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Arts Academy in the Woods

Financial Report
with Supplementary Information
June 30, 2024

Contents

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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, the 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, 2024 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, the major fund, and the aggregate remaining fund information of the Academy as of June 30, 2024 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 Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary 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 supplementary 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.

Supplementary 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 supplementary 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 supplementary 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 23, 2024 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 23, 2024

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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
Arts Academy in the Woods

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 basic financial statements of the governmental activities, the 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, 2024 and the related notes to the basic financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated October 23, 2024.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To Management and the Board of Directors
Arts Academy in the Woods

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 23, 2024

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, 2024. 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 fund, the General 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 Supplementary Information)

Basic Financial Statements

Government-wide Financial Statements

Fund Financial Statements

Notes to Financial Statements

Required Supplementary Information

Budgetary Comparison Schedule - General Fund

Schedules of the Academy's Proportionate Share of the Net Pension and OPEB Liabilities (Asset)

Schedules of Pension and OPEB Contributions

Supplementary 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, 2024 and 2023:

	Governmental Activities	
	2024	2023
	(in thousands)	
Assets		
Current and other assets	$ 2,082.9	$ 1,164.3
Capital assets	2,122.0	2,106.2
Total assets	4,204.9	3,270.5
Deferred Outflows of Resources	1,872.5	2,015.1
Liabilities		
Current liabilities	1,118.4	691.4
Noncurrent liabilities	-	12.8
Net pension liability	4,731.9	5,370.5
Net OPEB liability	-	295.1
Total liabilities	5,850.3	6,369.8
Deferred Inflows of Resources	1,611.3	1,184.7
Net Position (Deficit)		
Net investment in capital assets	2,122.0	2,109.3
Restricted	88.4	-
Unrestricted	(3,594.6)	(4,378.2)
Total net position (deficit)	**$ (1,384.2)**	**$ (2,268.9)**

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 $(1,384.2) thousand at June 30, 2024. Net investment in capital assets, totaling $2,122.0 thousand, compares the original cost less depreciation of the Academy’s capital assets. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Academy’s ability to use that net position for day-to-day operations. The remaining amount of net position ($(3,594.6) thousand) was unrestricted.

The $(3,594.6) 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, 2024 and 2023:

	Governmental Activities	
	2024	2023
	(in thousands)	
Revenue		
Program revenue - Operating grants	$ 1,939.9	$ 1,326.6
General revenue:		
State aid not restricted to specific purposes	3,509.1	3,029.2
Other	33.6	39.3
Total revenue	5,482.6	4,395.1
Expenses		
Instruction	2,315.0	2,044.0
Support services	1,972.1	1,682.6
Food services	185.1	122.7
Community services	40.1	27.9
Debt service	-	4.9
Depreciation expense (unallocated)	85.6	83.7
Total expenses	4,597.9	3,965.8
Change in Net Position	884.7	429.3
Net Position (Deficit) - Beginning of year	(2,268.9)	(2,698.2)
Net Position (Deficit) - End of year	**$ (1,384.2)**	**$ (2,268.9)**

As reported in the statement of activities, the cost of all of our governmental activities this year was $4,597.9 thousand. Certain activities were partially funded by other governments and organizations that subsidized certain programs with grants and contributions ($1,939.9 thousand). We paid for the remaining public benefit portion of our governmental activities with $3,509.1 thousand in state foundation allowance and with other revenue (i.e., interest and general entitlements).

The Academy experienced an increase in net position of $884.7 thousand. Key reasons for the change in net position were due to the Academy placing an emphasis on reducing expenses in the current year and increased funding from state 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 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 $876 thousand, which is an increase of $403.3 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 short-term federal funds, which provided additional support to the Academy, also impacted the expenditures.

In the General Fund, our principal operating fund, fund balance increased by $400,312 due to cost alignment with revenue.

Fund balance of our special revenue funds increased by $2,949.

In the Capital Projects Fund, fund balance of $3,074 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 2024. A schedule showing the Academy’s original and final budget amounts compared with amounts actually paid and received is provided in the required supplementary information of these financial statements.

There were revisions made to the 2023-2024 original budget. Budgeted revenue was increased by $1.7 million due to changes in state and federal revenue and the expected timing of grant activity.

Budgeted expenditures were also increased by $1.6 million 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

As of June 30, 2024, the Academy had $2.1 million invested in capital assets. This represents a net increase (including additions, disposals, and depreciation) of approximately $16 thousand, or 0.75 percent, from last year.

	2024	2023
Land	$ 868,834	$ 868,834
Buildings and improvements	1,985,360	1,985,360
Furniture and equipment	424,450	323,167
Total capital assets	3,278,644	3,177,361
Less accumulated depreciation	1,156,683	1,071,126
Total capital assets - Net of accumulated depreciation	**$ 2,121,961**	**$ 2,106,235**

This year's additions of $101 thousand consisted primarily of building improvements. No major capital projects are planned for the 2024-2025 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the Academy’s 2024-2025 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 2024-2025 budget was adopted in June 2024 based on an estimate of students who will enroll in September 2024. Approximately 61.0 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 2024 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2024-2025 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.

