Macomb Academy

Financial Report
with Supplemental Information
June 30, 2019

Contents

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Independent Auditor's Report

To the Board of Directors
Macomb Academy

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Macomb Academy (the "Academy") as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise Macomb 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, each major fund, and the aggregate remaining fund information of Macomb Academy as of June 30, 2019 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.

Emphasis of Matter

The accompanying basic financial statements have been prepared assuming that the Academy will continue as a going concern. As discussed in Note 11 to the basic financial statements, the Academy has suffered declines in enrollment, which will reduce funding for future years. The most recent appraisal for its facility is less than the outstanding balance on the bond, and the Academy has received financial assistance to fund operations. These types of activities create doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 11. The basic financial statements do not include any adjustments that might result from the outcome of this uncertainty.

To the Board of Directors
Macomb Academy

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplemental information, as identified in 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 Information

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

The other supplemental information, as identified in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information, as identified in the table of contents, is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2019 on our consideration of Macomb 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 Macomb Academy's internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 29, 2019

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To Management and the Board of Directors
Macomb Academy

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the remaining fund information of Macomb Academy (the "Academy"), as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated October 29, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Academy's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion.

The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described as follows:

The Academy is currently in default on the financial covenants associated with the bonded debt and did not make any principal payments for the year ended June 30, 2019. As a result, the bond trustee could call the debt and force immediate payment. We recommend the Academy work with legal counsel and the bond trustee to develop a long-term solution to ensure debt compliance and sufficient cash flows for operations going forward.

To Management and the Board of Directors
Macomb Academy

The Academy's Response to Finding

The Academy's management agrees with the comments and is working to resolve the Academy's noncompliance with certain debt covenants. The Academy's response was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

October 29, 2019

This section of the annual financial report for Macomb Academy (the "Academy") presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2019. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Using This Annual Report

This annual report consists of a series of financial statements and notes to those financial statements. These statements are organized so the reader can understand Macomb 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 funds, the General Fund and the Debt Service Fund, with the other fund presented in one column as a nonmajor fund. This report is composed of the following elements:

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

Basic Financial Statements

Government-wide Financial Statements

Fund Financial Statements

Notes to Financial Statements

Required Supplemental Information

Budgetary Comparison Schedule - General Fund

Schedules of Proportionate Share of the Net Pension and OPEB Liabilities

Schedules of Pension and OPEB Contributions

Other Supplemental Information

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

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

Reporting the Academy's 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 and by bond covenants. However, the Academy establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain grants and other money as directed.

Governmental Funds

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

The Academy as a Whole

Recall that the statement of net position provides the perspective of the Academy as a whole. The following table provides a summary of the Academy's net position as of June 30, 2019 and 2018:

	Governmental Activities	
	2019	2018
	(in thousands)	
Assets		
Current and other assets	$ 551.2	$ 524.7
Capital assets	811.9	832.4
Total assets	1,363.1	1,357.1
Deferred Outflows of Resources	1,101.5	838.3
Liabilities		
Current liabilities	272.1	273.8
Noncurrent liabilities	1,485.0	1,485.0
Net pension liability	3,049.3	2,933.2
Net OPEB liability	723.9	999.5
Total liabilities	5,530.3	5,691.5
Deferred Inflows of Resources	903.0	343.4
Net Position		
Net investment in capital assets	(673.1)	(652.6)
Restricted	235.7	196.5
Unrestricted	(3,531.3)	(3,383.4)
Total net position	**$ (3,968.7)**	**$ (3,839.5)**

The above analysis focuses on net position. The change in net position of the Academy's governmental activities is discussed below. The Academy's net position was $(3,968.7) thousand at June 30, 2019. Net investment in capital assets, totaling $(673.1) thousand, compares the original cost, less depreciation of the Academy's capital assets, to long-term debt used to finance the acquisition of those assets. The debt will be repaid through the receipt of unrestricted state aid, based on enrollment, to the extent cash flow is available. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Academy's ability to use that net position for day-to-day operations. The remaining amount of net position ($(3,531.3) thousand) was unrestricted.

