
The Dearborn Academy

Report to the Board of Directors

June 30, 2020



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

	<u>Page</u>
Results of the Audit	1-4
Informational Items	5-12

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 13, 2020

Results of the Audit

October 13, 2020

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, 2020 and have issued our report thereon dated October 13, 2020. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 12, 2020, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

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

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Our audit of the Academy's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we are obligated to communicate certain matters that come to our attention related to our audit to those responsible for the governance of the Academy, including compliance with certain provisions of laws, regulations, contracts, and grant agreements; certain instances of error or fraud; illegal acts applicable to government agencies; and significant deficiencies in internal control that we identify during our audit. Toward this end, we issued a separate letter dated October 13, 2020 regarding our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 30, 2020.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

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

No new accounting policies were adopted, and the application of existing policies was not changed during fiscal year 2020.

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

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

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

The most sensitive estimates affecting the financial statements were the Academy's share of the MPERS net liabilities for the pension and other postemployment benefit (OPEB) plans recorded on the government-wide statements related to GASB Statement Nos. 68 and 75, respectively. The Academy's estimates as of June 30, 2020 were \$258,124 and \$55,681 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. We did not detect any misstatements as a result of audit procedures.

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Academy, and business plans and strategies that may affect the risks of material misstatement, with management each year prior to our retention as the Academy's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition of our retention.

As required by 2 CFR Part 200, we have also completed an audit of the federal programs administered by the Academy. The results of that audit are provided to the board of directors in our report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with 2 CFR Part 200 dated October 13, 2020.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 13, 2020.

Management Consultations with Other Independent Accountants

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

This information is intended solely for the use of the board of directors and management of the Academy and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC



Michael D. Foster, CPA, CGMA
Partner

Informational Items

State Aid Funding

2019-2020 State Aid, Foundation Allowance, and Proration

Background

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

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

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

2020 Funding Implications for the Academy

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

MPSERS Cost Support: Overall retirement costs continue to increase. The estimated contribution rate for 2019-2020 ranged from 36.44 to 39.91 percent, with the rate, net of state funding support, paid directly by the employer ranging from 24.03 to 27.50 percent. The State’s funding support is provided in three separate sections of the State Aid Act: Sections 147a, 147c, and 147e. The Academy received a total of \$916 in 147a1, \$1,413 in 147a2, and \$8,464 in 147c. In general terms, this means the total cost of the retirement system contributions in 2019-2020, representing approximately 39 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 an 27 percent contribution to the retirement system.

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

2021 Funding Implications for the Academy

The August 2020 Revenue Estimating Conference reflected a better than expected revenue picture through September 30, 2020 and more stable financial footing for fiscal year 2021. Communications surrounding financial projections are highly cautionary, as the uncertainty of the economic impact of the pandemic duration continues to loom large. Careful monitoring of legislative, gubernatorial, and Michigan Department of Education actions will be essential for the Academy to understand and plan for all revenue, identify requirements to receive and utilize federal revenue, and craft methodologies to allocate costs to ensure reimbursement. Several elements that impact school financial management are summarized below:

- **2020-2021 Foundation:** The Academy’s foundation allowance remains at the fiscal 2019-2020 level, with the minimum set at \$8,111 per pupil and the target set at \$8,529 per pupil. The \$175 per pupil proration received in fiscal 2020 will not continue into fiscal year 2021. Academies will also receive a one-time payment estimated at \$65 per pupil for fiscal year 2021 based on a 50/50 blend (50 percent weight on fiscal year 2020 membership plus 50 percent weight on what would have been the traditional fiscal year 2021 membership). Special education funding remains consistent at fiscal year 2020 levels, with the additional 2 percent reimbursement rate continuing in fiscal year 2021.

- **Pupil Membership Blend for 2020-2021:** Typically, the pupil count methodology is defined when the School Aid Act is amended. For the 2021 fiscal year, a modified weighting process was crafted in July 2020 under the “Return to Learn” plan agreed to by the Legislature and the governor. The methodology attempts to address the variety of education delivery methods under the extended COVID-19 learning plans used by academies as fall instruction begins. The process provides for seat time waivers, waives the days and hours of instruction minimums, and changes the weighting of the pupil counts. The new method is a 75 percent/25 percent “super blending.” Step one under this method requires an academy to complete its calendar year spring and fall counts for 2019 and 2020. The weighting of those counts continues to be at 90 percent fall and 10 percent spring. Then each of those counts is blended, with the 2019 calendar year count blend weighted at 75 percent and the 2020 count blend weighted at 25 percent. The net result of this is that academies experiencing a student count decline will see slower revenue reductions. Academies with a growing student count would see a slower revenue rise.
- **Teacher Retention Stipend:** The budget also appropriated \$5 million for fiscal year 2021 to provide matching funds to academies to retain new teachers. The program would provide \$1,000 in state funds to match \$500 in academy funds for new teachers completing a full year of teaching in academies with at least 70 percent of pupils being economically disadvantaged. For academies with a lower percentage of economically disadvantaged pupils, the state payment would decline to \$500. This stipend should not be confused with the \$500 hazard pay for teachers, which is expected to be funded by the Coronavirus Relief Fund and has yet to be finalized.
- **MPSERS Cost for 2020-2021:** The basic structure, including cost support provided by the School Aid Fund, will continue. For 2021, the overall contribution rate is expected to increase to 42 percent from 39 percent, with the net cost to the Academy approximating 28 percent. While the net cost to the Academy changes marginally, the overall contribution rate increases significantly from 2020. The School Aid Fund implication is that more resources are redirected from the funding of operations to the support of the retirement system funding requirement.