Statement of Net Position

June 30, 2024

	Governmental Activities
Assets	
Cash (Note 4)	$ 1,102,465
Due from other governmental units	854,367
Prepaid expenses and other assets	37,626
Net OPEB asset (Note 10)	88,445
Capital assets - Net (Note 6)	2,121,961
Total assets	4,204,864
Deferred Outflows of Resources	
Deferred pension costs (Note 10)	1,494,832
Deferred OPEB costs (Note 10)	377,671
Total deferred outflows of resources	1,872,503
Liabilities	
Accounts payable	232,018
Accrued payroll-related liabilities	472,962
State aid anticipation note (Note 8)	27,934
Unearned revenue (Note 5)	385,506
Noncurrent liabilities - Net pension liability (Note 10)	4,731,880
Total liabilities	5,850,300
Deferred Inflows of Resources (Note 10)	
Revenue in support of pension contributions made subsequent to the measurement date	314,119
Deferred pension cost reductions	555,437
Deferred OPEB cost reductions	741,705
Total deferred inflows of resources	1,611,261
Net Position (Deficit)	
Net investment in capital assets	2,121,961
Restricted - Net OPEB asset	88,445
Unrestricted	(3,594,600)
Total net position (deficit)	**$ (1,384,194)**

Statement of Activities

Year Ended June 30, 2024

		Program Revenue		Governmental Activities
	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Functions/Programs				
Primary government - Governmental activities:				
Instruction	$ 2,314,998	$ -	$ 991,127	$ (1,323,871)
Support services	1,972,106	-	844,323	(1,127,783)
Food services	185,089	468	103,974	(80,647)
Community services	40,135	-	-	(40,135)
Depreciation expense (unallocated) (Note 6)	85,557	-	-	(85,557)
Total primary government	**$ 4,597,885**	**$ 468**	**$ 1,939,424**	(2,657,993)
General revenue:				
State aid not restricted to specific purposes				3,509,064
Interest and investment earnings				76
Other				33,588
Total general revenue				3,542,728
Change in Net Position				884,735
Net Position (Deficit) - Beginning of year				(2,268,929)
Net Position (Deficit) - End of year				**$ (1,384,194)**

See notes to financial statements.

Governmental Funds Balance Sheet

June 30, 2024

	General Fund	Nonmajor Funds	Total Governmental Funds
Assets			
Cash (Note 4)	$ 1,071,697	$ 30,768	$ 1,102,465
Due from other governmental units	854,367	-	854,367
Prepaid expenses and other assets	37,626	-	37,626
Total assets	**$ 1,963,690**	**$ 30,768**	**$ 1,994,458**
Liabilities			
Accounts payable	$ 232,018	$ -	$ 232,018
Accrued payroll-related liabilities	472,962	-	472,962
State aid anticipation note (Note 8)	27,934	-	27,934
Unearned revenue (Note 5)	373,991	11,515	385,506
Total liabilities	1,106,905	11,515	1,118,420
Fund Balances			
Nonspendable - Prepaid expenses and other assets	37,626	-	37,626
Committed - School activities	-	16,179	16,179
Assigned - Capital projects	-	3,074	3,074
Unassigned	819,159	-	819,159
Total fund balances	856,785	19,253	876,038
Total liabilities and fund balances	**$ 1,963,690**	**$ 30,768**	**$ 1,994,458**

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

		June 30, 2024
Fund Balances Reported in Governmental Funds	$	876,038
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		3,278,644
Accumulated depreciation		(1,156,683)
Net capital assets used in governmental activities		2,121,961
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		(3,792,485)
Net OPEB asset and related deferred inflows and outflows		(275,589)
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		(314,119)
Net Position (Deficit) of Governmental Activities	**$**	**(1,384,194)**

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

Year Ended June 30, 2024

	General Fund	Nonmajor Funds	Total Governmental Funds
Revenue			
Local sources	$ 21,603	$ 12,529	$ 34,132
State sources	4,403,389	19,314	4,422,703
Federal sources	625,316	115,949	741,265
Interdistrict sources	199,150	-	199,150
Total revenue	5,249,458	147,792	5,397,250
Expenditures			
Current:			
Instruction:			
Basic programs	2,210,594	-	2,210,594
Added needs	451,200	-	451,200
Support services:			
Pupil	451,227	-	451,227
Instructional staff	42,133	-	42,133
General administration	265,475	-	265,475
School administration	519,672	-	519,672
Business	24,105	9,049	33,154
Operations and maintenance	590,205	7,120	597,325
Central	191,635	-	191,635
Food services	-	188,331	188,331
Community services	43,243	-	43,243
Total expenditures	4,789,489	204,500	4,993,989
Excess of Revenue Over (Under) Expenditures	459,969	(56,708)	403,261
Other Financing Sources (Uses)			
Transfers in (Note 7)	-	59,657	59,657
Transfers out (Note 7)	(59,657)	-	(59,657)
Total other financing (uses) sources	(59,657)	59,657	-
Net Change in Fund Balances	400,312	2,949	403,261
Fund Balances - Beginning of year	456,473	16,304	472,777
Fund Balances - End of year	**$ 856,785**	**$ 19,253**	**$ 876,038**

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, 2024

Net Change in Fund Balances Reported in Governmental Funds	$	403,261
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		101,283
Depreciation expense		(85,557)
Total		15,726
Revenue in support of pension contributions made subsequent to the measurement date		72,604
Repayment of bond principal is an expenditure in the governmental funds but not in the statement of activities (where it reduces long-term debt)		12,766
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		380,378
Change in Net Position of Governmental Activities	**$**	**884,735**

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, 2024, administrative and fiscal agent fees totaled $197,490, which is included in the accounts payable balance at June 30, 2024.

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.

<u>Governmental Funds</u>

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

- 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.

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.
- 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

<u>Cash and Cash Equivalents</u>

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

Note 2 - Significant Accounting Policies (Continued)

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.

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
Furniture and other equipment	5 to 10

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, when applicable, 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)

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.

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.

Pension and Other Postemployment Benefit (OPEB) Plans

For purposes of measuring the net pension liability and net OPEB asset, 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.

Note 2 - Significant Accounting Policies (Continued)

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.

Upcoming Accounting Pronouncements

In June 2022, the Governmental Accounting Standards Board issued Statement No. 101, *Compensated Absences*, which updates the recognition and measurement guidance for compensated absences under a unified model. This statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid in cash or settled through noncash means and establishes guidance for measuring a liability for leave that has not been used. It also updates disclosure requirements for compensated absences. The provisions of this statement are effective for the Academy's financial statements for the year ending June 30, 2025.

