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Macomb Academy

Financial Report
with Supplemental Information
June 30, 2022

Contents

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Independent Auditor's Report

To the Board of Directors
Macomb Academy

Report on the Audit of the Financial Statements

Opinions

We have audited the 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, 2022 and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying 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 the Academy as of June 30, 2022 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Academy and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Substantial Doubt about the Academy's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Academy will continue as a going concern. As discussed in Note 11 to the financial statements, the Academy has suffered declines in enrollment, which will reduce funding for future years. The most recent appraisal of its facility is less than the outstanding balance on the bond, and the Academy has received financial assistance to fund operations. Management's evaluation of the events and conditions and management's plans regarding this matter are also described in Note 11. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Academy's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

To the Board of Directors
Macomb Academy

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Academy's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Academy's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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.

To the Board of Directors
Macomb Academy

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2022 on 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, grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of the Academy's 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 the Academy's internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 17, 2022

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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 Macomb Academy (the "Academy"), which comprise the Academy's basic financial statements as of June 30, 2022 and the related notes to the financial statements, and have issued our report thereon dated October 17, 2022.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

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

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

Report on 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 financial statements. 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and is described as follows:

The Academy is currently in default on certain financial covenants associated with the bonded debt, as it relates to a missed principal payment from 2019, despite making required payments for the year ended June 30, 2022. As a result, the bond trustee could call the debt and force immediate payment. We recommend the Academy continue to 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 the 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 17, 2022

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, 2022. 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 and 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 the Academy's 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, 2022 and 2021:

	Governmental Activities	
	2022	2021
	(in thousands)	
Assets		
Current and other assets	$ 594.2	$ 567.5
Capital assets	755.5	772.1
Total assets	1,349.7	1,339.6
Deferred Outflows of Resources	183.2	357.6
Liabilities		
Current liabilities	66.2	36.4
Noncurrent liabilities	1,345.0	1,395.0
Net pension liability	691.8	1,348.3
Net OPEB liability	34.9	201.0
Total liabilities	2,137.9	2,980.7
Deferred Inflows of Resources	1,737.7	1,762.4
Net Position (Deficit)		
Net investment in capital assets	(589.5)	(622.9)
Restricted	246.4	223.4
Unrestricted	(1,999.7)	(2,646.4)
Total net position (deficit)	**$ (2,342.8)**	**$ (3,045.9)**

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 $(2,342.8) thousand at June 30, 2022. Net investment in capital assets, totaling $(589.5) thousand, compares the original cost, less depreciation of the Academy's capital assets, to long-term debt used to finance the acquisition of those assets. The debt will be repaid through the receipt of unrestricted state aid, based on enrollment, to the extent cash flow is available. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Academy's ability to use that net position for day-to-day operations. The remaining amount of net position ($(1,999.7) thousand) was unrestricted.

The $(1,999.7) thousand in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The unrestricted net position balance enables the Academy to meet working capital and cash flow requirements 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, 2022 and 2021:

	Governmental Activities	
	2022	2021
	(in thousands)	
Revenue		
Program revenue - Operating grants	$ 872.2	$ 754.0
General revenue:		
State aid not restricted to specific purposes	296.9	360.9
Other	15.0	26.6
Total revenue	1,184.1	1,141.5
Expenses		
Instruction	(158.1)	(77.9)
Support services	528.9	384.9
Debt service	93.6	96.7
Depreciation expense (unallocated)	16.6	19.3
Total expenses	481.0	423.0
Change in Net Position	703.1	718.5
Net Position (Deficit) - Beginning of year	(3,045.9)	(3,764.4)
Net Position (Deficit) - End of year	**$ (2,342.8)**	**$ (3,045.9)**

As reported in the statement of activities, the cost of all of our governmental activities this year was $481.0 thousand. Certain activities were partially funded by other governments and organizations that subsidized certain programs with grants and contributions ($872.2 thousand). We paid for the remaining public benefit portion of our governmental activities with $296.9 thousand in state foundation allowance and with other revenue (i.e., interest and general entitlements).

The Academy experienced an increase in net position of $703.1 thousand. Key reasons for the change in net position were due to the Academy placing an emphasis on reducing expenses in the current year, as well as some increased funding from the State, which may be one time in nature.

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 directors and administration must annually evaluate the needs of the Academy and balance those needs with state-prescribed available unrestricted resources.

The Academy's Funds

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

As the Academy completed this year, the governmental funds reported a combined fund balance of $(801,853), which is an increase of $46,382 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 by $23,859 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.

The fund balance of the Debt Service Fund increased by $22,523. 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 2022. A schedule showing the Academy’s original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2022, the Academy had $755,463 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 $16,601, or 2.2 percent, from last year.

	2022	2021
Buildings and improvements	$ 747,399	$ 762,895
Furniture and equipment	8,064	9,169
Total capital assets - Net of accumulated depreciation	**$ 755,463**	**$ 772,064**

There were no additions or disposals during the year, and there are no major capital projects planned for the 2022-2023 fiscal year.

Debt

At the end of this year, the Academy had $1,345,000 in bonds outstanding. 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 2022-2023 fiscal year budget. One of the most important factors affecting the budget is our student count and financial support from the Macomb Intermediate School District (ISD). The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The 2022-2023 budget was adopted in June 2022 based on an estimate of students who will enroll in September 2022. Approximately 25.4 percent of total General Fund revenue is from the foundation allowance. Under state law, the Academy cannot assess additional property tax revenue for general operations. As a result, the Academy's funding is heavily dependent on the State’s ability to fund local school operations. The amount of support needed from the ISD is determined during the year, depending on student enrollment data, and will be incorporated in amended budgets during the year.

