-approved benchmark assessments and to recommend that districts commit to using the same benchmark assessment for no less than three years before changing to another test. Funding for a kindergarten entry observation tool was provided that added requirements for the summative assessments for math and ELA to be aligned to the PSAT and conditioned reimbursement for benchmark assessments on districts choosing one benchmark and using it for at least three years. These provisions are discussed in Sections 102d, 104, and 104c of the State Aid Act amendments and likely require planning for the Academy to effectively implement them.

Career and Technical Education (CTE): A total of $5.0 million in new funding was added to incentivize districts to enroll students in CTE programs.

Support from the State's General Fund: Since the adoption of Proposal A, the State's General Fund has provided support to the School Aid Fund. For the last several years, the level of General Fund support has continued to fall. For 2018-2019, the trend continues with a $60 million reduction in support. On a statewide basis, the reduction in support equates to approximately $40 per student.

Enrollment after Fall Count Day: For 2018-2019, the ability to prorate student count for pupils added after the count day continues.

State Aid Planning Considerations for 2018-2019 and Beyond

Michigan's economy is growing steadily, but, based on Revenue Estimating Conference predictions, there continue to be financial challenges ahead for the State. In addition, come 2019, a new administration will be in place and likely new educational priorities. School Aid Fund revenue continues to grow at a modest pace, but the General Fund projections are at a slower pace with significant pressure on the state budget to fund continuing projects.

For 2018-2019, the funding increases were double those of the previous year. Only one significant initiative, the Marshall Plan, was put in place, and the Revenue Estimating Conference concluded there was sufficient growth to support the increase. These increases were the largest in well over 10 years. In planning for the future, districts should use care in estimating the future growth rates in per pupil funding. That is, it is unclear if the School Aid Fund will be able to provide similar increases in 2019-2020 and beyond. As the legislature and a new governor continue to modify tax policy, determine new educational initiatives, plan for state General Fund resource needs, assess retirement system performance and benefits, and revisit School Aid Fund resource allocations, the growth and availability of School Aid Fund resources to fund K-12 regular education programs is likely to be at or below the rate of inflation.

Clearly, the key issue continuing to face the future of school funding is the need to cover the cost of the retirement system. Public Act 92 and other modifications to the retirement system have been projected to create significant increased costs and modify how the retirement system is funded. While it appears the legislature has provided resources through the School Aid Fund to cover significant elements of the cost increase, this means those resources are not available to fund other K-12 operations. The need to fund this obligation will continue to impact the Academy's ability to receive additional resources to fund general education initiatives, and monitoring legislative action in this area will be important in predicting future resource available for the Academy.

Careful planning continues to be key for the Academy to create a cost structure that is sustainable. The use of budget modeling is essential, especially as the Academy looks to determine actual state funding available to fund regular education operations, as well as funding for specific initiatives. During the budget planning process, it is important to segregate resources required to fund specific activities, such as federal funding, special education, or At-Risk, when assessing the resources available to fund continuing operations. We recommend the Academy fully analyze the projected revenue assumptions to estimate resources available to fund operations when entering into multi-year expenditure agreements.

Transparency Reporting

Transparency reporting has been in place for several years. Public Act 5 of 2015 requires the following transparency reporting on a district's website:

- Budgets and budget amendments must be posted within 15 days of their adoption (formerly 30 days).
- The district's written policy governing procurement of supplies, materials, and equipment
- The district's written policy establishing specific categories of reimbursable expenses
- The district's accounts payable check register for the most recent fiscal year or a statement of the total amount of expenses incurred by board members or district employees that was reimbursed by the district for the most recent fiscal year
- Any deficit elimination or enhanced deficit elimination plan the district was required to submit
- Identification of all credit cards maintained by the district as district credit cards, the identity of all individuals authorized to use each card, the credit limit on each credit card, and the dollar limit, if any, for each individual's authorized use of the credit card

In addition, the district is also required to provide the following:

- Pie charts for personnel expenditures and district expenditures
- Links to collective bargaining agreements, healthcare plans, bids, and financial statement audit report
- Compensation and benefits for the superintendent and employees with salaries over $100,000
- Amounts for dues, lobbying, and out-of-state travel

Noncompliance with the requirements could result in withholding of 10 percent of state aid otherwise owed to the district. The Michigan Department of Education regularly reviews district websites to determine if the requirements are met. Maintaining this information requires the district to maintain a process to post updates timely and staff resources to maintain the information.