In December 2023, the Governmental Accounting Standards Board issued Statement No. 102, *Certain Risk Disclosures*, which requires governments to assess whether a concentration or constraint makes the government vulnerable to the risk of a substantial impact. It also requires governments to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. If certain criteria are met for a concentration or constraint, disclosures are required in the notes to the financial statements. The provisions of this statement are effective for the Academy's financial statements for the year ending June 30, 2025.

In April 2024, the Governmental Accounting Standards Board issued Statement No. 103, *Financial Reporting Model Improvements*, which establishes new accounting and financial reporting requirements or modifies existing requirements related to the following: management's discussion and analysis; unusual or infrequent items; presentation of the proprietary fund statement of revenue, expenses, and changes in fund net position; information about major component units in basic financial statements; budgetary comparison information; and financial trends information in the statistical section. The provisions of this statement are effective for the Academy's financial statements for the year ending June 30, 2026.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including October 23, 2024, 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.

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

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.

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 $1,176,713 had bank deposits of $926,713 (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.

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, 2024, the Academy had no unavailable revenue and $385,506 of unearned revenue related to grant payments received prior to meeting all eligibility requirements.

Note 6 - Capital Assets

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

	Balance July 1, 2023	Additions	Balance June 30, 2024
Capital assets not being depreciated - Land	$ 868,834	$ -	$ 868,834
Capital assets being depreciated:			
Buildings and improvements	1,985,360	-	1,985,360
Furniture and equipment	323,167	101,283	424,450
Subtotal	2,308,527	101,283	2,409,810
Accumulated depreciation:			
Buildings and improvements	812,607	69,732	882,339
Furniture and equipment	258,519	15,825	274,344
Subtotal	1,071,126	85,557	1,156,683
Net governmental activities capital assets	$ 2,106,235	$ 15,726	$ 2,121,961

Depreciation expense totaling $85,557 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 $59,657 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 $27,934 at June 30, 2024. The current notes bear interest at 6.25 percent and are due on August 20, 2024. 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.

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), 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 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 supplementary 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 supplementary 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.

Note 10 - 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, 2022 - September 30, 2023	13.75% - 20.16%	7.21% - 8.07%
October 1, 2023 - September 30, 2024	13.90% - 23.03%	7.06% - 8.31%

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, 2024 were $759,365, which includes the Academy's contributions required for those members with a defined contribution benefit. For the year ended June 30, 2024, the Academy's required and actual pension contributions include an allocation of $314,119 in revenue received from the State of Michigan and remitted to the System to fund the MPSERS unfunded actuarial accrued liability (UAAL) stabilization rate.

The Academy's required and actual OPEB contributions to the plan for the year ended June 30, 2024 were $168,853, which includes the Academy's contributions required for those members with a defined contribution benefit.

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

Net Pension Liability

At June 30, 2024, the Academy reported a liability of $4,731,880 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2022, which used update procedures to roll forward the estimated liability to September 30, 2023. 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, 2023 and 2022, the Academy’s proportion was 0.015 percent and 0.014 percent, respectively, representing a change of 2.38 percent.

Net OPEB Asset

At June 30, 2024, the Academy reported an asset of $(88,445) for its proportionate share of the net OPEB asset. The net OPEB asset for fiscal year 2024 was measured as of September 30, 2023, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of September 30, 2022, which used update procedures to roll forward the estimated asset to September 30, 2023. The Academy’s proportion of the net OPEB asset 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, 2023 and 2022, the Academy’s proportion was 0.016 percent and 0.014 percent, respectively, representing a change of 12.21 percent.

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

For 2024, the Academy recognized pension expense of $572,886, inclusive of payments to fund the MPSERS UAAL stabilization rate. At June 30, 2024, 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	$ 149,371	$ (7,248)
Changes in assumptions	641,191	(369,696)
Net difference between projected and actual earnings on pension plan investments	-	(96,830)
Changes in proportion and differences between the Academy's contributions and proportionate share of contributions	81,045	(81,663)
The Academy's contributions to the plan subsequent to the measurement date	623,225	-
Total	$ 1,494,832	$ (555,437)

The $314,119 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, 2025. 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
2025	$ 85,485
2026	68,121
2027	221,506
2028	(58,942)
Total	$ 316,170

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

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

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

For the year ended June 30, 2024, the Academy recognized OPEB recovery of $152,619.

At June 30, 2024, 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	$ -	$ (668,335)
Changes in assumptions	196,894	(23,710)
Net difference between projected and actual earnings on OPEB plan investments	270	-
Changes in proportionate share or difference between amount contributed and proportionate share of contributions	68,138	(49,660)
Employer contributions to the plan subsequent to the measurement date	112,369	-
Total	$ 377,671	$ (741,705)

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 asset and, therefore, will not be included in future OPEB expense):

Years Ending	Amount
2025	$ (160,421)
2026	(154,208)
2027	(57,735)
2028	(53,200)
2029	(34,220)
Thereafter	(16,619)
Total	$ (476,403)

Actuarial Assumptions

The total pension liability and total OPEB liability as of September 30, 2023 are based on the results of an actuarial valuation as of September 30, 2022 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%	Net of investment expenses based on the groups
Investment rate of return - OPEB	6.00%	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	6.25% - 7.50%	Year 1, graded to 3.5% in year 15, 3.0% in year 120
Mortality basis		PubT-2010 Male and Female Employee Mortality Tables, scaled 100% (retirees: 116% for males and 116% for females) and adjusted for mortality improvements using projection scale MP-2021 from 2010
Cost of living pension adjustments	3.00%	Annual noncompounded for MIP members

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

Assumption changes as a result of an experience study for the periods from 2017 through 2022 have been adopted by the System for use in the annual pension and OPEB valuations beginning with the September 30, 2023 valuation.

