
Arts Academy in the Woods

**Financial Report
with Supplemental Information
June 30, 2022**

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Independent Auditor's Report

To the Board of Directors
Arts Academy in the Woods

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 Arts Academy in the Woods (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.

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.

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.

To the Board of Directors
Arts Academy in the Woods

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.

Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Academy's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

To the Board of Directors
Arts Academy in the Woods

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 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 21, 2022

This section of the annual financial report for Arts Academy in the Woods (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 Arts Academy in the Woods 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 funds presented in one column as nonmajor funds. 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.

Arts Academy in the Woods

Management's Discussion and Analysis (Continued)

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	\$ 1,155.1	\$ 1,024.6
Capital assets	2,119.4	1,900.6
Total assets	3,274.5	2,925.2
Deferred Outflows of Resources	1,014.9	1,474.7
Liabilities		
Current liabilities	724.0	644.0
Noncurrent liabilities	260.2	499.9
Net pension liability	3,447.3	5,097.8
Net OPEB liability	224.6	798.9
Total liabilities	4,656.1	7,040.6
Deferred Inflows of Resources	2,331.5	874.5
Net Position (Deficit)		
Net investment in capital assets	1,934.9	1,535.9
Restricted	135.9	157.4
Unrestricted	(4,769.0)	(5,208.5)
Total net position (deficit)	\$ (2,698.2)	\$ (3,515.2)

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 \$(2,698.2) thousand at June 30, 2022. Net investment in capital assets, totaling \$1,934.9 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 (\$(4,769.0) thousand) was unrestricted.

Arts Academy in the Woods

Management's Discussion and Analysis (Continued)

The \$(4,769.0) 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	\$ 1,286.7	\$ 1,170.2
General revenue:		
State aid not restricted to specific purposes	2,734.3	2,658.4
Other	174.3	40.6
Total revenue	4,195.3	3,869.2
Expenses		
Instruction	1,333.7	2,068.8
Support services	1,857.5	1,603.0
Food services	72.8	73.5
Community services	28.5	20.0
Debt service	11.4	15.2
Depreciation expense (unallocated)	74.4	65.0
Total expenses	3,378.3	3,845.5
Change in Net Position	817.0	23.7
Net Position (Deficit) - Beginning of year (as restated)	(3,515.2)	(3,538.9)
Net Position (Deficit) - End of year	\$ (2,698.2)	\$ (3,515.2)

As reported in the statement of activities, the cost of all of our governmental activities this year was \$3,378.3 thousand. Certain activities were partially funded by other governments and organizations that subsidized certain programs with grants and contributions (\$1,286.7 thousand). We paid for the remaining public benefit portion of our governmental activities with \$2,734.3 thousand in state foundation allowance and with other revenue (i.e., interest and general entitlements).

The Academy experienced an increase in net position of \$817.0 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 increased funding from state and federal sources.

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

The Academy's Funds

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

Arts Academy in the Woods

Management's Discussion and Analysis (Continued)

As the Academy completed this year, the governmental funds reported a combined fund balance of \$431.0 thousand, which is an increase of \$50.5 thousand 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. The receipt of certain federal funds that are short term in nature to provide additional support to the Academy also impacted the expenditures.

In the General Fund, our principal operating fund, fund balance increased by \$61.8 thousand due to cost alignment with revenue.

Fund balance of our special revenue funds increased by \$10.2 thousand as a result of creating a School Activities Fund required under the adoption of GASB 84 in the prior year.

Fund balance in the Debt Service Fund decreased by \$21.5 thousand. The Debt Service Fund fund balance is restricted under the terms of the bond agreement and can be used only to make required debt payments.

In the Capital Projects Fund, fund balance of \$3.1 thousand did not experience any change.

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.

There were revisions made to the 2021-2022 original budget. Budgeted revenue was increased by \$986.9 thousand due to changes in state and federal revenue and the expected timing of grant activity.

Budgeted expenditures were also increased by \$990.9 thousand to account for the increase in salaries and purchased professional services resulting from the Academy's revised operating plan due to the fluctuations in revenue.

There were no significant variances between the final budget and actual amounts.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2022, the Academy had \$2.14 million invested in capital assets. This represents a net increase (including additions, disposals, and depreciation) of approximately \$239 thousand, or 11 percent, from last year.