Based on early enrollment data at the start of the 2022-2023 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2022-2023 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, 2022

	Governmental Activities
Assets	
Cash and investments (Note 4)	$ 314,106
Due from other governmental units	138,076
Restricted assets (Note 4)	142,015
Capital assets - Net (Note 6)	755,463
Total assets	1,349,660
Deferred Outflows of Resources (Note 10)	
Deferred pension costs	135,560
Deferred OPEB costs	47,635
Total deferred outflows of resources	183,195
Liabilities	
Accounts payable	15,053
Accrued liabilities and other	51,128
Noncurrent liabilities:	
Due within one year (Note 8)	1,345,000
Net pension liability (Note 10)	691,817
Net OPEB liability (Note 10)	34,904
Total liabilities	2,137,902
Deferred Inflows of Resources (Note 10)	
Other deferred inflows	36,137
Deferred pension cost reductions	1,185,373
Deferred OPEB cost reductions	516,224
Total deferred inflows of resources	1,737,734
Net Position (Deficit)	
Net investment in capital assets	(589,537)
Restricted - Debt service	246,466
Unrestricted	(1,999,710)
Total net position (deficit)	**$ (2,342,781)**

See notes to financial statements.

Statement of Activities

Year Ended June 30, 2022

	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Governmental Activities: Net Revenue (Expense) and Changes in Net Position
Functions/Programs				
Primary government - Governmental activities:				
Instruction	$ (158,072)	$ -	$ 154,012	$ 312,084
Support services	528,880	-	718,188	189,308
Interest	93,602	-	-	(93,602)
Depreciation expense (unallocated) (Note 6)	16,601	-	-	(16,601)
Total primary government	**$ 481,011**	**$ -**	**$ 872,200**	391,189
General revenue:				
State aid not restricted to specific purposes				296,947
Interest and investment earnings				21
Other				14,957
Total general revenue				311,925
Change in Net Position				703,114
Net Position (Deficit) - Beginning of year				(3,045,895)
Net Position (Deficit) - End of year				**$ (2,342,781)**

Governmental Funds Balance Sheet

June 30, 2022

	General Fund	Debt Service Fund	Nonmajor Fund - Capital Projects Fund	Total Governmental Funds
Assets				
Cash and investments (Note 4)	$ 314,106	$ -	$ -	$ 314,106
Due from other governmental units	127,635	10,441	-	138,076
Due from other funds (Note 7)	-	109,141	-	109,141
Restricted assets (Note 4)	-	142,015	-	142,015
Total assets	**$ 441,741**	**$ 261,597**	**$ -**	**$ 703,338**
Liabilities				
Accounts payable	$ 15,053	$ -	$ -	$ 15,053
Due to other funds (Note 7)	109,141	-	-	109,141
Accrued liabilities and other	35,997	-	-	35,997
Long-term debt (Note 8)	1,345,000	-	-	1,345,000
Total liabilities	1,505,191	-	-	1,505,191
Fund Balances (Deficit)				
Restricted - Debt service	-	261,597	-	261,597
Assigned - Budgeted use of fund balance in subsequent year	5,657	-	-	5,657
Unassigned	(1,069,107)	-	-	(1,069,107)
Total fund balances (deficit)	(1,063,450)	261,597	-	(801,853)
Total liabilities and fund balances (deficit)	**$ 441,741**	**$ 261,597**	**$ -**	**$ 703,338**

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

	June 30, 2022
Fund Balances (Deficit) Reported in Governmental Funds	$ (801,853)
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	(569,680)
Net capital assets used in governmental activities	755,463
Accrued interest is not due and payable in the current period and is not reported in the funds	(15,131)
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	(1,741,630)
Net OPEB liability and related deferred inflows and outflows	(503,493)
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	(36,137)
Net Position (Deficit) of Governmental Activities	**$ (2,342,781)**

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

Year Ended June 30, 2022

	General Fund	Debt Service Fund	Nonmajor Fund - Capital Projects Fund	Total Governmental Funds
Revenue				
Local sources	$ 14,957	$ 21	$ -	$ 14,978
State sources	615,510	-	-	615,510
Federal sources	89,331	-	-	89,331
Interdistrict sources	450,778	-	-	450,778
Total revenue	1,170,576	21	-	1,170,597
Expenditures				
Current:				
Instruction	409,327	-	-	409,327
Support services	620,723	-	-	620,723
Debt service - Interest (Note 8)	-	94,165	-	94,165
Total expenditures	1,030,050	94,165	-	1,124,215
Excess of Revenue Over (Under) Expenditures	140,526	(94,144)	-	46,382
Other Financing Sources (Uses)				
Transfers in (Note 7)	-	116,667	-	116,667
Transfers out (Note 7)	(116,667)	-	-	(116,667)
Total other financing (uses) sources	(116,667)	116,667	-	-
Net Change in Fund Balances	23,859	22,523	-	46,382
Fund Balances (Deficit) - Beginning of year	(1,087,309)	239,074	-	(848,235)
Fund Balances (Deficit) - End of year	**$ (1,063,450)**	**$ 261,597**	**$ -**	**$ (801,853)**

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, 2022

Net Change in Fund Balances Reported in Governmental Funds	$ 46,382
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	(16,601)
Revenue in support of pension contributions made subsequent to the measurement date	13,528
Interest expense is recognized in the government-wide statements when incurred; it is not reported in governmental funds until paid	563
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	659,242
Change in Net Position of Governmental Activities	**$ 703,114**

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, 2023.