The $(3,531.3) thousand in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The unrestricted net position balance enables the Academy to meet working capital and cash flow requirements and 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 results of this year's operations for the Academy as a whole are reported in the condensed statement of activities below, which shows the changes in net position for the years ended June 30, 2019 and 2018:

	Governmental Activities	
	2019	2018
	(in thousands)	
Revenue		
Program revenue - Operating grants	$ 857.3	$ 344.0
General revenue:		
State aid not restricted to specific purposes	430.2	1,062.5
Other	17.3	37.3
Total revenue	1,304.8	1,443.8
Expenses		
Instruction	548.3	968.6
Support services	765.0	642.3
Debt service	100.2	102.5
Depreciation expense (unallocated)	20.5	49.0
Total expenses	1,434.0	1,762.4
Special Item	-	(557.1)
Change in Net Position	(129.2)	(875.7)
Net Position - Beginning of year	(3,839.5)	(2,963.8)
Net Position - End of year	**$ (3,968.7)**	**$ (3,839.5)**

As reported in the statement of activities, the cost of all of our governmental activities this year was $1,434.0 thousand. Certain activities were partially funded by other governments and organizations that subsidized certain programs with grants and contributions ($857.3 thousand). We paid for the remaining "public benefit" portion of our governmental activities with $430.2 thousand in state foundation allowance and with our other revenue (i.e., interest and general entitlements).

The Academy experienced a decrease in net position of $129.2 thousand. Key reasons for the change in net position were expenses in excess of revenue due to enrollment declines.

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

The Academy's Funds

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

As the Academy completed this year, the governmental funds reported a combined fund balance of $(1,189,202), which is an increase of $28,131 from last year. The primary reason for the increase is a concerted effort to have expenditures less than revenue, through revisions of operating expenses in the General Fund.

In the General Fund, our principal operating fund, the fund balance increased $38,929 due to cost alignment with revenue and the partial waiver of the management fee that the Academy would normally pay to the Macomb Intermediate School District.

Combined, the fund balance of our debt service funds increased by $39,280. The Debt Service Fund fund balance is restricted under the terms of the bond indenture agreement and can be used only to make required debt payments.

Budgetary Highlights

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted in June 2019. A schedule showing the Academy’s original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2019, the Academy had $811,866 invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This represents a net decrease (including additions, disposals, and depreciation) of $20,533, or 2.5 percent, from last year.

	2019	2018
Buildings and improvements	$ 794,196	$ 810,000
Furniture and equipment	12,815	15,115
Buses and other vehicles	4,855	7,284
Total capital assets - Net of accumulated depreciation	**$ 811,866**	**$ 832,399**

There were no additions or disposals during the year, and there are no major capital projects planned for the 2019-2020 fiscal year.

Debt

At the end of this year and last year, the Academy had $1,485,000 in bonds outstanding. No principal payments were made during the year. The outstanding debt is the result of the 2007 revenue bond issuance of $1,800,000 used to finance the building purchase and renovation. See Note 8 for further details. As a result of noncompliance with debt covenants, the debt balance is classified as currently due and payable, although the bondholders have not yet formally called the debt.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the Academy’s 2019-2020 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 2019-2020 budget was adopted in June 2019 based on an estimate of students who will enroll in September 2019. Approximately 47.5 percent of total General Fund revenue is from the foundation allowance. Under state law, the Academy cannot access additional property tax revenue for general operations. 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 2019 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2019-2020 budget. Once the final student count and related per pupil funding are validated, state law requires the Academy to amend the budget if actual district resources are not sufficient to fund original appropriations.

Contacting the Academy's Management

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

Statement of Net Position

June 30, 2019

	Governmental Activities
Assets	
Cash and investments (Note 4)	$ 200,582
Due from other governmental units	165,170
Restricted assets (Note 4)	185,448
Capital assets - Net (Note 6)	811,866
Total assets	1,363,066
Deferred Outflows of Resources (Note 10)	
Deferred pension costs	1,000,028
Deferred OPEB costs	101,466
Total deferred outflows of resources	1,101,494
Liabilities	
Accounts payable	1,122
Due to other governmental units	181,856
Accrued liabilities and other	86,264
Unearned revenue (Note 5)	2,866
Noncurrent liabilities:	
Due within one year (Note 8)	1,485,000
Net pension liability (Note 10)	3,049,331
Net OPEB liability (Note 10)	723,878
Total liabilities	5,530,317
Deferred Inflows of Resources (Note 10)	
Revenue in support of pension contributions made subsequent to the measurement date	101,317
Deferred pension cost reductions	474,941
Deferred OPEB cost reductions	326,692
Total deferred inflows of resources	902,950
Net Position	
Net investment in capital assets	(673,134)
Restricted - Debt service	235,734
Unrestricted	(3,531,307)
Total net position	**$ (3,968,707)**

See notes to financial statements.