	<u>2022</u>	<u>2021</u>
Land	\$ 868,834	\$ 868,834
Buildings and improvements	1,914,846	1,621,636
Furniture and equipment	323,167	323,167
Total capital assets	3,106,847	2,813,637
Less accumulated depreciation	967,406	913,030
Total capital assets - Net of accumulated depreciation	<u>\$ 2,139,441</u>	<u>\$ 1,900,607</u>

This year's additions of \$239 thousand consisted primarily of building improvements. No major capital projects are planned for the 2022-2023 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the Academy had \$187.6 thousand in general obligation bonds outstanding versus \$367.8 thousand in the previous year. The decrease was due to principal payments made during the year.

The Academy also had liabilities of \$72.4 thousand for state aid penalties levied against the Academy in a previous year. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Responses related to COVID-19 will continue to impact expenditures through portions of fiscal year 2023 and will be mitigated by ESSER funding.

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. 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 67.3 percent of total General Fund revenue is from the foundation allowance. Under state law, the Academy cannot access additional property tax revenue for general operations. As a result, the Academy's funding is heavily dependent on the State's ability to fund local school operations.

Based on early enrollment data at the start of the 2022 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 academy 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.

June 30, 2022

	<u>Governmental Activities</u>
Assets	
Cash (Note 4)	\$ 304,681
Due from other governmental units	671,716
Prepaid expenses and other assets	32,319
Restricted cash (Note 4)	146,369
Capital assets - Net (Note 6)	<u>2,119,441</u>
Total assets	3,274,526
Deferred Outflows of Resources	
Deferred pension costs (Note 11)	725,649
Deferred OPEB costs (Note 11)	<u>289,274</u>
Total deferred outflows of resources	1,014,923
Liabilities	
Accounts payable	259,006
Accrued payroll-related liabilities	426,943
State aid anticipation note (Note 8)	26,943
Unearned revenue (Note 5)	11,146
Noncurrent liabilities:	
Due within one year (Note 9)	247,326
Due in more than one year (Note 9)	12,766
Net pension liability (Note 11)	3,447,348
Net OPEB liability (Note 11)	<u>224,627</u>
Total liabilities	4,656,105
Deferred Inflows of Resources (Note 11)	
Revenue in support of pension contributions made subsequent to the measurement date	238,137
Deferred pension cost reductions	1,218,664
Deferred OPEB cost reductions	<u>874,744</u>
Total deferred inflows of resources	<u>2,331,545</u>
Net Position (Deficit)	
Net investment in capital assets	1,934,868
Restricted - Debt Service Fund	135,934
Unrestricted	<u>(4,769,003)</u>
Total net position (deficit)	<u>\$ (2,698,201)</u>

Arts Academy in the Woods

Statement of Activities

Year Ended June 30, 2022

Functions/Programs	Program Revenue		Governmental	
	Expenses	Charges for Services	Operating Grants and Contributions	
			Net (Expense) Revenue and Changes in Net Position	
Primary government - Governmental activities:				
Instruction	\$ 1,333,763	\$ -	\$ 554,743	\$ (779,020)
Support services	1,857,478	-	653,340	(1,204,138)
Food services	72,810	12	78,617	5,819
Community services	28,550	-	-	(28,550)
Interest	11,369	-	-	(11,369)
Depreciation expense (unallocated) (Note 6)	74,376	-	-	(74,376)
Total primary government	\$ 3,378,346	\$ 12	\$ 1,286,700	(2,091,634)
General revenue:				
State aid not restricted to specific purposes				2,734,259
Interest and investment earnings				29
Other				174,327
Total general revenue				<u>2,908,615</u>
Change in Net Position				816,981
Net Position (Deficit) - Beginning of year				<u>(3,515,182)</u>
Net Position (Deficit) - End of year				<u>\$ (2,698,201)</u>