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, 2022 paid to CMU was $15,188.

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 health care-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. The fund has remained open for future capital projects.

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, 2022, 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 government-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 and/or balance sheet 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 and/or balance sheet 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.

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 exist only 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.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including October 17, 2022, which is the date the financial statements were available to be issued.

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
Pupil	$ 10,753	$ 81,900
Instructional staff	-	15,000
General administration	114,801	333,424
Operations and maintenance	126,481	173,343

The primary reason for actual expenditures exceeding the budget relates to the reporting of interdistrict revenue and the associated expenditures that were paid by Macomb Intermediate School District (ISD) 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 associated interdistrict revenue) to reflect the actual cost of operating the Academy. The Academy's administration continues to closely examine what revisions will need to be made for the future.

Note 3 - Stewardship, Compliance, and Accountability (Continued)

Noncompliance with Legal or Contractual Provisions

The Academy is currently in default on the financial covenants associated with the bonded debt for the year ended June 30, 2022. The Academy did make the proper principal payment for the year ended June 30, 2022; however, the fiscal year 2019 principal payment remains unpaid. 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 continues to be 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 no 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 custodial credit risk, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy does not have a deposit policy for custodial credit risk. At year end, the Academy's deposit balance of $460,792 had bank deposits of $68,777 (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, 2022, the Academy had no unavailable revenue and 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, 2021	Additions	Balance June 30, 2022
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	462,566	15,496	478,062
Furniture and equipment	49,151	1,105	50,256
Buses and other vehicles	41,362	-	41,362
Subtotal	553,079	16,601	569,680
Net governmental activities capital assets	$ 772,064	$ (16,601)	$ 755,463

Depreciation expense totaling $16,601 was not charged to activities, as the Academy's assets benefit multiple activities, and allocation is not practical.

Note 7 - Interfund Receivables, Payables, and Transfers

The General Fund owed $109,141 to the Debt Service Fund at June 30, 2022.

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 $116,667 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, 2022 can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds payable	$ 1,395,000	$ -	$ (50,000)	$ 1,345,000	$ 1,345,000

Revenue Bonds

The Academy issued 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.

Note 8 - Long-term Debt (Continued)

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
2023	$ 1,345,000	$ 91,463	$ 1,436,463

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, 2022, the Academy was not in compliance with the required covenants and also missed the required principal payment in fiscal year 2019. The Academy is working with the bank to resolve noncompliance with the covenants, but it has also remained current on payment requirements under the amortization schedule. 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 (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 health care benefits through the System. The System provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The System also provides postemployment health care 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 health care plans. That report is available on the web at http://www.michigan.gov/orsschools.

Benefits Provided

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

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

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 by 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.

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 health care 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 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 participants in the Personal Healthcare Fund (PHF), a portable tax-deferred fund that can be used to pay health care expenses in retirement. Participants in the PHF are automatically enrolled in a 2 percent employee contribution into their 457 accounts 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 retiree health care as of the day before their transition date, and their prior contributions were deposited into their 401(k) accounts.

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

The Academy's contributions are determined based on employee elections. There are multiple different pension and health care 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 ranges of rates are as follows:

	Pension	OPEB
October 1, 2020 - September 30, 2021	13.39% - 19.78%	7.57% - 8.43%
October 1, 2021 - September 30, 2022	13.37% - 20.14%	7.23% - 8.09%

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, 2022 were $104,404, which includes 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 $36,137 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, 2022.

The Academy's required and actual OPEB contributions to the plan for the year ended June 30, 2022 were $28,621, which includes the Academy's contributions required for those members with a defined contribution benefit.

Net Pension Liability

At June 30, 2022, the Academy reported a liability of $691,817 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2020, which used update procedures to roll forward the estimated liability to September 30, 2021. 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, 2021 and 2020, the Academy’s proportion was less than 0.01 percent.

Net OPEB Liability

At June 30, 2022, the Academy reported a liability of $34,904 for its proportionate share of the net OPEB liability. The net OPEB liability for fiscal year 2022 was measured as of September 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2020, which used update procedures to roll forward the estimated liability to September 30, 2021. 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, 2021 and 2020, the Academy’s proportion was less than 0.01 percent.

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

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

For 2022, the Academy recognized pension recovery of $400,794, inclusive of payments to fund the MPSERS UAAL stabilization rate. At June 30, 2022, 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	$ 10,717	$ (4,074)
Changes in assumptions	43,610	-
Net difference between projected and actual earnings on pension plan investments	-	(222,417)
Changes in proportion and differences between the Academy's contributions and proportionate share of contributions	155	(958,882)
The Academy's contributions to the plan subsequent to the measurement date	81,078	-
Total	$ 135,560	$ (1,185,373)

The $36,137 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, 2023. 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
2023	$ (483,643)
2024	(362,260)
2025	(195,018)
2026	(89,970)
Total	$ (1,130,891)

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, 2022, the Academy recognized OPEB recovery of $155,534.

