
Arts Academy in the Woods

**Financial Report
with Supplemental Information
June 30, 2020**

Independent Auditor's Report	1-2
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	3-4
Management's Discussion and Analysis	5-10
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position	11
Statement of Activities	12
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	13
Reconciliation of the Balance Sheet to the Statement of Net Position	14
Statement of Revenue, Expenditures, and Changes in Fund Balances	15
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities	16
Fiduciary Fund - Statement of Fiduciary Assets and Liabilities	17
Notes to Financial Statements	18-32
Required Supplemental Information	33
Budgetary Comparison Schedule - General Fund	34
Schedule of the Academy's Proportionate Share of the Net Pension Liability	35
Schedule of Pension Contributions	36
Schedule of the Academy's Proportionate Share of the Net OPEB Liability	37
Schedule of OPEB Contributions	38
Notes to Required Supplemental Information	39
Other Supplemental Information	40
Nonmajor Governmental Funds:	
Combining Balance Sheet	41
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	42
Schedule of Bonded Indebtedness	43

Independent Auditor's Report

To the Board of Directors
Arts Academy in the Woods

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Arts Academy in the Woods (the "Academy") as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise Arts Academy in the Woods' basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Arts Academy in the Woods as of June 30, 2020 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.

To the Board of Directors
Arts Academy in the Woods

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplemental information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2020 on our consideration of Arts Academy in the Woods' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Arts Academy in the Woods' internal control over financial reporting and compliance.



November 20, 2020

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 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Arts Academy in the Woods (the "Academy") as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated November 20, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

November 20, 2020

This section of Arts Academy in the Woods' (the "Academy") annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2020. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Using This Annual Report

This annual report consists of a series of financial statements and notes to those financial statements. These statements are organized so the reader can understand Arts Academy in the Woods financially as a whole. The government-wide financial statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term and what remains for future spending. The fund financial statements look at the Academy's operations in more detail than the government-wide financial statements by providing information about the Academy's most significant funds, the General Fund and the Debt Service Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the Academy acts solely as an agent for the benefit of students and parents. This report is composed of the following elements:

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

Basic Financial Statements

Government-wide Financial Statements

Fund Financial Statements

Notes to Financial Statements

Required Supplemental Information

Budgetary Information for the General Fund

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

Schedules of Pension and OPEB Contributions

Other Supplemental Information

Reporting the Academy as a Whole - Government-wide Financial Statements

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenue and expenses are taken into account, regardless of when cash is received or paid.

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

The statement of net position and the statement of activities report the governmental activities for the Academy, which encompass all of the Academy's services, including instruction, support services, community services, and food services. Property taxes, unrestricted 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 (the Lunch Fund is an example) or to show that it is meeting legal responsibilities for using certain grants and other money (such as bond-funded construction funds used for voter-approved capital projects).

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.

Reporting the Academy's Fiduciary Responsibilities

The Academy has certain fiduciary responsibility for its student activity fund. All of the Academy's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. We exclude these activities from the Academy's other financial statements because the Academy cannot use these assets to finance its operations. The Academy is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Arts Academy in the Woods

Management's Discussion and Analysis (Continued)

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, 2020 and 2019:

	Governmental Activities	
	2020	2019
	(in thousands)	
Assets		
Current and other assets	\$ 971.1	\$ 1,175.4
Capital assets	1,910.4	1,965.9
Total assets	2,881.5	3,141.3
Deferred Outflows of Resources	1,793.1	1,746.9
Liabilities		
Current liabilities	629.4	652.1
Noncurrent liabilities	735.8	966.2
Net pension liability	4,941.5	4,445.8
Net OPEB liability	1,094.6	1,180.8
Total liabilities	7,401.3	7,244.9
Deferred Inflows of Resources	816.6	822.2
Net Position (Deficit)		
Net investment in capital assets	1,369.4	1,254.3
Restricted	178.9	200.3
Unrestricted	(5,091.6)	(4,633.5)
Total net position (deficit)	<u>\$ (3,543.3)</u>	<u>\$ (3,178.9)</u>

The above analysis focuses on net position. The change in net position of the Academy's governmental activities is discussed below. The Academy's net position was \$(3,543.3) thousand at June 30, 2020. Net investment in capital assets totaling \$1,369.4 thousand compares the original cost, less depreciation of the Academy's capital assets, to long-term debt used to finance the acquisition of those assets. 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 (\$(5,091.6) thousand) was unrestricted.