Looking Forward to 2022 and Beyond

Given the uncertain funding environment, looking past 2021 is difficult. The August 2020 Revenue Estimating Conference provided a look into 2022. While 2021 projected a surplus to carry over to 2022, the estimates suggest 2022 would be essentially breakeven, and the projections do not build in any specific foundation allowance increases. Factors that will impact projections include the following:

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

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

New Federal Funding Considerations - 2020 and 2021

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

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

Specific guidance related to the funding awarded to the Academy under these acts has been released sporadically, oftentimes after the award was announced or funding disbursed; in some cases, guidance is still developing. The following is a summary of the more significant federal grants that have already been awarded to the Academy or those to which the Academy may consider applying:

- *Child Nutrition Meal Reimbursement: Unanticipated School Closures Program* - Due to the national emergency and mandatory closure of all Michigan K-12 schools, the Academy participated in the Unanticipated School Closure Summer Food Service Program (SFSP) during March, April, May, and June 2020. Nationwide and state-specific waivers granted by the U.S. Department of Agriculture (USDA) allowed all sponsors that participate in the National School Lunch Program (NSLP), School Breakfast Program (SBP), and SFSP to serve noncongregate meals to any child or teen age 18 years or younger residing in the community. The meals served through this program were provided free of charge, and reimbursement to the Academy was funded through the CARES Act. Meal reimbursement claims by the Academy under the Unanticipated School Closures grant during the year ended June 30, 2020 totaled \$138,664.

On August 31, 2020, the USDA announced that it is extending a suite of nationwide waivers for the Summer Food Service Program and Seamless Summer Option (SSO) through the end of 2020 or until available funding is depleted. The extended waivers allow for congregate or noncongregate meals to be served in all areas at no cost and for parents or guardians to pick up meals for their children.

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

Academies are required to use the funds in accordance with federal rules and regulations, subject to further interpretation by the State of Michigan. The CARES Act outlines three broad requirements that pertain to payments from the Coronavirus Relief Fund; the funds may be used only to cover expenses that:

1. Are necessary expenditures incurred due to the public health emergency with respect to coronavirus disease 2019 (COVID-19)
2. Were not accounted for in the budget most recently approved as of March 27, 2020 (the date of enactment of the CARES Act) for the state or government
3. Were incurred during the period from March 1, 2020 through December 30, 2020

In early September 2020, the U.S. Treasury issued clarified guidance specific to academies use of CRF funds. This guidance broadly states that CRF payments may be used to cover costs associated with providing distanced or in-person learning and that, “as an administrative convenience, Treasury will presume expenses of up to \$500 per elementary and secondary school student to be eligible expenditures, such that schools do not need to document the specific use of funds up to that amount.” While the Treasury guidance provides flexibility relative to the eligibility of costs that can be applied to CRF funds, there remains some uncertainty surrounding the nature and extent of documentation that academies will be required to produce and retain to support how the funds were used. Therefore, we encourage the Academy to remain cognizant of any updates to requirements relating to CRF funds as they are made available.

The Academy’s July and August 2020 state aid payments included a total of \$186,240 in CRF funds that must be recognized as revenue during fiscal year 2021 for eligible expenses incurred from March 1, 2020 through December 30, 2020.

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

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

The Academy’s formula ESSER allocation is \$340,436.

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

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

- Child Care and Development Block Grant - CARES Act Supplemental Payments
- Head Start - CARES Act Supplemental Payments
- Federal Emergency Management Agency (FEMA) Grants
- Coronavirus Food Assistance Program (CFAP) Commodities
- Federal assistance from the intermediate school district

In order to maximize available funding and ensure compliance with federal rules and regulations, the Academy should do the following:

- Obtain a clear understanding of program requirements, including allowable uses and time period in which eligible expenses must be incurred.
- Verify that procedures and internal controls are adequately in place to adhere to Uniform Guidance rules related to procurement, cash management, allowable costs, and subrecipient monitoring, as applicable.
- Ensure that policies and procedures have been created or amended in accordance with requirements set forth in OMB Memorandums M-20-17 (rescinded by and replaced with M-20-26 on June 18, 2020) and M-20-26 (expired on September 30, 2020), which provided agencies the ability to extend administrative relief to federal grant recipients.
- Document all decisions made to determine eligibility of emergency-funded costs.
- Refer regularly to accounting guidance issued by the Michigan Department of Education to ensure that federal grant revenue is recorded correctly and expenditures are tracked using the proper grant codes.

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

GASB Statement No. 87 - Leases

This statement was originally effective for the Academy's June 30, 2021 financial statements; however, it was postponed 18 months with the issuance of GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, in response to the COVID-19 pandemic. With the deferral, GASB Statement No. 87 is now effective for the Academy's June 30, 2022 financial statements. The statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows or outflows of resources based on payment provisions of the lease. The statement was issued to improve accounting and financial reporting for leases by governments. The statement establishes a single model for lease accounting for both lessees and lessors based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-of-use lease asset on the lessee's government-wide financial statements, and a lessor is required to recognize a lease receivable and a deferred inflow of resources on the lessor's government-wide financial statements. Furthermore, there are additional financial statement disclosures required for the lessee and lessor as a result of the standard. The Academy will have to identify and analyze all significant lease contracts to determine the lease asset and lease liability or deferred inflow or outflow of resources that will be required to be recognized upon implementation of the standard. This review should include all existing lease contracts and contracts that may have embedded lease arrangements that were not previously considered.

Lessee Accounting Under GASB 87

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

Planning for the Future with Enrollment Projections

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

To the extent it would be helpful, we would be happy to introduce Plante & Moran, PLLC's real estate consulting team, Plante Moran Cresa (one of four authorized enrollment projection service providers in the state of Michigan). The team has developed a projection model that has proven to be more than 99 percent accurate in helping academies predict enrollment for years into the future. It can conduct projections for the entire academy or focus solely on specific buildings, grades, or areas.