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

At June 30, 2022, 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	$ -	$ (99,632)
Changes in assumptions	29,178	(4,366)
Net difference between projected and actual earnings on OPEB plan investments	-	(26,308)
Changes in proportionate share or difference between amount contributed and proportionate share of contributions	289	(385,918)
Employer contributions to the plan subsequent to the measurement date	18,168	-
Total	$ 47,635	$ (516,224)

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
2023	$ (162,345)
2024	(145,942)
2025	(101,488)
2026	(48,403)
2027	(25,266)
Thereafter	(3,313)
Total	$ (486,757)

Actuarial Assumptions

The total pension liability and total OPEB liability as of September 30, 2021 are based on the results of an actuarial valuation as of September 30, 2020 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% - 6.80%	Net of investment expenses based on the groups
Investment rate of return - OPEB	6.95%	Net of investment expenses based on the groups
Salary increases	2.75% - 11.55%	Including wage inflation of 2.75%
Health care cost trend rate - OPEB	5.25% - 7.75%	Year 1, graded to 3.5% in year 15, 3.0% in year 120
Mortality basis		RP-2014 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 MP-2017 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, 2018 valuation.

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

Significant assumption changes since the prior measurement date, September 30, 2020, for the OPEB plan include an increase in the health care cost trend rate of 0.75 percentage points for members under 65 and a reduction from 7.0 percent to 5.25 percent for members over 65. There were no significant changes in assumptions for the pension actuarial valuation. There were no significant benefit terms changes for the pension or OPEB plans since the prior measurement date of September 30, 2020.

Discount Rate

The discount rate used to measure the total pension liability was 6.00 to 6.80 percent as of September 30, 2021 depending on the plan option. The discount rate used to measure the total OPEB liability was 6.95 percent as of September 30, 2021. 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 academy 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.

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	25.00 %	5.40 %
Private equity pools	16.00	9.10
International equity pools	15.00	7.50
Fixed-income pools	10.50	(0.70)
Real estate and infrastructure pools	10.00	5.40
Absolute return pools	9.00	2.60
Short-term investment pools	2.00	(1.30)
Real return/opportunistic pools	12.50	6.10
Total	100.00 %	

Long-term rates of return are net of administrative expense and inflation of 2.0 percent.

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 Percentage Point Decrease (5.00 - 5.80%)	Current Discount Rate (6.00 - 6.80%)	1 Percentage Point Increase (7.00 - 7.80%)
Net pension liability of the Academy	$ 989,110	$ 691,817	$ 445,341

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

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 Percentage Point Decrease (5.95%)	Current Discount Rate (6.95%)	1 Percentage Point Increase (7.95%)
Net OPEB liability of the Academy	$ 64,859	$ 34,904	$ 9,484

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

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

	1 Percentage Point Decrease	Current Rate	1 Percentage Point Increase
Net OPEB liability of the Academy	$ 8,495	$ 34,904	$ 64,618

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, 2022, the Academy reported a payable of $6,572 and $0 for the outstanding amount of contributions to the pension plan and OPEB plan, respectively, required for the year ended June 30, 2022.

Note 11 - Going Concern

At June 30, 2022, the fund balance (deficit) in the General Fund was $(1,063,450). Based on the enrollment for the fiscal years ending June 30, 2022 and 2023, 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, 2022, the Macomb Intermediate School District paid expenditures of approximately $414,000 on behalf of the Academy that will not be reimbursed. The Academy recorded these amounts as expenditures and interdistrict revenue during the year ended June 30, 2022 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. Although the required principal payment was made during 2022, the required payment for fiscal year 2019 remains unpaid. 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, 2022

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	$ 9,700	$ 11,400	$ 14,957	$ 3,557
State sources	690,719	612,466	615,510	3,044
Federal sources	59,109	88,658	89,331	673
Interdistrict sources	44,945	109,338	450,778	341,440
Total revenue	804,473	821,862	1,170,576	348,714
Expenditures				
Current:				
Instruction	407,199	431,442	409,327	(22,115)
Support services:				
Pupil	16,000	10,753	81,900	71,147
Instructional staff	-	-	15,000	15,000
General administration	98,196	114,801	333,424	218,623
Business	42,221	-	-	-
Operations and maintenance	105,903	126,481	173,343	46,862
Pupil transportation services	4,000	100	35	(65)
Other	2,600	17,304	17,021	(283)
Total support services	268,920	269,439	620,723	351,284
Total expenditures	676,119	700,881	1,030,050	329,169
Excess of Revenue Over Expenditures	128,354	120,981	140,526	19,545
Other Financing Uses - Transfers out	(120,000)	(118,000)	(116,667)	1,333
Net Change in Fund Balance	8,354	2,981	23,859	20,878
Fund Balance (Deficit) - Beginning of year	(1,087,309)	(1,087,309)	(1,087,309)	-
Fund Balance (Deficit) - End of year	**$ (1,078,955)**	**$ (1,084,328)**	**$ (1,063,450)**	**$ 20,878**

See notes to required supplemental information.

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

Last Eight Plan Years

Plan Years Ended September 30

	2021	2020	2019	2018	2017	2016	2015	2014
Academy's proportion of the net pension liability	0.00292 %	0.00393 %	0.00633 %	0.01014 %	0.01132 %	0.01074 %	0.01097 %	0.00974 %
Academy's proportionate share of the net pension liability	$ 691,817	$ 1,348,297	$ 2,097,512	$ 3,049,331	$ 2,933,159	$ 2,678,372	$ 2,679,968	$ 2,146,025
Academy's covered payroll	$ 215,036	$ 338,454	$ 392,126	$ 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 payroll	321.72 %	398.37 %	534.91 %	389.99 %	297.93 %	298.81 %	288.75 %	257.92 %
Plan fiduciary net position as a percentage of total pension liability	72.32 %	59.49 %	60.08 %	62.12 %	63.96 %	63.01 %	62.92 %	66.15 %

See notes to required supplemental information.