The \$(5,091.6) thousand in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. Included within unrestricted net position are liabilities totaling approximately \$5,059.5 thousand for the Academy's proportionate share of the net pension and OPEB liabilities related to the Michigan Public School Employees' Retirement System. The operating results of the General Fund have an impact on the change in unrestricted net position from year to year, as does changes to the pension and OPEB liabilities.

Arts Academy in the Woods

Management's Discussion and Analysis (Continued)

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, 2020 and 2019:

	Governmental Activities	
	2020	2019
	(in thousands)	
Revenue		
Program revenue:		
Charges for services	\$ 10.3	\$ 10.6
Operating grants	603.0	559.7
General revenue:		
State aid not restricted to specific purposes	2,637.8	2,554.2
Other	38.6	32.2
Total revenue	3,289.7	3,156.7
Expenses		
Instruction	2,059.4	1,897.4
Support services	1,421.7	1,422.4
Food services	75.2	80.6
Community services	10.9	31.3
Debt service	20.8	25.8
Depreciation expense (unallocated)	66.1	63.8
Total expenses	3,654.1	3,521.3
Change in Net Position	(364.4)	(364.6)
Net Position (Deficit) - Beginning of year	(3,178.9)	(2,814.3)
Net Position (Deficit) - End of year	<u><u>\$ (3,543.3)</u></u>	<u><u>\$ (3,178.9)</u></u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$3,654.1 thousand. Certain activities were partially funded from those who benefited from the programs (\$10.3 thousand) or by other governments and organizations that subsidized certain programs with grants and contributions (\$603.0 thousand). We paid for the remaining public benefit portion of our governmental activities with \$2,637.8 thousand in state foundation allowance and with our other revenue (i.e., interest and general entitlements).

The Academy experienced a decrease in net position of \$364.4 thousand. Key reasons for the change in net position were net overall breakeven for academy operations, but an increase to the obligations associated with the pension and OPEB obligations, which represented additional expenses.

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 provided 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 \$341.7 thousand, which is a decrease of \$181.6 thousand from last year.

Beginning in March, 2020, the Academy was required to provide remote instruction instead of in-person instruction as a result of the COVID-19 outbreak and related executive orders. Reduced expenditures associated with limited building use were offset by increased costs associated with remote learning.

In the General Fund, our principal operating fund, the fund balance decreased \$160.2 thousand to \$159.7 thousand, which was due to a decrease in state source revenue that exceeded the slight decrease in expenditures.

In the Debt Service Fund, the fund balance decreased \$21.5 thousand to \$178.9 thousand.

Arts Academy in the Woods

Management's Discussion and Analysis (Continued)

In the Capital Projects Fund, the fund balance of \$3.1 thousand did not experience any changes in the current year.

General Fund 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 2020. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

There were no significant variances between the final budget and actual amounts, other than the reduction in state revenue of approximately \$104.6 thousand from the final budget, due to last-minute state reductions. Additionally state source revenue had already been adjusted downward from the originally adopted budget of \$3,323.0 thousand to \$3,025.4 thousand for the final budget.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2020, the Academy had \$1.91 million invested in capital assets. This amount represents a net decrease (including additions, disposals, and depreciation) of approximately \$55.5 thousand, or 2.8 percent, from last year.

	<u>2020</u>	<u>2019</u>
Land	\$ 868,834	\$ 868,834
Buildings and improvements	1,621,636	1,621,636
Furniture and equipment	<u>267,898</u>	<u>257,358</u>
Total capital assets	2,758,368	2,747,828
Less accumulated depreciation	<u>847,998</u>	<u>781,937</u>
Total capital assets - Net of accumulated depreciation	<u><u>\$ 1,910,370</u></u>	<u><u>\$ 1,965,891</u></u>

This year's additions of \$10.5 thousand included new laptops. No major capital projects are planned for the 2020-2021 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the Academy had \$544.1 thousand in general obligation bonds outstanding versus \$714.7 thousand in the previous year. The decrease was due to principal payments made during the year.

The Academy also had liabilities of \$191.8 thousand for state aid penalties levied against the Academy in the previous year. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

COVID-19-related responses will continue to impact expenditures through much of the year but will be mitigated to the extent of the limited county Coronavirus, GEERS, ESSER and, Relief and Economic Security Act (CARES Act) funding.