Arts Academy in the Woods

**Governmental Funds
Balance Sheet**

June 30, 2022

	General Fund	Debt Service Fund	Nonmajor Funds	Total Governmental Funds
Assets				
Cash (Note 4)	\$ 290,461	\$ -	\$ 14,220	\$ 304,681
Due from other governmental units	671,716	-	-	671,716
Prepaid expenses and other assets	32,319	-	-	32,319
Restricted cash (Note 4)	-	135,934	10,435	146,369
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 994,496</u>	<u>\$ 135,934</u>	<u>\$ 24,655</u>	<u>\$ 1,155,085</u>
Liabilities				
Accounts payable	\$ 259,006	\$ -	\$ -	\$ 259,006
Accrued payroll-related liabilities	426,943	-	-	426,943
State aid anticipation note (Note 8)	26,943	-	-	26,943
Unearned revenue (Note 5)	-	-	11,146	11,146
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	712,892	-	11,146	724,038
Fund Balances				
Nonspendable - Prepaid expenses and other assets	32,319	-	-	32,319
Restricted - Debt service	-	135,934	-	135,934
Committed - School activities	-	-	10,435	10,435
Assigned - Capital projects	-	-	3,074	3,074
Unassigned	249,285	-	-	249,285
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	281,604	135,934	13,509	431,047
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 994,496</u>	<u>\$ 135,934</u>	<u>\$ 24,655</u>	<u>\$ 1,155,085</u>

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Position

June 30, 2022

Fund Balances Reported in Governmental Funds	\$ 431,047
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	3,106,847
Accumulated depreciation	<u>(987,406)</u>
Net capital assets used in governmental activities	2,119,441
Long-term liabilities are not due and payable in the current period and are not reported in the funds - Bonds payable	(260,092)
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	(3,940,363)
Net OPEB liability and related deferred inflows and outflows	(810,097)
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	<u>(238,137)</u>
Net Position (Deficit) of Governmental Activities	<u><u>\$ (2,698,201)</u></u>

Arts Academy in the Woods

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

Year Ended June 30, 2022

	General Fund	Debt Service Fund	Nonmajor Funds	Total Governmental Funds
Revenue				
Local sources	\$ 147,027	\$ 1	\$ 27,340	\$ 174,368
State sources	2,982,462	-	6,266	2,988,728
Federal sources	763,051	-	79,231	842,282
Interdistrict sources	172,193	-	-	172,193
Total revenue	4,064,733	1	112,837	4,177,571
Expenditures				
Current:				
Instruction:				
Basic programs	1,514,110	-	-	1,514,110
Added needs	331,959	-	-	331,959
Support services:				
Pupil	269,099	-	-	269,099
Instructional staff	32,704	-	-	32,704
General administration	187,960	-	-	187,960
School administration	420,374	-	-	420,374
Business	103,328	-	17,330	120,658
Operations and maintenance	725,555	-	17,445	743,000
Central	211,926	-	-	211,926
Food services	-	-	72,901	72,901
Community services	30,858	-	-	30,858
Debt service:				
Principal	-	180,107	-	180,107
Interest	-	11,369	-	11,369
Total expenditures	3,827,873	191,476	107,676	4,127,025
Excess of Revenue Over (Under) Expenditures	236,860	(191,475)	5,161	50,546
Other Financing Sources (Uses)				
Transfers in (Note 7)	-	170,000	5,048	175,048
Transfers out (Note 7)	(175,048)	-	-	(175,048)
Total other financing (uses) sources	(175,048)	170,000	5,048	-
Net Change in Fund Balances	61,812	(21,475)	10,209	50,546
Fund Balances - Beginning of year	219,792	157,409	3,300	380,501
Fund Balances - End of year	<u>\$ 281,604</u>	<u>\$ 135,934</u>	<u>\$ 13,509</u>	<u>\$ 431,047</u>

Arts Academy in the Woods

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	\$ 50,546
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:	
Capitalized capital outlay	293,210
Depreciation expense	<u>(74,376)</u>
Total	218,834
Revenue in support of pension contributions made subsequent to the measurement date	(41,923)
Repayment of bond principal is an expenditure in the governmental funds but not in the statement of activities (where it reduces long-term debt); amortization of premium/discounts and inflows/outflows related to bond refundings are not expenses in the governmental funds	180,107
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	349,738
Some long-term liabilities do not require the use of current financial resources and, therefore, are not reported as expenditures (reductions to revenue) in the governmental funds	<u>59,679</u>
Change in Net Position of Governmental Activities	<u><u>\$ 816,981</u></u>

June 30, 2022

Note 1 - Nature of Business

Arts Academy in the Woods (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.