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

Last Eight Fiscal Years

Years Ended June 30

	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily required contribution	$ 95,789	$ 93,955	$ 115,720	$ 176,306	$ 268,660	$ 279,936	$ 244,034	$ 204,399
Contributions in relation to the statutorily required contribution	95,789	93,955	115,720	176,306	268,660	279,936	244,034	204,399
Contribution Deficiency	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Academy's Covered Payroll	$ 300,393	$ 227,143	$ 349,923	$ 416,189	$ 817,630	$ 1,049,096	$ 876,370	$ 940,295
Contributions as a Percentage of Covered Payroll	31.89 %	41.36 %	33.07 %	42.36 %	32.86 %	26.68 %	27.85 %	21.74 %

See notes to required supplemental information.

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

Last Five Plan Years

Plan Years Ended September 30

	2021	2020	2019	2018	2017
Academy's proportion of the net OPEB liability	0.00229 %	0.00375 %	0.00446 %	0.00911 %	0.01129 %
Academy's proportionate share of the net OPEB liability	$ 34,904	$ 200,975	$ 319,857	$ 723,878	$ 999,540
Academy's covered payroll	$ 215,036	$ 338,454	$ 392,126	$ 781,891	$ 984,528
Academy's proportionate share of the net OPEB liability as a percentage of its covered payroll	16.23 %	59.38 %	81.57 %	92.58 %	101.52 %
Plan fiduciary net position as a percentage of total OPEB liability	88.87 %	59.76 %	48.67 %	43.10 %	36.53 %

See notes to required supplemental information.

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

Last Five Fiscal Years

Years Ended June 30

	2022	2021	2020	2019	2018
Statutorily required contribution	$ 24,480	$ 18,902	$ 28,118	$ 32,692	$ 59,055
Contributions in relation to the statutorily required contribution	24,480	18,902	28,118	32,692	59,055
Contribution Deficiency	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Academy's Covered Payroll	$ 300,393	$ 227,143	$ 349,923	$ 416,189	$ 817,630
Contributions as a Percentage of Covered Payroll	8.15 %	8.32 %	8.04 %	7.86 %	7.22 %

See notes to required supplemental information.

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:

- 2019 - The discount rate used in the September 30, 2018 actuarial valuation decreased by 0.25 percentage points.

- 2018 - The discount rate used in the September 30, 2017 actuarial valuation decreased by 0.45 percentage points. The valuation also includes the impact of an updated experience study for the periods from 2012 to 2017.

- 2017 - The discount rate used in the September 30, 2016 actuarial valuation decreased by 0.50 percentage points.

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:

- 2021 - The health care cost trend rate used in the September 30, 2020 actuarial valuation increased by 0.75 percentage points for members under 65 and decreased by 1.75 percentage points for members over 65. In addition, actual per person health benefit cost was lower than projected. This reduced the plan's total OPEB liability by $1.3 billion in 2021.

- 2020 - The health care cost trend rate used in the September 30, 2019 actuarial valuation decreased by 0.50 percentage points. This, in addition to the actual per person health benefit cost being lower than projected, reduced the plan's total OPEB liability by an additional $1.8 billion in 2020.

- 2019 - The discount rate used in the September 30, 2018 actuarial valuation decreased by 0.20 percentage points. The valuation also includes the impact of an updated experience study for the periods from 2012 to 2017. This resulted in a lower than projected per person health benefit cost to reduce the plan's total OPEB liability by an additional $1.4 billion in 2019.

- 2018 - The discount rate used in the September 30, 2017 actuarial valuation decreased by 0.35 percentage points. The valuation also includes the impact of an updated experience study for the periods from 2012 to 2017. This resulted in a lower than projected per person health benefit cost to reduce the plan's total OPEB liability by $1.4 billion in 2018.

Other Supplemental Information

Other Supplemental Information
Schedule of Bonded Indebtedness

June 30, 2022

Year Ending June 30	2007 Principal
2023	$ 1,345,000
Principal payments due	May 1
Interest payments due	May 1 and November 1
Interest rate	6.75%
Original issue	**$ 1,800,000**

Macomb Academy
Daily Living Skills & Employment Training

Summary Schedule of Prior Audit Findings
June 30, 2022

Prior Year Finding Number:
2021-001

Fiscal Year in Which the Finding Initially Occurred:
2018

Federal Program, CFDA Number and Name:
N/A - financial statement finding

Original Finding Description:
The Academy is in violation of certain financial covenants associated with its bonded debt. Due to those violations, the bonded debt has been classified as currently due and payable. The Academy continues to make payments under the original debt schedule, as funds are available.

Status/Partial Corrective Action (as applicable):
Not corrected

Planned Corrective Action:
The Academy will continue to communicate with the bank, the chartering agency and other interested parties in order to resolve the debt covenants or find alternate funding solutions.

Macomb Academy
Daily Living Skills & Employment Training

Macomb Academy

June 30, 2022

Corrective Action Plan

Finding Number: 2022-001

Condition: The Academy is currently in default on the financial covenants associated with the bonded debt and has the principal payment for 2019 in arrears, although all other payments to date have been made timely.