Statement of Activities

Year Ended June 30, 2019

	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Governmental Activities: Net (Expense) Revenue and Changes in Net Position
Functions/Programs				
Primary government - Governmental activities:				
Instruction	$ 548,304	$ -	$ 357,904	$ (190,400)
Support services	765,029	-	499,370	(265,659)
Interest	100,238	-	-	(100,238)
Depreciation expense (unallocated)	20,533	-	-	(20,533)
Total primary government	**$ 1,434,104**	**$ -**	**$ 857,274**	(576,830)
General revenue:				
State aid not restricted to specific purposes				430,197
Interest and investment earnings				3,692
Other				13,752
Total general revenue				447,641
Change in Net Position				(129,189)
Net Position - Beginning of year				(3,839,518)
Net Position - End of year				**$ (3,968,707)**

See notes to financial statements.

Governmental Funds Balance Sheet

June 30, 2019

	General Fund	Debt Service Fund	Nonmajor Fund - Capital Projects Fund	Total Governmental Funds
Assets				
Cash and investments (Note 4)	$ 200,582	$ -	$ -	$ 200,582
Due from other governmental units	165,170	-	-	165,170
Due from other funds (Note 7)	-	66,992	-	66,992
Restricted assets (Note 4)	-	185,448	-	185,448
Total assets	**$ 365,752**	**$ 252,440**	**$ -**	**$ 618,192**
Liabilities				
Accounts payable	$ 1,122	$ -	$ -	$ 1,122
Due to other governmental units	181,856	-	-	181,856
Due to other funds (Note 7)	66,992	-	-	66,992
Accrued liabilities and other	69,558	-	-	69,558
Unearned revenue (Note 5)	2,866	-	-	2,866
Current bonded debt (Note 8)	1,485,000	-	-	1,485,000
Total liabilities	1,807,394	-	-	1,807,394
Fund Balances				
Restricted - Debt service	-	252,440	-	252,440
Unassigned	(1,441,642)	-	-	(1,441,642)
Total fund balances	(1,441,642)	252,440	-	(1,189,202)
Total liabilities and fund balances	**$ 365,752**	**$ 252,440**	**$ -**	**$ 618,192**

See notes to financial statements.

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

		June 30, 2019
Fund Balances Reported in Governmental Funds	$	(1,189,202)
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		1,325,143
Accumulated depreciation		(513,277)
Net capital assets used in governmental activities		811,866
Accrued interest is not due and payable in the current period and is not reported in the funds		(16,706)
Some employee fringe benefits are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities:		
Net pension liability and related deferred inflows and outflows		(2,524,244)
Net OPEB liability and related deferred inflows and outflows		(949,104)
Revenue in support of pension contributions made subsequent to the measurement date is reported as a deferred inflow of resources in the statement of net position and is not reported in the funds		(101,317)
Net Position of Governmental Activities	**$**	**(3,968,707)**

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

Year Ended June 30, 2019

	General Fund	Debt Service Fund	Nonmajor Fund - Capital Projects Fund	Total Governmental Funds
Revenue				
Local sources	$ 13,752	$ 3,692	$ -	$ 17,444
State sources	805,607	-	-	805,607
Federal sources	96,022	-	-	96,022
Interdistrict sources	385,842	-	-	385,842
Total revenue	1,301,223	3,692	-	1,304,915
Expenditures				
Current:				
Instruction	477,675	-	-	477,675
Support services	623,497	75,374	-	698,871
Debt service - Interest (Note 8)	-	100,238	-	100,238
Total expenditures	1,101,172	175,612	-	1,276,784
Excess of Revenue Over (Under) Expenditures	200,051	(171,920)	-	28,131
Other Financing Sources (Uses)				
Transfers in (Note 7)	37,661	211,200	-	248,861
Transfers out (Note 7)	(198,783)	-	(50,078)	(248,861)
Total other financing (uses) sources	(161,122)	211,200	(50,078)	-
Net Change in Fund Balances	38,929	39,280	(50,078)	28,131
Fund Balances - Beginning of year	(1,480,571)	213,160	50,078	(1,217,333)
Fund Balances - End of year	**$ (1,441,642)**	**$ 252,440**	**$ -**	**$ (1,189,202)**

See notes to financial statements.

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

Year Ended June 30, 2019

Net Change in Fund Balances Reported in Governmental Funds	$	28,131
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		(20,533)
Revenue in support of pension contributions made subsequent to the measurement date		19,769
Some employee costs (pension and OPEB) do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds		(156,556)
Change in Net Position of Governmental Activities	**$**	**(129,189)**

See notes to financial statements.

Note 1 - Nature of Business

Macomb Academy (the "Academy") was formed as a public 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 filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, on July 28, 1995.

Macomb Academy operates under a contract with Central Michigan University (CMU) to charter a public school academy. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the state constitution. CMU is a limited fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy's contract with CMU expires on June 30, 2021.

The Academy pays CMU 3 percent of its state aid revenue as administrative fees. The total administrative fee expense for the year ended June 30, 2019 paid to CMU was $18,525.