Significant assumption changes since the prior measurement date, September 30, 2022, for the OPEB plan include a decrease in the health care cost trend rate of 0.25 percentage points for members under 65 and an increase of 1.0 percentage point for members over 65. There were no significant benefit terms changes for the pension or OPEB plans since the prior measurement date of September 30, 2022.

Discount Rate

The discount rate used to measure the total pension and OPEB liability was 6.00 percent as of September 30, 2023. 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 %	5.80 %
Private equity pools	16.00	9.60
International equity pools	15.00	6.80
Fixed-income pools	13.00	1.30
Real estate and infrastructure pools	10.00	6.40
Absolute return pools	9.00	4.80
Short-term investment pools	2.00	0.30
Real return/opportunistic pools	10.00	7.30
Total	100.00 %	

Long-term rates of return are net of administrative expense and inflation of 2.7 percent.

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

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%)	Current Discount Rate (6.00 %)	1 Percentage Point Increase (7.00%)
Net pension liability of the Academy	$ 6,392,756	$ 4,731,880	$ 3,349,141

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

The following presents the net OPEB asset of the Academy, calculated using the current discount rate. It also reflects what the Academy's net OPEB liability (asset) 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%)	Current Discount Rate (6.00%)	1 Percentage Point Increase (7.00%)
Net OPEB liability (asset) of the Academy	$ 91,691	$ (88,445)	$ (243,254)

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

The following presents the net OPEB asset of the Academy, calculated using the current health care cost trend rate. It also reflects what the Academy's net OPEB (asset) 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 (asset) liability of the Academy	$ (243,640)	$ (88,445)	$ 79,527

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, 2024, the Academy reported a payable of $136,472 and $15,619 for the outstanding amount of contributions to the pension and OPEB plan, respectively, required for the year ended June 30, 2024.

Required Supplementary Information

Required Supplementary Information
Budgetary Comparison Schedule - General Fund

Year Ended June 30, 2024

	Original Budget	Final Budget	Actual	(Under) Over Final Budget
Revenue				
Local sources	$ 23,600	$ 24,752	$ 21,603	$ (3,149)
State sources	3,448,761	4,729,768	4,403,389	(326,379)
Federal sources	628,124	1,058,210	625,316	(432,894)
Interdistrict sources	203,655	214,655	199,150	(15,505)
Total revenue	4,304,140	6,027,385	5,249,458	(777,927)
Expenditures				
Current:				
Instruction:				
Basic programs	1,895,764	2,747,971	2,210,594	(537,377)
Added needs	431,421	477,612	451,200	(26,412)
Support services:				
Pupil	436,669	568,798	451,227	(117,571)
Instructional staff	69,753	85,539	42,133	(43,406)
General administration	239,452	274,700	265,475	(9,225)
School administration	526,250	543,173	519,672	(23,501)
Business	20,310	30,755	24,105	(6,650)
Operations and maintenance	411,257	655,151	590,205	(64,946)
Pupil transportation services	65,800	145,669	-	(145,669)
Central	122,556	247,197	191,635	(55,562)
Total support services	1,892,047	2,550,982	2,084,452	(466,530)
Community services	32,523	46,043	43,243	(2,800)
Total expenditures	4,251,755	5,822,608	4,789,489	(1,033,119)
Excess of Revenue Over Expenditures	52,385	204,777	459,969	255,192
Other Financing Uses - Transfers out	(35,415)	(77,780)	(59,657)	18,123
Net Change in Fund Balance	16,970	126,997	400,312	273,315
Fund Balance - Beginning of year	456,473	456,473	456,473	-
Fund Balance - End of year	**$ 473,443**	**$ 583,470**	**$ 856,785**	**$ 273,315**

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

Last Ten Plan Years

Plan Years Ended September 30

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Academy's proportion of the net pension liability	0.01462 %	0.01428 %	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	$ 4,731,880	$ 5,370,484	$ 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	$ 1,589,338	$ 1,383,705	$ 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	297.73 %	388.12 %	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	65.91 %	60.77 %	72.32 %	59.49 %	62.12 %	62.12 %	63.96 %	63.01 %	62.92 %	66.15 %

See notes to required supplementary information.

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

Last Ten Fiscal Years

Years Ended June 30

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily required contribution	$ 713,635	$ 707,568	$ 511,117	$ 460,158	$ 426,173	$ 401,536	$ 379,483	$ 352,174	$ 328,055	$ 235,436
Contributions in relation to the statutorily required contribution	713,635	707,568	511,117	460,158	426,173	401,536	379,483	352,174	328,055	235,436
Contribution Deficiency	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Academy's Covered Payroll	$ 1,811,124	$ 1,607,222	$ 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 Payroll	39.40 %	44.02 %	37.18 %	33.99 %	31.45 %	30.63 %	30.38 %	27.83 %	27.75 %	19.91 %

See notes to required supplementary information.

Required Supplementary Information
Schedule of the Academy's Proportionate Share of the Net OPEB Liability (Asset)
Michigan Public School Employees' Retirement System

Last Seven Plan Years

Plan Years Ended September 30

	2023	2022	2021	2020	2019	2018	2017
Academy's proportion of the net OPEB (asset) liability	0.01563 %	0.01393 %	0.01472 %	0.01491 %	0.01525 %	0.01485 %	0.01500 %
Academy's proportionate share of the net OPEB (asset) liability	$ (88,445)	$ 295,109	$ 224,627	$ 798,873	$ 1,094,556	$ 1,180,806	$ 1,328,464
Academy's covered payroll	$ 1,589,338	$ 1,383,705	$ 1,368,260	$ 1,338,157	$ 1,344,473	$ 1,273,987	$ 1,278,990
Academy's proportionate share of the net OPEB (asset) liability as a percentage of its covered payroll	(5.56)%	21.33 %	16.42 %	59.70 %	81.41 %	92.69 %	103.87 %
Plan fiduciary net position as a percentage of total OPEB liability	105.04 %	83.09 %	88.87 %	59.76 %	48.67 %	43.10 %	36.53 %

See notes to required supplementary information.