Planned Corrective Action: The Academy's management is working to develop a long-term solution to ensure debt compliance and sufficient cash flows for operations going forward.

Contact person responsible for corrective action: Paul Bodiya continues to work with the leadership of the Academy and the chartering organization and bond counsel to appropriately resolve the matter.

Anticipated Completion Date: Discussions are ongoing with an anticipated plan by June 30, 2023. The Academy continues to stay current with all required payments under the original amortization schedule, other than the missed 2019 principal payment.

Macomb Academy

Report to the Board of Directors

June 30, 2022

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To the Board of Directors
Macomb Academy

We have recently completed our audit of the basic financial statements of Macomb Academy (the "Academy") as of and for the year ended June 30, 2022. In addition to our audit report, we are providing the following results of the audit and informational items that impact the Academy:

We are grateful for the opportunity to be of service to Macomb Academy. We would also like to extend our thanks to Cindy Schwark and the entire business office at Macomb Intermediate School District for their assistance and preparedness during the audit. We recognize that preparing for the audit is carried out in addition to your staff's normal daily activities. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

October 17, 2022

Results of the Audit

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October 17, 2022

To the Board of Directors
Macomb Academy

We have audited the financial statements of Macomb Academy (the "Academy") as of and for the year ended June 30, 2022 and have issued our report thereon dated October 17, 2022. 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 June 30, 2022, 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.

We have noted the following instance of noncompliance with laws and regulations during the course of our audit: The Academy failed to comply with certain debt covenants related to the bond on the building in the year ended June 30, 2022. As a result, the Academy's administration will need to continue to work closely with the lender to obtain a waiver or change the terms of the covenants for the future. Due to the acceleration of the reporting of the bonded debt as a current liability in the General Fund, the Academy has a deficit in fund balance, which is a violation of state law. The State is aware of this situation and is also aware that the Academy is working to develop a plan with the bondholders.

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 17, 2022 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, 2022.

<u>Significant Audit Findings</u>

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 2022.

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

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

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

The most sensitive estimates affecting the financial statements were the Academy's share of the MPSERS net liabilities for the pension and other postemployment benefit (OPEB) plans recorded on the government-wide statements related to GASB Statement Nos. 68 and 75, respectively. The Academy's estimates as of June 30, 2022 were $691,817 and $34,904 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 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.

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.

To the Board of Directors
Macomb Academy

October 17, 2022

The following is a summary of significant issues that were discussed or were the subject of correspondence with management prior to or during our audit:

The current nature of the bonded debt, the enrollment levels not growing at a sustained pace, and the financial assistance received from the MISD during the year, when considered in the aggregate, indicate a substantial doubt about the Academy's ability to continue as a going concern for a reasonable period of time, particularly if the debt is called. The effect on the financial statements is the inclusion of an emphasis of matter paragraph in the report letter, as well as a footnote disclosure (see Note 11) in the financial statements.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 17, 2022.

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

Laura Claeys

Laura K. Claeys

Informational Items

School Funding - From Projected Hardships to the Largest Level of Funding Since the Start of Proposal A

When we entered the pandemic in 2020, the initial predictions were for budget cuts, prorations, and financial hardships. While operational hardships were substantial and challenges continue, the financial hardships did not materialize. In fact, with a substantial amount of federal assistance, along with a quick economic recovery following the short-lived recession during the early period of the pandemic, funds available for education from the state and federal government have increased. These events have provided significant new resources for education. While some are nonrecurring funds with a specified end date, others are designed to provide continuing investment in education. Key highlights of school funding include the following:

- In 2021/2022, the funding levels between the base foundation and the target foundation were eliminated, ending the equity gap and putting most schools at the same per pupil funding level for the first time.
- In 2022/2023, schools are seeing the largest increase in per pupil funding since the start of Proposal A (1994/1995).
- Increased state contributions, above the constitutionally required minimums, toward covering the cost of special education
- Increased contributions to reduce the long-term cost of the retirement system
- State and federal resources to fund additional learning support services
- Primarily federal investments to help address learning loss resulting from the pandemic
- Federal contributions to assist in paying for additional staffing costs resulting from the pandemic
- Resources to make one-time investments in education resources and technology

Most of these investments were initiated in the 2021/2022 school year, and many carry forward or are expanded into the 2022/2023 fiscal year. While state revenue estimates suggest that resources will continue to be available into 2024, the recent economic changes could potentially restrain some of those projected outcomes. Careful monitoring of legislative decisions and economic trends will continue to be important as the Academy plans for its financial future.

2022 Funding Implications for the Academy

The School Aid Fund will complete the State's 2022 fiscal year with a significant fund balance and is expected to continue to generate funding growth from nonfederal sources for the next few years. As a result, amendments to the State Aid Act for the 2022 fiscal year included several additions to the school funding picture. These included the following:

- **2021/2022 Foundation Allowance:** For the 2021/2022 fiscal year, the public school academy maximum foundation allowance was $8,700. Any academy that was not at the target level in 2021 was increased to the new target foundation of $8,700 per pupil. Academies already at the target received a $171 per pupil increase from the former target level of $8,529.