Arts Academy in the Woods

Management's Discussion and Analysis (Continued)

Our elected officials and administration consider many factors when setting the Academy's 2020-2021 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 2020-2021 budget was adopted in June 2020 based on an estimate of students who will enroll in September 2020. Approximately 78.5 percent of total General Fund revenue is from the foundation allowance. Under state law, the Academy cannot access additional property tax revenue for general operations. As a result, academy funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2020 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2020-2021 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.

June 30, 2020

	<u>Governmental Activities</u>
Assets	
Cash (Note 4)	\$ 200,710
Due from other governmental units	565,056
Prepaid expenses and other assets	26,464
Restricted cash (Note 4)	178,884
Capital assets - Net (Note 6)	<u>1,910,370</u>
Total assets	2,881,484
Deferred Outflows of Resources	
Deferred pension costs (Note 11)	1,443,851
Deferred OPEB costs (Note 11)	<u>349,288</u>
Total deferred outflows of resources	1,793,139
Liabilities	
Accounts payable	231,076
Accrued payroll-related liabilities	374,666
State aid anticipation note (Note 8)	22,425
Unearned revenue (Note 5)	1,277
Noncurrent liabilities:	
Due within one year (Note 9)	235,976
Due in more than one year (Note 9)	499,878
Net pension liability (Note 11)	4,941,532
Net OPEB liability (Note 11)	<u>1,094,556</u>
Total liabilities	7,401,386
Deferred Inflows of Resources (Note 11)	
Revenue in support of pension contributions made subsequent to the measurement date	169,431
Deferred pension cost reductions	215,657
Deferred OPEB cost reductions	<u>431,487</u>
Total deferred inflows of resources	<u>816,575</u>
Net Position (Deficit)	
Net investment in capital assets	1,369,393
Restricted - Debt service	178,884
Unrestricted	<u>(5,091,615)</u>
Total net position (deficit)	<u><u>\$ (3,543,338)</u></u>

Arts Academy in the Woods

Statement of Activities

Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenue		Governmental
		Charges for Services	Operating Grants and Contributions	Activities
				Net (Expense) Revenue and Changes in Net Position
Primary government - Governmental activities:				
Instruction	\$ 2,059,393	\$ -	\$ 332,782	\$ (1,726,611)
Support services	1,421,716	-	229,502	(1,192,214)
Food services	75,207	10,298	40,752	(24,157)
Community services	10,926	-	-	(10,926)
Interest	20,848	-	-	(20,848)
Depreciation expense (unallocated) (Note 6)	66,061	-	-	(66,061)
Total primary government	\$ 3,654,151	\$ 10,298	\$ 603,036	(3,040,817)
General revenue:				
State aid not restricted to specific purposes				2,637,787
Interest and investment earnings				248
Other				38,335
Total general revenue				<u>2,676,370</u>
Change in Net Position				(364,447)
Net Position (Deficit) - Beginning of year				<u>(3,178,891)</u>
Net Position (Deficit) - End of year				<u>\$ (3,543,338)</u>

Arts Academy in the Woods

Governmental Funds Balance Sheet

June 30, 2020

	General Fund	Debt Service Fund	Nonmajor Funds	Total Governmental Funds
Assets				
Cash (Note 4)	\$ 196,359	\$ -	\$ 4,351	\$ 200,710
Due from other governmental units	565,056	-	-	565,056
Prepaid costs and other assets	26,464	-	-	26,464
Restricted cash (Note 4)	-	178,884	-	178,884
	<u>787,879</u>	<u>178,884</u>	<u>4,351</u>	<u>971,114</u>
Total assets				
Liabilities				
Accounts payable	\$ 199,677	\$ -	\$ -	\$ 199,677
Due to other funds (Note 7)	31,399	-	-	31,399
Accrued payroll-related liabilities	374,666	-	-	374,666
State aid anticipation note (Note 8)	22,425	-	-	22,425
Unearned revenue (Note 5)	-	-	1,277	1,277
	<u>628,167</u>	<u>-</u>	<u>1,277</u>	<u>629,444</u>
Total liabilities				
Fund Balances				
Nonspendable - Prepaid costs and other assets	26,464	-	-	26,464
Restricted	-	178,884	-	178,884
Assigned:				
Subsequent year's budget	133,248	-	-	133,248
Capital projects	-	-	3,074	3,074
	<u>159,712</u>	<u>178,884</u>	<u>3,074</u>	<u>341,670</u>
Total fund balances				
Total liabilities and fund balances	<u>\$ 787,879</u>	<u>\$ 178,884</u>	<u>\$ 4,351</u>	<u>\$ 971,114</u>