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

Last Seven Fiscal Years

Years Ended June 30

	2024	2023	2022	2021	2020	2019	2018
Statutorily required contribution	$ 148,792	$ 129,369	$ 112,025	$ 112,648	$ 108,880	$ 102,977	$ 90,221
Contributions in relation to the statutorily required contribution	148,792	129,369	112,025	112,648	108,880	102,977	90,221
Contribution Deficiency	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Academy's Covered Payroll	$ 1,811,124	$ 1,607,222	$ 1,374,669	$ 1,353,659	$ 1,354,976	$ 1,310,969	$ 1,249,124
Contributions as a Percentage of Covered Payroll	8.22 %	8.05 %	8.15 %	8.32 %	8.04 %	7.86 %	7.22 %

See notes to required supplementary information.

Pension Information

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:

- 2023 - The valuation includes the impact of an updated experience study for periods from 2017 to 2022.
- 2022 - The discount rate and investment rate of return used in the September 30, 2021 actuarial valuation decreased by 0.80 percentage points.
- 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:

- 2023 - The health care cost trend rate used in the September 30, 2022 actuarial valuation decreased by 0.25 percentage points for members under 65 and increased by 1.00 percentage point for members over 65. In addition, actual per person health benefit costs were lower than projected. The valuation includes the impact of an updated experience study for periods from 2017 to 2022.
- 2022 - The discount rate and investment rate of return used in the September 30, 2021 actuarial valuation decreased by 0.95 percentage points. This resulted in a lower than projected per person health benefit costs to reduce the plan's total OPEB liability by an additional $1.1 billion in 2022.
- 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 Supplementary Information

Other Supplementary Information
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2024

	Special Revenue Funds				
	Lunch Fund	School Activities Fund	Total Special Revenue Funds	Capital Projects Fund	Total
Assets - Cash	**$ 11,515**	**$ 16,179**	**$ 27,694**	**$ 3,074**	**$ 30,768**
Liabilities - Unearned revenue	$ 11,515	$ -	$ 11,515	$ -	$ 11,515
Fund Balances					
Committed - School activities	-	16,179	16,179	-	16,179
Assigned	-	-	-	3,074	3,074
Total fund balances	-	16,179	16,179	3,074	19,253
Total liabilities and fund balances	**$ 11,515**	**$ 16,179**	**$ 27,694**	**$ 3,074**	**$ 30,768**

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

Year Ended June 30, 2024

	Special Revenue Funds				
	Lunch Fund	School Activities Fund	Total Special Revenue Funds	Capital Projects Fund	Total
Revenue					
Local sources	$ 531	$ 11,998	$ 12,529	$ -	$ 12,529
State sources	19,314	-	19,314	-	19,314
Federal sources	115,949	-	115,949	-	115,949
Total revenue	135,794	11,998	147,792	-	147,792
Expenditures					
Current:					
Support services:					
Business	-	9,049	9,049	-	9,049
Operations and maintenance	7,120	-	7,120	-	7,120
Food services	188,331	-	188,331	-	188,331
Total expenditures	195,451	9,049	204,500	-	204,500
Excess of Revenue (Under) Over Expenditures	(59,657)	2,949	(56,708)	-	(56,708)
Other Financing Sources - Transfers in	59,657	-	59,657	-	59,657
Net Change in Fund Balances	-	2,949	2,949	-	2,949
Fund Balances - Beginning of year	-	13,230	13,230	3,074	16,304
Fund Balances - End of year	**$ -**	**$ 16,179**	**$ 16,179**	**$ 3,074**	**$ 19,253**

Arts Academy in the Woods

Report to the Board of Directors

June 30, 2024

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To the Board of Directors
Arts Academy in the Woods

We have recently completed our audit of the basic financial statements of Arts Academy in the Woods (the "Academy") as of and for the year ended June 30, 2024. In addition to our audit report, we are providing the following results of the audit and informational items that impact the Academy:

We are grateful for the opportunity to be of service to the Academy. We would also like to extend our thanks to Cindy Schwark and the entire business office 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 23, 2024

Results of the Audit

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October 23, 2024

To the Board of Directors
Arts Academy in the Woods

We have audited the financial statements of Arts Academy in the Woods (the "Academy") as of and for the year ended June 30, 2024 and have issued our report thereon dated October 23, 2024. 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 July 23, 2024, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

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

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

Our audit of the Academy's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we are obligated to communicate certain matters that come to our attention related to our audit to those responsible for the governance of the Academy, including compliance with certain provisions of laws, regulations, contracts, and grant agreements; certain instances of error or fraud; illegal acts applicable to government agencies; and significant deficiencies in internal control that we identify during our audit. Toward this end, we issued a separate letter dated October 23, 2024 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 July 23, 2024.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

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

No new accounting policies were adopted, and the application of existing policies was not changed during 2024.

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 net asset for the 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, 2024 were approximately $4.73 million and $(88,000) 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 performing and completing our audit.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We did not detect any misstatements as a result of audit procedures.

Significant Findings or Issues

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 23, 2024.