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

Note 2 - Significant Accounting Policies

Accounting and Reporting Principles

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

Basis of Accounting

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the government has spent its resources.

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree healthcare-related costs or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Revenue is not recognized until it is collected, or collected soon enough after the end of the year that it is available to pay for obligations outstanding at the end of the year. For this purpose, the Academy considers amounts collected within 60 days of year end to be available for recognition.

Report Presentation

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The individual fund columns present their activities on the modified accrual basis of accounting, as discussed above, which demonstrates accountability for how the current resources have been spent. The government-wide columns are presented on the economic resources measurement focus and the full accrual basis of accounting in order to measure the cost of providing government services and the extent to which constituents have paid the full cost of government services.

Note 2 - Significant Accounting Policies (Continued)

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.

Fund Accounting

The Academy accounts for its various activities in several different funds in order to demonstrate accountability for how we have spent certain resources; separate funds allow us to show the particular expenditures for which specific revenue was used.

Governmental Funds

Governmental funds include all activities that provide general governmental services that are not business-type activities. This includes the General Fund, special revenue funds, debt service funds, capital projects funds, and permanent funds. The Academy reports the following funds as "major" governmental funds:

- General Fund - The General Fund is the primary operating fund because it accounts for all financial resources used to provide services other than those specifically assigned to another fund.
- Debt Service Fund - The Debt Service Fund is used to record revenue and other financing sources and expenditures for the payment of interest, principal, and other expenditures for the 2007 bond issue.

The Academy reports the following nonmajor governmental fund, which has a separate column for its activities:

- Capital Projects Fund - The Capital Projects Fund is used to record revenue and other financing sources and the disbursement of invoices specifically designated for acquiring new school sites, buildings, and equipment and for remodeling. The fund operates until the purpose for which it was created is accomplished.

Specific Balances and Transactions

Cash and Investments

Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Accounts receivable 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.

Restricted Assets

Restricted assets exist when their use is constrained for a particular purpose. At June 30, 2019, this includes amounts segregated for the payment of debt based on bond covenant requirements.

Note 2 - Significant Accounting Policies (Continued)

Capital Assets

Capital assets, which include property, building, equipment, and vehicles, 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 $1,000 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.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

	Depreciable Life - Years
Buildings	50
Building improvements	20
Furniture and equipment	5 - 20
Vehicles	7

Long-term Obligations

In the Academy-wide financial statements, long-term debt is reported as liabilities in the statement of net position. The face amount of debt issued is reported as other financing sources.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expenditure) until then.

The Academy reports deferred outflows related to deferred pension and OPEB costs.

In addition to liabilities, the statement of net 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 will not be recognized as an inflow of resources (revenue) until that time.

The Academy reports deferred inflows related to revenue in support of pension contributions made subsequent to the measurement date and deferred pension and OPEB plan cost reductions.

Net Position

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

Note 2 - Significant Accounting Policies (Continued)

Net Position Flow Assumption

The Academy will sometimes fund outlays for a particular purpose from both restricted (e.g., restricted grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Academy's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumptions

The Academy will sometimes fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Academy's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Furthermore, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The board of directors is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation. The board of directors had committed $250,000 for use in capital outlay for the future in previous years. These amounts were decommitted during the year ended June 30, 2019, while the Academy works to stabilize its financial condition.

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

Grants and Contributions

From time to time, the Academy receives federal, state, and local grants, as well as contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) is recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

Note 2 - Significant Accounting Policies (Continued)

Pension and Other Postemployment Benefit (OPEB) Plans

For purposes of measuring the net pension and net OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to each plan, and pension and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. MPSERS 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 expenses when due and payable in accordance with the plan benefit terms. Related plan investments are reported at fair value.

Comparative Data/Reclassifications

Comparative data is not included in the Academy’s financial statements.

Note 3 - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund and all special revenue funds. All annual appropriations lapse at fiscal year end. The budget document presents information by fund and function, which is a summarization of the Academy's line-item adopted budget. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The Academy amended budgeted amounts during the year in response to changes in funding sources, changes from anticipated pupil counts, and changes in expenditure levels.

Excess of Expenditures Over Appropriations in Budgeted Funds

During the year, the Academy incurred expenditures in the General Fund that were in excess of the amounts budgeted, which are reflected in the required supplemental information, and are outlined below:

	Budget	Actual
General administration	$ 187,290	$ 409,515
Operations and maintenance	55,750	131,637

The primary reason for actual expenditures exceeding budget relates to the reporting of interdistrict revenue and the associated expenditures associated with the expenditures paid for by Macomb Intermediate School District on behalf of the Academy. The expenditures had not been budgeted for since the ISD was paying those expenditures on behalf of the Academy, but have been reflected in the actual amounts (along with an associated interdistrict revenue) to reflect the actual cost of operating the Academy. The Academy's administration continues to look hard at what revisions will need to be made for the future.