In June 2000, the Academy entered into a contract with the Macomb Intermediate School District (the "MISD") to charter a public school academy. In July 2022, the Academy entered into another contract with the MISD that extended the charter through June 30, 2027. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the state constitution. The MISD serves as the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws related to financial reporting. The Academy has an agreement to pay 3 percent of its state aid as an administrative fee to its chartering organization and 7 percent to its fiscal agent. For the year ended June 30, 2022, administrative and fiscal agent fees totaled \$162,687, which is included in the accounts payable balance at June 30, 2022.

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

The 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. Revenue not meeting this definition is classified as a deferred inflow of resources.

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.

Note 2 - Significant Accounting Policies (Continued)

Report Presentation

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Intergovernmental payments and other items not properly included among program revenue are reported as general revenue.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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:

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

Additionally, the Academy reports the following nonmajor governmental fund types:

- Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes. The Lunch Fund is used to account for the proceeds of specific revenue sources that are restricted to expenditure for specific purpose. The primary revenue source for the Lunch Fund is federal grants that are restricted for use in this fund. Any operating deficit generated by this activity is the responsibility of the General Fund. The School Activities Fund accounts for various school activities and events. Revenue sources for the School Activities Fund include fundraising revenue and donations earned and received by student groups. Any operating deficit generated by these activities is the responsibility of the General Fund.

Note 2 - Significant Accounting Policies (Continued)

- Capital projects funds are used to record revenue and other financing sources and the disbursement of invoices specifically designated for acquiring new school sites, buildings, and equipment; technology upgrades; and remodeling and repairs. The funds operate until the purpose for which they were created is accomplished.

Specific Balances and Transactions

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and demand deposits.

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

The following amounts are reported as restricted assets:

- Unspent balances held in the debt service funds required to be set aside for future bond principal and interest payments
- Unspent funds in the School Activities Fund are set aside for the student groups.

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 and improvements	10 to 30
Machinery and equipment	5 to 20
Furniture and other equipment	5 to 10

Long-term Obligations

In the government-wide financial statements, long-term debt and long-term obligations are reported as liabilities in the statement of net position. The face amount of debt issued, as well as bond premiums and discounts, are reported as other financing sources. Issuance costs are reported as debt service expenditures when incurred.

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.

Note 2 - Significant Accounting Policies (Continued)

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.

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 outflows related to deferred pension and OPEB costs.

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.

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 Academy'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 Academy for specific purposes but do not meet the criteria to be classified as committed. The assignment is based on direction provided by the board of directors.

June 30, 2022

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 (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. MPERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expenses when due and payable in accordance with the plan benefit terms. Related plan investments are reported at fair value.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Comparative Data/Reclassifications

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

Upcoming Accounting Pronouncement

In May 2020, the Governmental Accounting Standards Board issued Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, which defines SBITAs and provides accounting and financial reporting for SBITAs by governments. This statement requires a government to recognize a subscription liability and an intangible right-to-use subscription asset for SBITAs. The Academy is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Academy's financial statements for the year ending June 30, 2023.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including October 21, 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.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders or contracts) are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

June 30, 2022

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

Excess of Expenditures Over Appropriations in Budgeted Funds

The Academy did not have significant expenditure budget variances.

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 one bank for the deposit of its funds.

The Academy's cash is 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 \$477,047 had bank deposits of \$227,047 (checking accounts) that were uninsured and uncollateralized. The Academy believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. 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 \$11,146 of unearned revenue related to grant payments received prior to meeting all eligibility requirements.

June 30, 2022

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 not being depreciated - Land	\$ 868,834	\$ -	\$ 868,834
Capital assets being depreciated:			
Buildings and improvements	1,621,636	293,210	1,914,846
Furniture and equipment	323,167	-	323,167
Subtotal	1,944,803	293,210	2,238,013
Accumulated depreciation:			
Buildings and improvements	689,241	56,184	745,425
Furniture and equipment	223,789	18,192	241,981
Subtotal	913,030	74,376	987,406
Net governmental activities capital assets	<u>\$ 1,900,607</u>	<u>\$ 218,834</u>	<u>\$ 2,119,441</u>

Depreciation expense totaling \$74,376 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

Interfund Transfers

During the year, the General Fund transferred \$170,000 to the Debt Service Fund to finance debt service commitments. The General Fund also transferred \$5,048 to the Lunch Fund to support operations.