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Position

June 30, 2020

Fund Balances Reported in Governmental Funds	\$ 341,670
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	2,758,368
Accumulated depreciation	<u>(847,998)</u>
Net capital assets used in governmental activities	1,910,370
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(735,854)
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	(3,713,338)
Net OPEB liability and related deferred inflows and outflows	(1,176,755)
Revenue in support of pension contributions made subsequent to the measurement date is reported as a deferred inflow of resources in the statement of net position and is not reported in the funds	<u>(169,431)</u>
Net Position (Deficit) of Governmental Activities	<u><u>\$ (3,543,338)</u></u>

Arts Academy in the Woods

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2020

	General Fund	Debt Service Fund	Nonmajor Funds	Total Governmental Funds
Revenue				
Local sources	\$ 38,577	\$ 6	\$ 10,298	\$ 48,881
State sources	2,920,848	-	4,723	2,925,571
Federal sources	180,312	-	40,752	221,064
Interdistrict sources	38,615	-	-	38,615
Total revenue	3,178,352	6	55,773	3,234,131
Expenditures				
Current:				
Instruction:				
Basic programs	1,484,487	-	-	1,484,487
Added needs	340,105	-	-	340,105
Support services:				
Pupil	302,726	-	-	302,726
Instructional staff	1,539	-	-	1,539
General administration	190,183	-	-	190,183
School administration	351,503	-	-	351,503
Business	9,820	-	-	9,820
Operations and maintenance	321,683	-	17,145	338,828
Central	109,898	-	-	109,898
Food services	-	-	75,207	75,207
Community services	9,491	-	-	9,491
Debt service:				
Principal	-	170,628	-	170,628
Interest	-	20,848	-	20,848
Capital outlay	10,540	-	-	10,540
Total expenditures	3,131,975	191,476	92,352	3,415,803
Excess of Revenue Over (Under)				
Expenditures	46,377	(191,470)	(36,579)	(181,672)
Other Financing Sources (Uses)				
Transfers in (Note 7)	-	170,000	36,579	206,579
Transfers out (Note 7)	(206,579)	-	-	(206,579)
Total other financing (uses) sources	(206,579)	170,000	36,579	-
Net Change in Fund Balances	(160,202)	(21,470)	-	(181,672)
Fund Balances - Beginning of year	319,914	200,354	3,074	523,342
Fund Balances - End of year	<u>\$ 159,712</u>	<u>\$ 178,884</u>	<u>\$ 3,074</u>	<u>\$ 341,670</u>

Arts Academy in the Woods

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

Year Ended June 30, 2020

Net Change in Fund Balances Reported in Governmental Funds	\$ (181,672)
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	10,540
Depreciation expense	<u>(66,061)</u>
Total	(55,521)
Revenue in support of pension contributions made subsequent to the measurement date	(4,106)
Repayment of bond principal and mortgage loan is an expenditure in the governmental funds but not in the statement of activities (where it reduces long-term debt)	170,628
Change in pension expense related to deferred items	(353,455)
Some long-term liabilities do not require the use of current financial resources and, therefore, are not reported as expenditures (reductions to revenue) in the governmental funds	<u>59,679</u>
Change in Net Position of Governmental Activities	<u><u>\$ (364,447)</u></u>

Arts Academy in the Woods

Fiduciary Fund Statement of Fiduciary Assets and Liabilities

June 30, 2020

Agency Fund

Assets - Due from other funds (Note 7)

\$ 31,399

Liabilities - Due to student groups

\$ 31,399

Note 1 - Nature of Business

Arts Academy in the Woods (the "Academy") is an academy in the state of Michigan that provides educational services to students.

Note 2 - Significant Accounting Policies

Accounting and Reporting Principles

Arts Academy in the Woods 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 (GASB). The following is a summary of the significant accounting policies used by the Academy:

Reporting Entity

The Academy was formed as a charter 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 June 2018, the Academy entered into another contract with the MISD that extended the charter through June 30, 2021, and is currently working on terms for future extension of the agreement. 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, 2020, administrative and fiscal agent fees totaled \$166,317, which is included in the accounts payable balance at June 30, 2020.

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.

Report Presentation

The Academy-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 Academy. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy-wide activities are considered governmental activities.

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. 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 instead 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.