Noncompliance with Legal or Contractual Provisions

The Academy is currently in default on the financial covenants associated with the bonded debt and did not make any principal payments for the year ended June 30, 2019. As a result, the bond trustee could call the debt and force immediate payment. As of the report date, the covenants have not been waived, and, therefore, the entire outstanding debt obligation has been classified as current.

Note 4 - 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, certificates of deposit, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Academy’s deposits are in accordance with statutory authority.

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

The Academy's cash and investments are 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 does not have a deposit policy for custodial credit risk. At year end, the Academy's deposit balance of $405,155 had no bank deposits (checking accounts) that were uninsured and uncollateralized. The Academy evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 5 - 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 June 30, 2019, the Academy had no unavailable revenue and $2,866 of unearned revenue related to grant payments received prior to meeting all eligibility requirements.

Note 6 - Capital Assets

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

Governmental Activities

	Balance July 1, 2018	Additions	Balance June 30, 2019
Capital assets being depreciated:			
Buildings and improvements	$ 1,225,461	$ -	$ 1,225,461
Furniture and equipment	58,320	-	58,320
Buses and other vehicles	41,362	-	41,362
Subtotal	1,325,143	-	1,325,143
Accumulated depreciation:			
Buildings and improvements	415,461	15,804	431,265
Furniture and equipment	43,205	2,300	45,505
Buses and other vehicles	34,078	2,429	36,507
Subtotal	492,744	20,533	513,277
Net governmental activities capital assets	$ 832,399	$ (20,533)	$ 811,866

Depreciation expense totaling $20,533 was not charged to activities, as the Academy considers its assets to impact multiple activities, and allocation is not practical.

Note 7 - Interfund Receivables, Payables, and Transfers

The General Fund owed $66,992 to the Debt Service Fund at June 30, 2019.

The balance results from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

During the year, the General Fund transferred $198,783 to the Debt Service Fund to finance debt service commitments. The Capital Projects Fund transferred $37,661 to the General Fund to fund operating costs and $12,417 to the Debt Service Fund to finance debt service commitments.

Note 8 - Long-term Debt

Long-term debt activity for the year ended June 30, 2019 can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds payable - Other debt - Revenue bonds	$ 1,485,000	$ -	$ -	$ 1,485,000	$ 1,485,000

Revenue Bonds

The Academy issues revenue bonds to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. Revenue bonds are full faith and credit obligations of the Academy payable solely from the Academy's state aid school payments.

Revenue bonds consist of $1,800,000 of 2007 serial bonds due in annual installments of $40,000 to $130,000 through May 1, 2037, with fixed interest at 6.75 percent.

Debt Service Requirements to Maturity

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

	Governmental Activities		
	Other Debt		
Year Ending June 30	Principal	Interest	Total
2020	$ 1,485,000	$ 100,238	$ 1,585,238

Assets Pledged as Collateral

The Academy's outstanding revenue bonds are secured with collateral of the Academy's school facility.

Significant Terms

The outstanding revenue bonds secured by collateral contain certain covenants, including a debt service coverage ratio and a minimum fund balance covenant. At June 30, 2019, the Academy was not in compliance with the required covenants. The Academy is working with the bank to resolve the noncompliance of covenants. To the extent the covenants cannot be waived or corrected, the bonded debt could be called for immediate payment. As of the report date, the covenants have not been waived, and, therefore, the entire outstanding debt obligation has been classified as current.

Note 9 - Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since inception.

Note 10 - 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 System is administered by the Office of Retirement Services (ORS). 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 at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Benefits Provided

Benefit provisions of the defined benefit (DB) pension plan and the postemployment healthcare 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 pension plan and the postemployment healthcare plan.

Depending on the plan option selected, member retirement benefits are calculated as final average compensation times years of services 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.

Depending on the member’s date of hire, MPSERS offers the option of participating in the defined contribution (DC) plan that provides a 50 percent employer match (up to 3 percent of salary) on employee contributions.

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. Some members who do not receive an annual increase are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions.

Note 10 - Michigan Public School Employees' Retirement System (Continued)

MPSERS provides medical, prescription drug, dental, and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by MPSERS, with the balance deducted from the monthly pension of each retiree healthcare recipient. Depending on the member’s date of hire, this subsidized portion ranges from 80 percent to the maximum allowed by the statute.

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.

Under the OPEB plan, 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. Participating employers are required to contribute at that rate.