Note 8 - State Aid Anticipation Note

State Aid Anticipation Note

The Academy has direct borrowings from the Michigan Finance Authority (the "Lender") to provide sufficient resources before receiving its scheduled state aid. This liability is recorded as a fund liability in the General Fund.

During the year, the Academy issued state aid anticipation notes of \$150,000, resulting in an outstanding balance of \$26,943 at June 30, 2022. The current notes bear interest at 3.30 percent and are due on August 22, 2022. The note is paid through automatic deductions from the Academy's state aid payments on the 20th of each month and was paid in full subsequent to year end.

In the event of default, the notes are fully collateralized by the Academy's future state aid funding, and the Lender has the authority to intercept state aid payments at its discretion. In the event that all or a portion of the required payments at maturity are not made, a penalty interest rate of 3 percent above the stated interest rate per annum based on a 365-day year for the actual number of days elapsed will go into effect. If the Lender has reason to believe that the Academy will be unable to fulfill the required repayments, the Lender has the sole discretion to accelerate the principal and interest repayments.

June 30, 2022

Note 9 - 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	\$ 367,754	\$ -	\$ (180,107)	\$ 187,647	\$ 187,647
Other long-term liability	132,124	-	(59,679)	72,445	59,679

General Obligation Bonds and Contracts

The Academy issues general obligation bonds to provide for the acquisition and construction of major capital facilities. General obligations have been issued for governmental activities. General obligation bonds are direct obligations and pledge the full faith and credit of the Academy. The primary source of any required repayment is from the Academy’s state aid funding.

General obligations outstanding at June 30, 2022 are as follows:

- \$1,200,000 Revenue and Refunding Bond, Series 2016, due in annual installments of \$176,628 to \$187,647 through May 1, 2023, with interest at 3.2 percent.

Other Long-term Liabilities

At June 30, 2021, the Academy has a long-term liability for \$72,445 to the remainder of the state aid penalties levied against the Academy during the year ended June 30, 2019. Amounts will be liquidated through the General Fund and paid through automatic deductions from the Academy’s state aid payments as follows: Annual payments of \$59,679 will be required each year until 2024, when the final payment of \$12,766 will be required.

Debt Service Requirements to Maturity

Annual debt service requirements to maturity for the above bond obligation is as follows:

Year Ending June 30	Governmental Activities		
	Principal	Interest	Total
2023	\$ 187,647	\$ 3,362	\$ 191,009

Assets Pledged as Collateral

The Academy’s outstanding general obligation bonds are secured with collateral of the Academy’s school facility.

Significant Terms

The outstanding general obligation bonds secured by collateral contain certain events of default, in which, upon occurrence and continuation of any of the events, the registered owner of the bonds may declare the principal and interest accrued thereon to be due and payable immediately.

Note 10 - Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 11 - 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.

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.

June 30, 2022

Note 11 - Michigan Public School Employees' Retirement System (Continued)

Contributions

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

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.

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	13.73% - 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 \$543,790, 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 \$238,137 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 \$126,915, which includes the Academy's contributions required for those members with a defined contribution benefit.

Note 11 - Michigan Public School Employees' Retirement System (Continued)

Net Pension Liability

At June 30, 2022, the Academy reported a liability of \$3,447,348 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 0.01 percent.

Net OPEB Liability

At June 30, 2022, the Academy reported a liability of \$224,627 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 0.01 percent.

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

For 2022, the Academy recognized pension expense of \$370,787, 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	\$ 53,401	\$ (20,301)
Changes in assumptions	217,309	-
Net difference between projected and actual earnings on pension plan investments	-	(1,108,311)
Changes in proportion and differences between the Academy's contributions and proportionate share of contributions	11,141	(90,052)
The Academy's contributions to the plan subsequent to the measurement date	443,798	-
Total	\$ 725,649	\$ (1,218,664)

The \$238,137 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	\$ (122,116)
2024	(216,008)
2025	(290,726)
2026	(307,963)
Total	\$ (936,813)

June 30, 2022

Note 11 - Michigan Public School Employees' Retirement System (Continued)

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

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

For the year ended June 30, 2022, the Academy recognized OPEB recovery of \$(128,614).