- **Elementary and Secondary School Emergency Relief (ESSER) Programs:** Over the course of the pandemic, academies have received ESSER payments under ESSER I, II, and III. ESSER III was made available during the 2021/2022 fiscal year and is made up of two components, ESSER III formula and ESSER III equalization (also known as 11t, as authorized by Section 11t of PA 48 of 2021). It is federally funded under the American Rescue Plan and, in general, includes more restrictions than ESSER I and II. As a result, use of ESSER III funds requires additional planning by the Academy and community input. The ESSER III funding period is scheduled to end during 2024. This is the last iteration of pandemic funding expected to be received by the Academy.

- **Michigan Public School Employees' Retirement System (MPSERS) Cost for 2021/2022:** The basic structure, including MPSERS cost support provided by the School Aid Fund, will continue. For 2022, the overall contribution rate is increased to 43 percent from 42 percent, with the net cost to the Academy approximating 28 percent. While the net cost to the Academy changes marginally, the overall contribution rate continues to increase. 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. With improved health of the School Aid Fund, the governor and Legislature continue to provide additional resources to reduce the net cost of academy contributions to the retirement system. 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 $2,757 in 147a1, $2,924 in 147a2, $36,137 in 147c1, and $6086 of 147e funding.

New Federal Funding Considerations - 2022

As a result of the pandemic, academies began to experience a significant influx of new federal grant funding, essentially coming in three waves. The initial wave occurred shortly after the start of the pandemic in 2020, with resources becoming available in late spring 2020. The second wave began in late 2020 and into 2021. The third wave began in August 2021 when the grant application window opened for the most recent round of grant funding. As is the case with most federal funding, these federal grants have compliance strings attached and require additional time and attention by academies to evaluate and ensure proper use. In addition, for many academies, the amount of funding available is substantial, creating a unique challenge regarding how best to deploy the funds in accordance with the rules. The key awards impacting education over the next several years are as follows:

- **Elementary and Secondary School Emergency Relief Fund:** ESSER has four release periods. ESSER I was made available in spring 2020. However, guidance was limited, and few academies elected to spend ESSER I funding until the start of the 2020/2021 school year. Due to political issues within the state government, ESSER II was released in two phases. The first phase was made available to academies in summer 2021, and the second phase followed in fiscal year 2022. ESSER III, which is about four times the size of the total ESSER II funding, was made available beginning in August 2021. ESSER III 11t (ESSER III Stabilization) applications were due by June 15, 2022. Several compliance requirements are applicable for all the ESSER awards, and ESSER III and ESSER III 11t are more narrowly targeted at addressing learning loss in students. Determining how best to use each set of the funds awarded requires strategic analysis of the organization and careful planning in the budget process for each academy.

In addition to ESSER funding, the Academy may have also 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
- Personal protective equipment (PPE) funded with federal grants received from outside organizations
- Federal assistance from the intermediate school district, a municipality or county, or other organizations
- Emergency Connectivity Fund (ECF)

In order to optimize available funding, address learning and operational needs, plan for the future, and ensure compliance with federal rules and regulations, the Academy should consider the following:

- Obtain a clear understanding of program requirements, including allowable uses and the time period in which eligible expenses must be incurred, some of which are modified once the American Rescue Plan funding (generally ESSER III) becomes available.
- Update and maintain procedures and internal controls to adhere to Uniform Guidance rules related to procurement, cash management, allowable costs, subrecipient monitoring, and reporting, as applicable.
- Incorporate MDE guidance regarding accounting for state and federal pandemic-related funding activity.
- Document all decisions made to determine allowability of pandemic-related costs.
- Refer regularly to accounting guidance, which is updated frequently and 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.

2023 Funding Implications for the Academy

With improved financial health and more predictable revenue streams, the governor and Legislature were able to come to an agreement on the school aid package, the largest ever, before the beginning of the Academy's 2022/2023 fiscal year. This means that going into the fiscal year, the Academy is able to estimate the financial inflows more accurately for 2022/2023 before the school year starts. However, since the state budget was passed after the period when academies needed to have their original budget in place for 2022/2023, it is likely that the Academy will need to consider a budget amendment. This is especially true given the number of new initiatives included in the 2022/2023 amendments to the State Aid Act, which may provide access to additional resources that the Academy may not have anticipated. As is always the case, careful planning is critical to ensure any new funding is carefully utilized. A few key elements include the following:

- **2022/2023 Foundation Allowance:** All academies are at the target foundation allowance of $9,150.
- **Pupil Membership Blend for 2022/2023:** Pupil count determinations use the 90 percent of the fall 2022 count and 10 percent of the spring 2022 count. The computed pupil count will be used to determine the total foundation allowance paid to the Academy.
- **MPSERS Cost for 2022/2023:** The basic structure, including cost support provided by the School Aid Fund, will continue. For 2023, the overall contribution rate is increased to 45 percent from 43 percent, with the net cost to the Academy continuing at up to approximately 28 percent. While the net cost to the Academy is essentially the same as in 2022, the overall contribution rate continues to increase. By way of comparison, when Proposal A was adopted, the total contribution rate was 11 percent. The implication is that more resources are redirected from the funding of operations to the support of the retirement system funding requirement. With the 2022/2023 amendments to the State Aid Act, the State has further increased its investment in the retirement system with the goal of reducing the overall cost of the program over time.

- **Special Education Services:** Beginning in the 2021/2022 fiscal year, the State increased the funding of its share of special education costs by 3 percent of those costs. In 2022/2023, that support continues, plus it reduces the amount of foundation allowance that is credited as payment against the State's required support. These changes in the funding formula will have the effect of providing more state support to cover the cost of special education operations. The implication to the Academy will be that more funds will be freed up to support other general education activities. The actual amount of the shift will vary by academy and require some analysis. Once determined, academies will be better able to budget and plan for use of those funds.