Under Public Act 300 of 2012, members were given the choice between continuing the 3 percent contribution to the retiree health care and keeping the premium subsidy benefit described above, or choosing not to pay the 3 percent contribution and, instead, opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date, earning them a 2 percent employer match into a 401(k) account. Members who selected this option stopped paying the 3 percent contribution to the retiree health care as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

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

The range of rates is as follows:

	Pension	OPEB
October 1, 2017 - January 31, 2018	13.54% - 17.89%	7.42% - 7.67%
February 1, 2018 - September 30, 2018	13.54% - 19.74%	7.42% - 7.67%
October 1, 2018 - September 30, 2019	13.39% - 19.59%	7.57% - 7.93%

Depending on the plan selected, member pension contributions range from 0 percent up to 7.0 percent of gross wages. For certain plan members, a 4 percent employer contribution to the defined contribution pension plan is required. In addition, for certain plan members, a 3 percent employer match is provided to the defined contribution pension plan.

The Academy's required and actual pension contributions to the plan for the year ended June 30, 2019 were $181,497, which include the Academy's contributions required for those members with a defined contribution benefit. The Academy's required and actual pension contributions include an allocation of $101,317 in revenue 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, 2019.

The Academy's required and actual OPEB contributions to the plan for the year ended June 30, 2019 were $35,465, which include the Academy's contributions required for those members with a defined contribution benefit.

Note 10 - Michigan Public School Employees' Retirement System (Continued)

Net Pension Liability

At June 30, 2019, the Academy reported a liability of $3,049,331 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2017, which used updated procedures to roll forward the estimated liability to September 30, 2018. 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, 2018 and 2017, the Academy's proportion was 0.01 percent, representing a change of 10.38 percent.

Net OPEB Liability

At June 30, 2019, the Academy reported a liability of $723,878 for its proportionate share of the net OPEB liability. The net OPEB liability for fiscal year 2019 was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2017, which used updated procedures to roll forward the estimated liability to September 30, 2018. The Academy’s proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2018 and 2017, the Academy’s proportion was 0.01 percent, representing a change of 19.32 percent.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For 2019, the Academy recognized pension expense of $397,679, inclusive of payments to fund the MPSERS UAAL stabilization rate. At June 30, 2019, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 14,149	$ (22,159)
Changes in assumptions	706,223	-
Net difference between projected and actual earnings on pension plan investments	-	(208,497)
Changes in proportion and differences between the Academy's contributions and proportionate share of contributions	121,828	(244,285)
The Academy's contributions to the plan subsequent to the measurement date	157,828	-
Total	$ 1,000,028	$ (474,941)

The $101,317 reported as deferred inflows of resources resulting from the pension portion of state aid payments received pursuant to the UAAL payment will be recognized as state appropriations revenue for the year ending June 30, 2020. 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	Amount
2020	$ 197,575
2021	107,061
2022	54,881
2023	7,742
Total	$ 367,259

Note 10 - Michigan Public School Employees' Retirement System (Continued)

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

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the Academy recognized OPEB expense of $(307).

At June 30, 2019, the Academy reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ (134,732)
Changes in assumptions	76,659	-
Net difference between projected and actual earnings on OPEB plan investments	-	(27,820)
Changes in proportionate share or difference between amount contributed and proportionate share of contributions	88	(164,140)
Employer contributions to the plan subsequent to the measurement date	24,719	-
Total	$ 101,466	$ (326,692)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (note that employer contributions subsequent to the measurement date will reduce the net OPEB liability and, therefore, will not be included in future OPEB expense):

Years Ending	Amount
2020	$ (56,854)
2021	(56,854)
2022	(56,854)
2023	(51,192)
2024	(28,191)
Total	$ (249,945)

Note 10 - Michigan Public School Employees' Retirement System (Continued)

Actuarial Assumptions

The total pension liability and total OPEB liability as of September 30, 2018 are based on the results of an actuarial valuation as of September 30, 2017 and rolled forward. The total pension liability and OPEB liability were determined using the following actuarial assumptions:

Actuarial cost method		Entry age normal
Investment rate of return - Pension	6.00% - 7.05%	Net of investment expenses based on the groups
Investment rate of return - OPEB	7.15%	Net of investment expenses based on the groups
Salary increases	2.75% - 11.55%	Including wage inflation of 2.75% for 2019 and 3.50% for 2018
Healthcare cost trend rate - OPEB	7.50%	Year 1 graded to 3.0% year 12
Mortality basis		RP2014 Male and Female Employee Annuitant Mortality tables, scaled 100% (retirees: 82% for males and 78% for females) and adjusted for mortality improvements using projection scale MP2017 from 2006
Cost of living pension adjustments	3.00%	Annual noncompounded for MIP members

Assumption changes as a result of an experience study for the periods from 2012 to 2017 have been adopted by the System for use in the annual pension and OPEB valuations beginning with the September 30, 2017 valuation.