Cybersecurity

Academies are not exempt from cyberattacks in which systems and critical data are compromised. School systems store personal information of staff, underage students, and students' parents in addition to other confidential data. It is important that academies protect themselves from both external and internal threats, whether they are intentional or accidental threats. For example, ransomware attacks are on the rise and gain media attention with their ability to cripple an organization, including schools and universities. It may be the hacks of large, multimillion dollar companies that we see exposed on the evening news, but academies can be an enticing target with the amount of data and limited budget to protect themselves.

Here are some questions to think about regarding cybersecurity issues:

- Do you receive a lot of junk email?
- Are you allowed to access risky or unsafe websites?
- Have you attended any security awareness trainings?
- In the event of an incident, are you familiar with who should be contacted?
- Is there a plan in place in the event of a breach and student records are lost?

Because of the many access points within an academy's IT environment, continued assessment of cybersecurity issues is an essential part of the Academy's overall data security assessment.

<u>FEDERAL PROGRAMS</u>

Written Procedures for Grants - Required for Academy Federal Grant Participation

As part your annual single audit, we are required to assess the written procedures that exist related to the specific compliance requirements for the federal programs that are selected for testing. The federal Uniform Guidance, which has been effective for several years now, outlines various requirements related to written procedures and policies. It is important for the Academy to be aware of the comprehensive list of required written (board) policies and (administrative) procedures required for federal grant participation. These requirements are described in 2 CFR Part 200 and include the following:

- Written Cash Management Procedures [§200.302(b)(6)]: To implement the requirements of §200.305 payment

- Written Allowability Procedures [§200.302(b)(7)]: To determine the allowability of costs in accordance with Subpart E - Cost Principles

- Written Travel Policy [§200.474(b)]: To ensure costs incurred by employees for travel are reasonable and allowable

- Written Conflict of Interest Policy [§200.318(c)]*: To maintain standards of conduct covering conflicts of interest and governing the actions of its employees engaged in the selection, award, and administration of contracts

- Written Procurement Procedures [§200.319(c)]*: To ensure that all solicitations include the following requirements:

  i. Incorporate clear and accurate descriptions of technical requirements for the material product or service to be procured.

  ii. Identify all requirements that must be fulfilled.

  iii. Ensure that all prequalified lists of persons, firms, or products that are used in acquiring goods and services are current and include enough qualified sources to ensure maximum open and free competition.

- Written Procedures for Conducting Technical Evaluations of Proposals and Selecting Participants [§200.320(d)(3)]*: To maintain a method for evaluation proposals received

  *In the Federal Register published on September 10, 2015 (Vol. 80, No. 175), the procurement procedures noted above were formally delayed via an initial two-year grace period. On May 17, 2017, the OMB extended the delay of implementation for an additional year. Therefore, the Academy is not required to implement these requirements until July 1, 2018. However, if the extended delay is elected, the Academy must document this in writing.

The Academy should be aware that the aforementioned requirements for written procedures are more extensive in nature than those required for a financial statement audit, which focuses on key controls related to grants management. The Michigan Department of Education has indicated that academies that do not have the requisite written policies and procedures in place may be excluded from future participation in the grants program. In addition, absence of policies and procedures required under the Uniform Guidance could result in single audit findings. We encourage the Academy to review its policies and procedures to ensure that the items listed above have been addressed and are easily accessible for use and in the event of a fiscal monitoring. Many, if not all, of the items may already be addressed in various forms throughout the Academy's policies and procedures; however, it is important that the Academy be aware of where the written documentation resides. If any items are not currently addressed, we recommend the Academy establish the required procedures and document them accordingly.

Marshall Plan for Workforce Development

Over the last year, the governor focused on a new educational priority focused on career and technical education. He included elements of the plan in his budget proposal sent to the legislature. While the legislature did not embrace the proposal as part of the State Aid Act amendments, there was sufficient funding to provide resources as a separate initiative. This resulted in a $100 million funding allocation. The fund will bolster career-oriented school programs to maintain a pipeline for students from graduation to jobs in professional trade, information technology, or other top career fields. The purpose is to train students in technical and trade skills in lieu of only promoting a traditional K-12 education path in order to help fill the talent gap in Michigan. As stated by the governor, the Marshall Plan for Talent's goal is to create, expand, and support educators and businesses that create innovative programs for high-demand, high-wage careers.

In addition to the specific educational initiatives, the multibill package requirements include: direction for the Department of Education to develop, in consultation with the Department of Talent and Economic Development, a model program of instruction in career development; promulgating rules allowing a person to use time spent engaging with local employers or technical centers to count toward renewing a teaching certificate; allowing people without a teaching certificate but with professional experience to teach in an industrial technology or career and technical education program for up to 10 years; using educational development plans for students; allowing students graduating high school through 2024 to fulfill one credit of the foreign language requirement by completing a career technical education program; removing the basic skills exam from the requirements to teach for more than a year as a noncertified teacher in a shortage area like computer science, foreign languages, math, biology, chemistry, engineering, physics, robotics, or other such courses; and allowing someone without a teaching certificate to serve as a substitute teacher if they have 60 hours of college credit or an associate's degree.