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	\$ -	\$ (641,181)
Changes in assumptions	187,777	(28,098)
Net difference between projected and actual earnings on OPEB plan investments	-	(169,305)
Changes in proportionate share or difference between amount contributed and proportionate share of contributions	18,355	(36,160)
Employer contributions to the plan subsequent to the measurement date	83,142	-
Total	<u>\$ 289,274</u>	<u>\$ (874,744)</u>

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	\$ (172,582)
2024	(157,510)
2025	(144,826)
2026	(139,219)
2027	(48,154)
Thereafter	<u>(6,321)</u>
Total	<u>\$ (668,612)</u>

Note 11 - Michigan Public School Employees' Retirement System (Continued)

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.

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.

June 30, 2022

Note 11 - Michigan Public School Employees' Retirement System (Continued)

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	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	\$ 4,928,773	\$ 3,447,348	\$ 2,219,150

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	\$ 417,397	\$ 224,627	\$ 61,034

June 30, 2022

Note 11 - Michigan Public School Employees' Retirement System (Continued)

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	\$ 54,672	\$ 224,627	\$ 415,846

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 \$22,261 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2022.

Required Supplemental Information

Arts Academy in the Woods

Required Supplemental Information Budgetary Comparison Schedule - General Fund

Year Ended June 30, 2022

	Original Budget	Final Budget	Actual	(Under) Over Final Budget
Revenue				
Local sources	\$ 32,600	\$ 158,976	\$ 147,027	\$ (11,949)
State sources	2,923,232	2,981,065	2,982,462	1,397
Federal sources	362,360	1,171,518	763,051	(408,467)
Interdistrict sources	186,905	180,393	172,193	(8,200)
Total revenue	3,505,097	4,491,952	4,064,733	(427,219)
Expenditures				
Current:				
Instruction:				
Basic programs	1,613,226	1,652,322	1,514,110	(138,212)
Added needs	271,211	333,397	331,959	(1,438)
Support services:				
Pupil	318,457	294,529	269,099	(25,430)
Instructional staff	34,000	48,629	32,704	(15,925)
General administration	215,000	193,000	187,960	(5,040)
School administration	408,407	426,365	420,374	(5,991)
Business	10,000	128,276	103,328	(24,948)
Operations and maintenance	317,371	842,716	725,555	(117,161)
Pupil transportation services	1,000	1,000	-	(1,000)
Other	88,581	350,050	211,926	(138,124)
Total support services	1,392,816	2,284,565	1,950,946	(333,619)
Community services	32,955	30,858	30,858	-
Total expenditures	3,310,208	4,301,142	3,827,873	(473,269)
Excess of Revenue Over Expenditures	194,889	190,810	236,860	46,050
Other Financing Uses - Transfers out	(182,000)	(185,570)	(175,048)	10,522
Net Change in Fund Balance	12,889	5,240	61,812	56,572
Fund Balance - Beginning of year	219,792	219,792	219,792	-
Fund Balance - End of year	\$ 232,681	\$ 225,032	\$ 281,604	\$ 56,572

Arts Academy in the Woods

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	0.01456 %	0.01484 %	0.01492 %	0.01479 %	0.01496 %	0.01437 %	0.01392 %	0.01311 %
Academy's proportionate share of the net pension liability	\$ 3,447,348	\$ 5,097,815	\$ 4,941,532	\$ 4,445,846	\$ 3,875,533	\$ 3,584,506	\$ 3,400,108	\$ 2,887,692
Academy's covered payroll	\$ 1,368,260	\$ 1,338,157	\$ 1,344,473	\$ 1,273,987	\$ 1,278,990	\$ 1,240,262	\$ 1,168,928	\$ 1,132,664
Academy's proportionate share of the net pension liability as a percentage of its covered payroll	251.95 %	380.96 %	367.54 %	348.97 %	303.02 %	289.01 %	290.87 %	254.95 %
Plan fiduciary net position as a percentage of total pension liability	72.32 %	59.49 %	62.12 %	62.12 %	63.96 %	63.01 %	62.92 %	66.15 %