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

Christopher Geck

Chris Geck

Informational Items

Managing the Changing Financial Resources Landscape

As fiscal year 2024/2025 kicks off, the school funding landscape is changing. Since 2020, the Academy has faced a continuously changing environment. The pandemic created significant uncertainty, followed by a significant infusion of federal resources, and ultimately a stable and growing fiscal platform for the state budget. As new resources were added, new challenges were created to effectively plan, develop, deliver, evaluate, and account for the programs and services. Beginning with the 2024/2025 school aid budget, we have observed a change in the budget strategy. Projections suggest a slowing growth pattern for the School Aid Fund. For the first time in several years, the governor and Legislature were faced with difficult choices regarding what initiatives to fund or cut and where to modify funding levels, including the evaluation of initiatives that were borne out of the pandemic. While overall the School Aid Fund is as large as it ever has been, the ability to spread the funding to all desired initiatives is no longer realistic and academies will have to monitor how funding changes will impact educational initiatives.

We understand the unique challenges academies face within the changing funding landscape. We continue to work closely with state and federal decision-makers to both understand the changes and provide insight into potential implications. As a strategic partner and advocate for charter education, we continue to meet with decision-makers before actions are finalized so that these groups can be well informed of the implications their actions will have on the students, your business office, and your financial statements. Our work continues with federal and state agencies as new or revised accounting and compliance guidance is developed so we can help academies be better equipped to manage the new rules and requirements. As guidance is updated and opportunities are identified, we will continue to provide updates to aid the Academy in managing changes and navigating complexities. We understand that the last several years have required substantial extra effort by the Board of Education, administration, teachers, and support staff to bring the Academy through one of the most extraordinary times in education. We also understand that the work is not done, and we appreciate the opportunity to work side by side with your team during this next chapter.

School Funding - School Aid in Depth

The 2023/2024 fiscal year began the process of exiting the pandemic-related funding environment. Funding continued to include significant state-sourced increases, significant new education investments, and some significant one-time resources. While the 2023/2024 School Aid Fund suggested state fiscal sustainability, the 2024/2025 School Aid Fund estimates suggested the School Aid Fund is moving toward slower growth rates. As a result, while the 2023/2024 budget provided significant new resources for education, the development of the 2024/2025 school aid budget required more creativity. This comes at a time when federal pandemic-related funding ends at September 30, 2024 with the conclusion of the federal ESSER programs.

2023/2024 State Funding: The May 2023 Consensus Revenue Estimating Conference identified availability of significant new resources. This allowed the State to continue to make investments in education, shore up funding for long-standing programs, make investments where new needs were identified, and respond to the changing financial structure as federal pandemic-related funding begins to come to a close. Key highlights impacting the Academy's funding for 2023/2024 included the following:

- **Foundation Allowance** - Increased the target foundation allowance by $458 per pupil to $9,608, a 5 percent increase. Cyber schools did not receive an increase and continued at $9,150.

- **Pupil Count** - Continued the traditional blended pupil count methodology, with 90 percent weighting for the October 2023 count and 10 percent weighting for the February 2023 count. However, for declining enrollment districts, a provision was added to use a two-year blended count to slow the impact of the decline on current year revenue. An academy qualified if its 2023 final membership count was lower than the 2022 final membership count. In this case, an academy received additional funding through Section 29.

- **Special Education** - Special education funding is now fully treated as categorical and is not using foundation allowance amounts to supplement its required payments under the Headlee Amendment. In 2023/2024, special education funding provided by the State was provided from Section 51 of the State Aid Act. In the past, a portion of the funding was provided from Section 20, where the foundation allowance is determined.

- **At-Risk** - Increased funding for Section 31a/At-Risk programs and used an opportunity index to better weight funding based on need

- **School Meals** - Section 30d provided universal free breakfast and lunch for the 2023/2024 fiscal year with the intention of continuing the program. The 2024/2025 School Aid Fund amendments continued funding for the program. The program is state funded and did not replace the federal Child Nutrition Cluster.

- **Mental Health and School Safety** - Additional one-time funding infusion for student mental health and school safety services

- **Retirement** - Increased allocation for contributions to the retirement system to reduce its long-term cost

2024/2025 State Funding - As the 2023/2024 school year was coming to a close, the May 2024 Consensus Revenue Estimating Conference predicted that there will be sufficient resources for current programs but suggested that the revenue growth in the School Aid Fund will continue at a slower pace than the previous two years. As a practical matter, the conference conclusions suggest the funding growth will mirror more closely the pre-pandemic growth levels. As schools entered the 2024/2025 fiscal year, the School Aid Bill was completed and signed into law. The bill provided for some funding increases and resources to fund new initiatives agreed to by the governor and Legislature. It also reduced the allocation for some one-time categoricals. It increased resources provided for retirement, and it did not provide a foundation allowance increase, except for charter schools. Some key highlights of the School Aid Bill include the following:

- Charter schools received a 3.9 percent increase in their target foundation, estimated at $9,983.

- Funding continues for declining enrollment districts to smooth the impact of resulting revenue decline.

- GSRP receives an increase in funding and provides for more families to be eligible for free preschool. Now, families who are less than four times the federal poverty level will be eligible for free service.

- At-risk funding is now over $1 billion. Revisions to the program include new flexibility provisions to reduce teacher-student ratio and support retention and recruitment efforts.

- Categoricals continuing without substantive change include, but are not limited to, the following: Transportation, Future Educator Fellowship, Student Teacher Stipend, and ISD Operations support.

- Many smaller categoricals were eliminated or had reduced funding. However, the most significant funding reduction was for mental health and school safety. Since this program was considered a one-time program, it was not considered a cut; however, academies that built programming around this funding will need to determine if other sources can be used to fund the programs.

- Special Education Services: In 2023/2024, use of the foundation allowance to contribute to the State's support of special education ceased, and the State's contribution to support special education is paid entirely from a categorical allocation. 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 varies by academy and requires some analysis. This funding methodology continued for 2024/2025.

Many of these initiatives have their roots in the education issues encountered during the pandemic, along with the desire to continue to address the recommendations first identified in the Michigan School Finance Collaborative, which outlined priorities for responding to education needs. Careful planning to effectively leverage these funding sources, along with managing programs initiated during the pandemic, will be critical for academies throughout the 2024/2025 school year.