Discount Rate

The discount rate used to measure the total pension liability was 6.00 to 7.05 percent as of September 30, 2018, depending on the plan option. The discount rate used to measure the total OPEB liability was 7.15 percent as of September 30, 2018. 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 district contributions will be made at statutorily required rates.

Based on those assumptions, the pension plan's fiduciary net position and the OPEB plan’s fiduciary net position were projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension liability and total OPEB liability.

Note 10 - Michigan Public School Employees' Retirement System (Continued)

The long-term expected rate of return on pension plan and OPEB 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 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:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	28.00 %	5.70 %
Private equity pools	18.00	9.20
International equity pools	16.00	7.20
Fixed-income pools	10.50	0.50
Real estate and infrastructure pools	10.00	3.90
Absolute return pools	15.50	5.20
Short-term investment pools	2.00	-
Total	100.00 %	

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, 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 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (5.00 - 6.05%)	Current Discount Rate (6.00 - 7.05%)	1 Percent Increase (7.00 - 8.05%)
Net pension liability of the Academy	$ 4,003,536	$ 3,049,331	$ 2,256,542

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Academy, calculated using the current discount rate. It also reflects what the Academy's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (6.15%)	Current Discount Rate (7.15%)	1 Percent Increase (8.15%)
Net OPEB liability of the Academy	$ 869,000	$ 723,878	$ 601,812

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the School District, calculated using the current healthcare cost trend rate. It also reflects what the School District's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (6.50%)	Current Rate (7.50%)	1 Percent Increase (8.50%)
Net OPEB liability of the Academy	$ 595,381	$ 723,878	$ 871,289

Note 10 - Michigan Public School Employees' Retirement System (Continued)

Pension Plan and OPEB Plan Fiduciary Net Position

Detailed information about the plan’s fiduciary net position is available in the separately issued MPSERS financial report.

Payable to the Pension Plan and OPEB Plan

At June 30, 2019, the Academy reported a payable of $38,036 and $4,547 for the outstanding amount of contributions to the pension plan and OPEB plan, respectively, required for the year ended June 30, 2019.

Note 11 - Going Concern

At June 30, 2019, the fund balance in the General Fund was $(1,441,642). Based on the enrollment for the fiscal years ending June 30, 2019 and 2020, which declined from the 2018 levels significantly, there is doubt as to whether the Academy will generate sufficient cash flow to service its bonds and be able to finance its operations. During the year ended June 30, 2019, the Macomb Intermediate School District paid expenditures on behalf of the Academy that will not be reimbursed of approximately $365,000. The Academy recorded these amounts as expenditures and interdistrict revenue during the year ended June 30, 2019 to reflect this activity.

The Academy has filed a forbearance request with the bond trustee and is actively working with legal counsel and the bond representatives to determine possible solutions. The board of directors is also evaluating its operating structure and adjusting cash flow projections to address the decline in enrollment and its impact on cash flow.

The Academy continues to be in default on the financial covenants associated with the bonded debt and did not make any principal payments for the year ended June 30, 2019. The bond trustee could call the debt and force immediate payment. If that were to occur, the Academy does not have sufficient cash flow to pay the bonds, and the current appraised value of the building is less than the outstanding balance on the bonds. Since the covenants have not been waived, the outstanding balance on the bonds has been classified as current. Given the current financial situation involving enrollment and the need to restructure expenditures, the Academy is working closely with its legal counsel on appropriate next steps.

Required Supplemental Information

Required Supplemental Information
Budgetary Comparison Schedule - General Fund

Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	$ 295,300	$ 11,900	$ 13,752	$ 1,852
State sources	1,038,072	805,019	805,607	588
Federal sources	110,337	96,022	96,022	-
Interdistrict sources	25,000	21,278	385,842	364,564
Total revenue	1,468,709	934,219	1,301,223	367,004
Expenditures				
Current:				
Instruction	772,521	456,321	477,675	21,354
Support services:				
Pupil	2,903	36,019	36,018	(1)
Instructional staff	50,803	-	-	-
General administration	354,043	187,290	409,515	222,225
Business	53,695	41,905	41,909	4
Operations and maintenance	65,850	55,750	131,637	75,887
Pupil transportation services	15,500	4,000	2,590	(1,410)
Other	-	1,800	1,828	28
Total support services	542,794	326,764	623,497	296,733
Total expenditures	1,315,315	783,085	1,101,172	318,087
Excess of Revenue Over Expenditures	153,394	151,134	200,051	48,917
Other Financing Uses	(142,916)	(143,270)	(161,122)	(17,852)
Net Change in Fund Balance	10,478	7,864	38,929	31,065
Fund Balance - Beginning of year	(1,480,571)	(1,480,571)	(1,480,571)	-
Fund Balance - End of year	**$ (1,470,093)**	**$ (1,472,707)**	**$ (1,441,642)**	**$ 31,065**

See notes to required supplemental information.