Arts Academy in the Woods

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	\$ 511,117	\$ 460,158	\$ 426,173	\$ 401,536	\$ 379,483	\$ 352,174	\$ 328,055	\$ 235,436
Contributions in relation to the statutorily required contribution	511,117	460,158	426,173	401,536	379,483	352,174	328,055	235,436
Contribution Deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Academy's Covered-employee Payroll	\$ 1,374,669	\$ 1,353,659	\$ 1,354,976	\$ 1,310,969	\$ 1,249,124	\$ 1,265,450	\$ 1,182,388	\$ 1,182,575
Contributions as a Percentage of Covered-employee Payroll	37.18 %	33.99 %	31.45 %	30.63 %	30.38 %	27.83 %	27.75 %	19.91 %

Arts Academy in the Woods

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				
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Academy's proportion of the net OPEB liability	0.01472 %	0.01491 %	0.01525 %	0.01485 %	0.01500 %
Academy's proportionate share of the net OPEB liability	\$ 224,627	\$ 798,873	\$ 1,094,556	\$ 1,180,806	\$ 1,328,464
Academy's covered payroll	\$ 1,368,260	\$ 1,338,157	\$ 1,344,473	\$ 1,273,987	\$ 1,278,990
Academy's proportionate share of the net OPEB liability as a percentage of its covered payroll	16.42 %	59.70 %	81.41 %	92.69 %	103.87 %
Plan fiduciary net position as a percentage of total OPEB liability	88.87 %	59.76 %	48.67 %	43.10 %	36.53 %

Arts Academy in the Woods

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

	Last Five Fiscal Years Years Ended June 30				
	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily required contribution	\$ 112,025	\$ 112,648	\$ 108,880	\$ 102,977	\$ 90,221
Contributions in relation to the statutorily required contribution	112,025	112,648	108,880	102,977	90,221
Contribution Deficiency	\$ -	\$ -	\$ -	\$ -	\$ -
Academy's Covered Payroll	\$ 1,374,669	\$ 1,353,659	\$ 1,354,976	\$ 1,310,969	\$ 1,249,124
Contributions as a Percentage of Covered Payroll	8.15 %	8.32 %	8.04 %	7.86 %	7.22 %

June 30, 2022

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 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 percent 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 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 costs were 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

Arts Academy in the Woods

Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2022

	Special Revenue Funds			Capital Projects Fund	Total
	Lunch Fund	School Activities Fund	Total Special Revenue Funds		
Assets - Cash	\$ 11,146	\$ 10,435	\$ 21,581	\$ 3,074	\$ 24,655
Liabilities - Unearned revenue	\$ 11,146	\$ -	\$ 11,146	\$ -	\$ 11,146
Fund Balances					
Committed - School activities	-	10,435	10,435	-	10,435
Assigned	-	-	-	3,074	3,074
Total fund balances	-	10,435	10,435	3,074	13,509
Total liabilities and fund balances	\$ 11,146	\$ 10,435	\$ 21,581	\$ 3,074	\$ 24,655

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds

Year Ended June 30, 2022

	Special Revenue Funds			Capital Projects Fund	Total
	Lunch Fund	School Activities Fund	Total Special Revenue Funds		
Revenue					
Local sources	\$ 29	\$ 27,311	\$ 27,340	\$ -	\$ 27,340
State sources	6,038	228	6,266	-	6,266
Federal sources	79,231	-	79,231	-	79,231
Total revenue	85,298	27,539	112,837	-	112,837
Expenditures					
Current:					
Support services:					
Business	-	17,330	17,330	-	17,330
Operations and maintenance	17,445	-	17,445	-	17,445
Food services	72,901	-	72,901	-	72,901
Total expenditures	90,346	17,330	107,676	-	107,676
Excess of Revenue (Under) Over Expenditures	(5,048)	10,209	5,161	-	5,161
Other Financing Sources - Transfers in	5,048	-	5,048	-	5,048
Net Change in Fund Balances	-	10,209	10,209	-	10,209
Fund Balances - Beginning of year	-	226	226	3,074	3,300
Fund Balances - End of year	<u>\$ -</u>	<u>\$ 10,435</u>	<u>\$ 10,435</u>	<u>\$ 3,074</u>	<u>\$ 13,509</u>

Arts Academy in the Woods

Other Supplemental Information Schedule of Bonded Indebtedness

		June 30, 2022
Year Ending June 30		Revenue and Refund Bond, Series 2016 <u>Principal</u>
	2023	\$ 187,647
Principal payments due		Monthly
Interest payments due		Monthly
Interest rate		3.20%
Original issue		<u>\$ 1,200,000</u>