Looking Forward to 2025 and Beyond

The May 2024 Consensus Revenue Estimating Conference provided a look into 2025, 2026, and 2027. Essentially, the conclusion from the conference indicates the expected funding levels are beginning to level off. The key implication is that it is unlikely that the School Aid Fund will be able to provide the same growth in resources available to charter schools as we move into the future. Given that, in the last few years, several categoricals were added to the funding scheme, as well as significant increases to the foundation allowance, the revenue estimates suggest that funding modifications may be required. Since many of the added categoricals were labeled as one-time categoricals, it appears that these programs may be most at risk of adjustment in the future. For 2024/2025, we have already seen such an adjustment for mental health and school safety, where the funding levels were significantly reduced. Key themes that continue to be areas of emphasis when evaluating future spending decisions include the following:

- **Federal Pandemic Resources**: The last major funding source is ARP ESSER III. It was funded as part of the Education Stabilization Fund and sunset on September 30, 2024. Some of the funding may have been used by the Academy to fund recurring costs of operations. This date, referred to as the funding cliff, will require each academy to evaluate its budget strategy to determine if resources supported recurring operations, and what resources will be available to fund continuing operations once the funds are depleted. The Academy will need to closely evaluate the impact of the sunset of the ESSER funds on future budgets.

- **Sustainability of Initiatives from 2023/2024**: There were several initiatives included in the 2023/2024 amendments to the State Aid Act. Revenue projections continued to show significant growth, creating room to fund recent and new initiatives. 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, beginning to focus on educational infrastructure investment, meeting the special education funding requirements with categorical funds, and providing free meals to all students (new Section 30d). Many of these initiatives were carried forward and continued in the 2024/2025 amendments to the State Aid Act, but some were not due to resource constraints. The biggest example is the reduction in previously labeled one-time funding for mental health and school safety. Each initiative required assessment and planning by individual academies. 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. The same challenges exist as academies assess the content of the 2024/2025 amendments to the State Aid Act.

- **Pupil Count Trends**: During the pandemic, most charter 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 students per year. However, during the pandemic, statewide enrollment decreased in excess of 50,000 students. 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. Current data suggests that some portion returned as the rate of decline slowed, 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 academies continue to operate in the post-pandemic period, continued focus on recruiting and retaining students and families will be essential to improving student enrollment.

The key lesson from the 2024/2025 budget cycle is that, since resources provided in the School Aid Fund are projected to return to a pace similar to pre-pandemic levels, the governor and Legislature will once again be forced to make difficult choices in deciding how to fund programs. In turn, academies will be required to adjust to changes in funding priorities and ultimately how resources will be used for local academy operations. Some of those challenges include the following:

- The impact of a recession on school funding, if it were to occur
- Fully utilizing the ESSER III allocation and how it will impact recurring operations once funding ends
- Staff retention and recruitment, including use of novel approaches, some of which are funded by state categoricals, for as long as they are in place
- Continued efforts at attracting and retaining students to the Academy
- Pupil count trends and projections for academies and school buildings to better plan staffing, infrastructure, and operational needs
- Evaluating programs addressing learning loss, including funding of programs once pandemic-related funding is concluded
- Planning for potentially expanded preschool services funded under an expanded GSRP, including identification and equipping of facilities
- Assessing food service operations as entering the second year of the new state-funded free breakfast and lunch program
- Potential staffing cost increases
- Operating cost increases resulting from inflation
- Technology cost increases and access to technology learning tools
- Costs for school security and mental health services, especially with the reduction in funding in 2024/2025
- Identifying, recruiting, and retaining staff to provide mental health and school security services
- Cost trends for the retirement system and the extent to which state support is used from the School Aid Fund

The next Consensus Revenue Estimating Conference will occur in January 2025. As academies move into the 2024/2025 school year, they will need to carefully plan for how best to use current resources as well as begin to plan for potential adjustments going forward as state funding growth begins to slow.

Michigan School Meals

Beginning in the 2023/2024 school year and continuing for 2024/2025, a free breakfast and lunch is available to all students in Michigan schools. This program, initiated with the 2023/2024 amendments to the State Aid Act, provides state-funded meals to all students who do not qualify for a free meal under the National School Lunch and National School Breakfast programs. For 2023/2024, the Academy received $12,360 in state funding under Section 30d for this program. The revenue supports the Lunch Fund and replaces the revenue previously received from student-paid meals. As a result of the program, most schools saw an increase in meals served to students. Some key observations include the following:

- Participation is not automatic. Academies apply using the Coordinated Application in the State's NexSys system.
- For an academy to be eligible to participate, it must do the following:
  - Be a public school, charter school, or intermediate school district
  - Participate in the National School Lunch Program
  - Serve breakfast and lunch
  - Serve all meals at no cost to pre-K through 12th grade students
  - Adopt Community Eligibility Provision (CEP) to maximize federal reimbursement. Note that not all schools qualify for this provision under the federal program. If an academy qualifies, the meals will be funded using that federal program, and the state program is not needed.
  - Collect relevant family income information
  - Write off all outstanding student negative balances
- The program works alongside and supplements the current federal National School Lunch and National School Breakfast programs and does not replace them.
- Academies will need to track and claim meals served similar to what is done for the federal programs.
- As noted above, academies must eliminate negative student account balances. In doing so, the Lunch Fund is not allowed to absorb the write-off. That removal requires funding from sources outside the Lunch Fund. The MDE provides guidance for how this should be accomplished.
- Many academies are experiencing an increase in fund balance in the Lunch Fund beyond the state limitations for this fund. Academies will need to monitor and ensure that there is a spenddown plan that strategizes utilizing the fund balance for allowable costs.