Required Supplemental Information
Schedule of Proportionate Share of the Net Pension Liability
Michigan Public School Employees' Retirement System

Last Five Plan Years

Plan Years Ended September 30

	2018	2017	2016	2015	2014
Academy's proportion of the net pension liability	0.01014 %	0.01132 %	0.01074 %	0.01097 %	0.00974 %
Academy's proportionate share of the net pension liability	$ 3,049,331	$ 2,933,159	$ 2,678,372	$ 2,679,968	$ 2,146,025
Academy's covered employee payroll	$ 781,891	$ 984,528	$ 896,334	$ 928,141	$ 832,054
Academy's proportionate share of the net pension liability as a percentage of its covered employee payroll	389.99 %	297.93 %	298.81 %	288.75 %	257.92 %
Plan fiduciary net position as a percentage of total pension liability	62.12 %	63.96 %	63.01 %	62.92 %	66.20 %

Required Supplemental Information
Schedule of Pension Contributions
Michigan Public School Employees' Retirement System

Last Five Fiscal Years

Years Ended June 30

	2019	2018	2017	2016	2015
Statutorily required contribution	$ 176,306	$ 268,660	$ 279,936	$ 244,034	$ 204,399
Contributions in relation to the statutorily required contribution	176,306	268,660	279,936	244,034	204,399
Contribution Deficiency	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Academy's Covered Employee Payroll	$ 416,189	$ 817,630	$ 1,049,096	$ 876,370	$ 940,295
Contributions as a Percentage of Covered Employee Payroll	42.36 %	32.86 %	26.68 %	27.85 %	21.74 %

See notes to required supplemental information.

Required Supplemental Information
Schedule of Proportionate Share of the Net OPEB Liability
Michigan Public School Employees' Retirement System

Last Two Plan Years

Plan Years Ended September 30

	2018	2017
Academy's proportion of the net OPEB liability	0.00911 %	0.01129 %
Academy's proportionate share of the net OPEB liability	$ 723,878	$ 999,540
Academy's covered employee payroll	$ 781,891	$ 984,528
Academy's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	92.58 %	101.52 %
Plan fiduciary net position as a percentage of total OPEB liability	43.10 %	36.53 %

See notes to required supplemental information.

Required Supplemental Information
Schedule of OPEB Contributions
Michigan Public School Employees' Retirement System

Last Two Fiscal Years

Years Ended June 30

	2019	2018
Statutorily required contribution	$ 32,692	$ 59,055
Contributions in relation to the statutorily required contribution	32,692	59,055
Contribution Deficiency	**$ -**	**$ -**
Academy's Covered Employee Payroll	$ 416,189	$ 817,630
Contributions as a Percentage of Covered Employee Payroll	7.86 %	7.22 %

Pension Information

Ultimately, 10 years of data will be presented in both of the pension-related schedules. The number of years currently presented represents the number of years since the accounting standard requiring these schedules first became applicable.

Benefit Changes

There were no changes of benefit terms in for each of the reported plan years ended September 30.

Changes in Assumptions

There were no significant changes of assumptions for each of the reported plan years ended September 30, except for the following:

- 2018 - The discount rate used in the September 30, 2017 actuarial valuation decreased by 0.45 percent.
- 2017 - The discount rate used in the September 30, 2016 actuarial valuation decreased by 0.50 percent.

OPEB Information

Ultimately, 10 years of data will be presented in both of the OPEB-related schedules. The number of years currently presented represents the number of years since the accounting standard requiring these schedules first became applicable.

Benefit Changes

There were no changes of benefit terms in for each of the reported plan years ended September 30.

Changes in Assumptions

There were no significant changes of assumptions for each of the reported plan years ended September 30, except for the following:

- 2018 - The discount rate used in the September 30, 2017 actuarial valuation decreased by 0.35 percent.

Other Supplemental Information

Other Supplemental Information
Schedule of Bonded Indebtedness

June 30, 2019

Year Ending June 30	2007 Principal
2020	$ 1,485,000
Total remaining payments	**$ 1,485,000**
Principal payments due	May 1
Interest payments due	May 1 and November 1
Interest rate	6.75%
Original issue	**$ 1,800,000**