- **New Initiatives:** As outlined in the key highlights above, there are several new initiatives included in the 2022/2023 amendments to the State Aid Act. Through the budget development process, there were priorities from the governor and Legislature. Normally when this occurs, there is significant negotiation, and there are "winners" and "losers." However, since the revenue projections were well above expectations, there was room for funding most of the priorities from both branches of government. Many of the initiatives result from common themes, including the pandemic, mental health concerns of students and staff, addressing the teacher shortage, school security, continuing investment in preschool, vocational/career training, and beginning to focus on educational infrastructure investment. How these initiatives impact individual academies will take some assessment and planning. With new resources comes new responsibility to determine the most effective way to leverage these funds for the benefit of the students, staff, and the Academy.

- **Pupil Count Trends:** During the pandemic, in general, schools across Michigan experienced a decline in enrollment. Statewide enrollment has historically been slightly under 1.5 million students. Prior to the pandemic, annual enrollment figures were declining annually at about 10,000 per year. However, during the pandemic statewide enrollment decreased in excess of 50,000. As part of the Consensus Revenue Estimating Conference process, total enrollment is tracked and estimated. A key consideration in the projections continues to be to what extent the 50,000 student reduction will recover. Currently, it is estimated that some portion will return, but enrollment will not recover to pre-pandemic levels. While this data is important statewide, it is very important at the local academy level. Since the foundation allowance is computed on a per pupil basis, a stable and predictable enrollment will have a substantial impact on the financial picture. As a practical example, on average, it takes about 10 students to fully fund a teacher position. As schools continue the return to in-person instruction and offer new learning options, focusing on recruiting students and families will be essential to improving student enrollment.

ESSER Prevailing Wage Requirements

Many academies have determined to utilize ESSER funds on construction or repairs. When utilizing federal funding for construction or repairs, there are specific guidelines that may apply, such as the prevailing wage requirement. Prevailing wage requirements will apply when an academy utilizes federal funding for remodeling, renovation, repair, or construction contracts over $2,000. The Academy must ensure the contract terms include the requirement to comply with prevailing wages, as well as ensure that certified payrolls were completed and subsequently reviewed by the Academy.

Budgeting Considerations

The pandemic will have a substantive impact on academy budgeting considerations for years to come. This includes both state and federal funding sources. As the additional federal funding is expected to decrease in the coming years, it is imperative that the Academy ensure it has sufficient operation funds to move forward.

As we have seen, funding from the School Aid Fund has varied widely over the last two years. Fortunately, School Aid Fund projections suggest funding stability through 2024. However, that stability presumes a continually improving financial picture for the State of Michigan. If assumptions do not hold, there is a risk for continued variability in school funding. Any variability would have a direct impact on funds made available for school operations.

Fund Balance

The first year of the pandemic, more than ever, highlighted the importance of having adequate fund balance due to the uncertainty of the state budget and the impact on the foundation allowance with prorations that went into effect. Having sufficient fund balance will help to ensure the Academy can continue to provide an adequate level of programming during periods of economic uncertainty.

The 2022/2023 school year will face many challenges that will have a direct effect on the Academy's fund balance. The Consumer Price Index (CPI) continues to grow, which will put inflationary pressures on nearly all academies. Couple that with the budgeting pressures faced with how to spend the COVID-19 relief funds, and business offices will have a lot to consider and plan for when projecting out fund balance for the upcoming school year.

Significant Changes in the Future to the GASB Financial Reporting Model

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

This project kicked off in August 2013. An exposure draft was issued in June 2020 titled "Financial Reporting Model Improvements." The exposure draft comment period ended during February 2021, and, as a firm, Plante & Moran, PLLC provided comments to the GASB on our thoughts of the proposed standards. The GASB's goal is to have final standards issued by December 2023.

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

- Requiring additional information in the management's discussion and analysis (MD&A)
- In the budget-to-actual statements, requiring a column that would show the variances between the original and amended budget
- In the fund-based statements:
    - Significant terminology changes - "Revenue" would be referred to as "inflows of resources" and "expenditures" as "outflows of resources." In addition, many of the statements will be renamed, and some of the fund-type definitions will be changed.
    - "Modified accrual" accounting would change to "short-term financial resources measurement focus." Generally, transactions would be accounted for in the governmental funds if they are expected to be converted to cash or paid in cash within 12 months of the academy's year end. A typical example would be revenue recognition. Under today's rules, if a receivable is not collected within 60 days of the academy's year end, then the related revenue, generally, must be deferred until the following year. Under the proposed changes, the revenue can be recognized in the current period as long as it will be collected within one year of the current period end. In this example, revenue in the funds may be recognized sooner in the proposed new model as compared to the current model. This change will impact the timing of when revenue and expenditures are recorded in the governmental funds; in addition, the actual financial statements themselves will look quite different from a presentation perspective. This is a significant change.

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

A separate but somewhat related project is also ongoing. In June 2020, the GASB released its preliminary views titled "Revenue and Expense Recognition." The objective of this project is to develop a comprehensive, principles-based model that would establish categorization, recognition, and measurement guidance applicable to a wide range of revenue and expense transactions. When the new standard is issued and adopted, it could result in revenue and expense transactions being reported either earlier or later than they currently are in the Academy's financial statements. The GASB's current work plan anticipates that this new standard could be issued during 2027.