Key objectives of the Marshall Plan include the following:

- Foster business and education collaboration
- Evolve to competency-based learning
- Increase the number of individuals with stackable credentials and/or certificates for high-demand, high-wage occupations
- Increase workforce planning (supply and demand)
- Increase career awareness and exploration
- Create multiple career pathways
- Focus on education linking competencies and opportunities
- Support funding and resources for programs

As part of the Marshall Plan, there is nearly $59 million available in innovation grants. Funds will be awarded based on the level of innovation, the strength of the partnerships, and how well the application embraces the philosophies of competency-based learning for high-demand, high-wage careers.

Regional workshops occurred during the summer of 2018, and applications are scheduled to be available in the fall of 2018.

Participation in most elements of the Marshall Plan require membership in a talent consortium. For the Academy, understanding the elements of the Marshall Plan, how the resources can be tapped into, and how to leverage school initiatives with the plan components could prove beneficial as part of the Academy's overall educational mission.

Prevailing Wage Repealed

On June 6, 2018, a legislative initiative with immediate effect repealed Michigan's Prevailing Wages on State Projects law. Michigan's Prevailing Wages on State Projects law covers construction workers employed on state-financed or sponsored construction projects for which the State's Wage and Hour Division establishes wage and fringe benefit rates to be paid to construction workers on projects. The Michigan Department of Licensing and Regulatory Affairs (LARA) issued communications and guidance on the repeal of the State's Prevailing Wages on State Projects law related to rate postings and treatment of pending contracts. The State will no longer post rates online, and LARA suggests entities consult legal counsel for interpreting requirements of ongoing contracts. Unchanged, the federal prevailing wage law under the Davis-Bacon Act of 1931 still requires contractors and subcontractors of federally funded construction project in excess of $2,000 to apply a local prevailing wage, as determined by the U.S. Department of Labor.

Treasury Website Outlines School Finance

The Michigan Department of Treasury launched a new website that provides intuitive and helpful fiscal data for local education agencies and intermediate acadmies across the state of Michigan. The website compiles fiscal data from academies and districts throughout the state and analyzes data based on local units of the same type. The dashboard illustrates “data snapshots” for an LEA or ISD, offering quick references for state foundation allowance per pupil, student counts, General Fund revenue and expenditures, General Fund fund balance, and General Fund fund balance as a percentage of revenue. Additional data analytics include General Fund revenue and expenditures per staff and per pupil. The website allows citizens, businesses, and officials to have access to useful information to measure an academy or district’s fiscal health. The MI School Financial Dashboard is provided by the Michigan Department of Treasury using data collected by the Center for Educational Performance and Information (CEPI).

GASB Statement No. 75 - Reporting for OPEB Obligations

Effective for the Academy’s June 30, 2018 financial statements is GASB Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This OPEB standard requires the Academy to recognize on the face of the government-wide financial statements its proportionate share of the net OPEB liability related to its participation in the MPSERS plan. While the Academy has a very small share of the statewide OPEB liability (less than 1 percent), the obligation the Academy recorded is significant.

The data required to record this liability has come from the retirement system using the plan’s September 30, 2017 fiscal year end information. Changes in the net OPEB liability are reported as an expense at the government-wide level and in proprietary funds. The Academy has recorded the deferred inflows and outflows with the plan as of the measurement date (September 30, 2017) and computed and reported the contributions expensed in the funds after the measurement date through the Academy’s fiscal year end.

The statement has a similar impact on the financial statements as did GASB No. 68 when it was adopted in 2015.

- The adoption of GASB 68 related to the MSPERS pension liability left many districts with a negative net position in the government-wide set of financial statements. The adoption of GASB 75 is likely to significantly increase that deficit.

- The adoption of the standard has not impacted the expenditures reported in the General Fund and has not impacted General Fund fund balance.

- Disclosures regarding the plan and data related to the plan are significantly expanded in the Academy’s financial statements.

- The adoption of the statement required adjustments to the beginning of the year net position.

GASB Statement No. 87 - Leases

This statement is effective for the first time in the Academy's June 30, 2021 financial statements. The statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows or outflows of resources based on payment provisions of the lease. The statement was issued to improve accounting and financial reporting for leases by governments. The statement establishes a single model for lease accounting for both lessees and lessors based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. 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.

Lessee Accounting Under GASB Statement No. 87

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