With this approach to access to school meals, the potential for continued high participation rates is likely. Many academies saw increased demand on food service operations, including staffing levels, timing of meals, cafeteria seating, menu planning, and food orders in 2023/2024. As academies move into 2024/2025, it is likely there is a clearer expectation of the level of student participation and its impact on food operations. Using that information, academies should be better equipped to plan for effective food service operations.

Prevailing Wage Requirements

When utilizing federal funding for projects that fall under the definition of construction in the Davis Bacon provisions, 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.

Fund Balance

Fund balance, particularly in the General Fund, is critically important to ensuring the financial health and stability of the Academy. Having adequate fund balance allows the Academy to navigate through and respond to unexpected losses or revenue shortfalls, such as emergency repairs or decline in funding. It ensures the Academy can continue its operations smoothly without disruptions, even in times of financial uncertainty. A healthy fund balance can also improve the Academy's credit rating, making it easier and less expensive to borrow money when needed. Overall, having a healthy fund balance allows for better long-term financial planning and budget flexibility to ensure the Academy's resources are being utilized in the most effective manner possible. Given the changing landscape in state and federal funding over the past few years, fund balance will continue to garner more attention among board members and key stakeholders.

During the 2023/2024 school year, the Academy's General Fund revenue exceeded expenditures by $400,312. This resulted in increasing the General Fund fund balance to $856,785 at June 30, 2024. Fund balance goals are often stated in terms of a percentage of total expenditures. As a point of reference, the statewide average for all schools in Michigan at June 30, 2023 was approximately 21.86 percent of expenditures and outgoing transfers. Fund balance at the statewide average would approximately equal the Academy's average operating costs for an 11-week period. The Academy's fund balance percentage is 17.9 percent and equals approximately 9.3 weeks of operation.

Upcoming Accounting Pronouncements

There are several upcoming accounting pronouncements that will have an impact on future financial statements of the Academy.

GASB Statement No. 101 - Compensated Absences

Academies have historically been required to account for certain types of accumulated employee leave time in their financial statements; however, the existing standards were written many years ago, and significant changes have occurred since then related to the various types of compensated absences that exist today. The GASB adopted a new pronouncement that addresses the accounting for compensated absences, which include vacation, sick, and other paid leave time. Under GASB 101, the Academy will record a compensated absence liability in the full accrual financial statements for leave time that (1) is attributable to services already rendered, (2) accumulates, and (3) is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. The liability is to be recorded each reporting period, in the full accrual statements only, using each employee's pay rate as of the date of the financial statements. The new standard also removes the historic requirement related to disclosing the gross additions and reductions to the compensated absence liability in the financial statements, and, instead, an academy can disclose only the net change during the year. The new standard also removes the previous requirement to disclose which funds are responsible for liquidating compensated absence liabilities as they are paid.

This statement is effective for the Academy's year ending June 30, 2025. The Academy should begin to review the requirements of this new pronouncement, as it may have an impact on how the Academy accounts for its compensated absence liability, including the cumulative effects of the accounting change on net assets as of July 1, 2024. Adoption will require assessments of historical data, and management should ensure this data is readily available to formulate assumptions.

GASB Statement No. 102 - Certain Risk Disclosures

This standard establishes financial reporting requirements for risks related to vulnerabilities due to certain concentrations or constraints. For those meeting the definition in the standard, the Academy will disclose the concentration or constraint, related events that could have a substantial impact, and actions taken to mitigate the risk. The Academy will need to carefully review the definition of concentrations and constraints to properly identify those that may require disclosure. This new standard is effective for the Academy's June 30, 2025 year end.

GASB Statement No. 103 - Financial Reporting Model Improvements

The objective of this standard is to make improvements to the financial reporting model, including Statement 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other reporting model-related pronouncements. A key change to this standard from the exposure draft is the removal related to the recognition in and the presentation of governmental funds. The standard's scope includes management's discussion and analysis (MD&A); proprietary fund financial statement presentation, particularly the operating/nonoperating classification; budgetary comparisons; major component unit information; and the presentation of unusual or infrequent items. This statement requires that the MD&A be limited to the five topics noted in the standard and provides further guidance on how the MD&A should be written. For proprietary fund financial reporting, the statement defines operating and nonoperating revenue and expense. It also requires a new subtotal for operating income (loss) and noncapital subsidies. The statement prescribes that the budgetary comparison be reported only in the required supplementary information section of the statements and dictates what variance information to be included. Next, the statement requires that major component unit information be presented separately in the statements of net position and activities, with a caveat for readability. Lastly, the statement describes unusual and infrequent transactions and outlines how they should be presented separately. This new standard will be effective for the Academy's June 30, 2026 year end.

OMB Revisions to the Uniform Guidance

In April 2024, the Office of Management and Budget (OMB) released revisions to the Uniform Guidance (UG) for federal grants and agreements. The guidance clarifies the applicability of requirements and terminology and includes some relaxation and clarification of certain requirements that required prior approval from federal regulators. Changes to certain administrative requirements are effective for grants received on or after October 1, 2024. One key change to audit requirements relates to the increase of the single audit threshold from $750,000 to $1 million. The Type A threshold for federal programs also increases from $750,000 to $1 million. This change is effective for fiscal year ends starting on or after October 1, 2024 and, therefore, would be applicable for the Academy's fiscal year ending June 30, 2026.

Capitalization Thresholds Under Uniform Grants Guidance

The April 2024 Uniform Grants Guidance Revision that is described above resulted in the equipment capitalization threshold increasing from $5,000 to $10,000. This threshold applies to the value of equipment that at the end of the grant period may be retained, sold, or otherwise disposed of with no further responsibility to the federal agency. In addition to considering this UG threshold related to federal grants compliance, it may be a good time for the Academy to reevaluate the capitalization thresholds, understanding that there are various factors to consider. Ultimately, an academy will be required to track equipment purchases below $10,000 for grant compliance purposes if the Academy's policy is set below this new federal floor.