Note 2 - Significant Accounting Policies (Continued)

Basis of Accounting

Academy-wide Financial Statements

The Academy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the Academy-wide financial statements.

When an expense is incurred for purposes for which both restricted and unrestricted net position or fund balance are available, the Academy's policy is to first apply restricted resources. When an expense is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the Academy's policy to spend funds in this order: committed, assigned, and then unassigned.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all unrestricted state and federal aid.

Fund Financial Statements

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 Academy has spent its resources.

Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Revenue not meeting this definition is classified as a deferred inflow of resources. For this purpose, the Academy considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

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.

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

Fund Accounting

The Academy reports the following major governmental funds:

General Fund

The General Fund is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

Note 2 - Significant Accounting Policies (Continued)

Debt Service Fund

The Debt Service Fund is used to record interest and other revenue for payment of interest, principal, and other expenditures on the related bond issue.

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

Special Revenue Fund

The Lunch Fund is a special revenue fund that is used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. 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.

Capital Projects Fund

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

Fiduciary Fund - Agency Fund

The Academy maintains an agency fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and are held for the students.

Specific Balances and Transactions

Cash and Cash Equivalents

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

Receivables and Payables

In general, outstanding balances between funds are reported as due to/from other funds.

All receivables are shown net of an allowance for uncollectible amounts. The Academy considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Restricted Assets

The unspent bond proceeds and related interest of the Debt Service Fund require amounts to be set aside for future bond principal and interest. These amounts have been classified as restricted assets.

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the Academy-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 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.

Note 2 - Significant Accounting Policies (Continued)

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

	Depreciable Life - Years
Buildings and improvements	10 to 30
Machinery, equipment, and furniture	5 to 20
Furniture and other equipment	5 to 10

Long-term Obligations

In the Academy-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

In the fund financial statements, governmental fund types recognize bond issuances as other financing sources. Issuance costs are reported as debt service expenditures.

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 (expense/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.

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).

In the fund financial statements, governmental funds report the following components of fund balance:

Nonspendable: Amounts that are not in spendable form or are legally or contractually required to be maintained intact

Restricted: Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose

Committed: Amounts that have been formally set aside by the board of directors for use for specific purposes. Commitments are made and can be rescinded only via resolution of the board of directors.

Assigned: Intent to spend resources on specific purposes expressed by the board of directors

Note 2 - Significant Accounting Policies (Continued)

Unassigned: Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

Pension and Other Postemployment Benefit (OPEB) Plans

For purposes of measuring the net pension and net OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to each plan, and pension and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (MPERS) and additions to/deductions from MPERS' fiduciary net position have been determined on the same basis as they are reported by MPERS. MPERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expenses when due and payable in accordance with the plan benefit terms. Related plan investments are reported at fair value.

Use of Estimates

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

Comparative Data/Reclassifications

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

Upcoming Accounting Pronouncement

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The Academy has evaluated the impact this standard will have on the financial statements when adopted. As of July 1, 2020, the Academy will report the activities and related balances currently reported as fiduciary in a newly created special revenue fund.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including November 20, 2020, which is the date the financial statements were available to be issued.

Following the passing of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was signed into law on March 27, 2020 to combat the effects of the COVID-19 pandemic, the U.S. Department of Treasury distributed Coronavirus Relief Fund (CRF) payments to the State of Michigan. During July and August 2020, the Academy received \$115,428 of these restricted CRF funds from the Michigan Department of Education. The CRF funds can be used only for eligible costs and are subject to certain Uniform Guidance and grant-specific reporting requirements.

June 30, 2020

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, function, and object. 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 in anticipated pupil counts, and changes to expenditures the Academy felt were necessary.

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 other than instruction - added needs having actual expenditures in excess of the budgeted amounts by \$80,144. The reason for the excess expenditure related to certain additional special education purchased services that were not originally budgeted. The overall expenditures were less than budgeted amounts for the Academy for the year.

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 \$398,478 had \$148,478 of bank deposits (checking and savings 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. As a result, the Academy evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

June 30, 2020

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, 2020, the Academy had no unavailable revenue and approximately \$1,277 of unearned revenue primarily related to grant and categorical aid payments received prior to meeting all eligibility requirements.

Note 6 - Capital Assets

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

Governmental Activities

	Balance July 1, 2019	Additions	Disposals and Adjustments	Balance June 30, 2020
Capital assets not being depreciated - Land	\$ 868,834	\$ -	\$ -	\$ 868,834
Capital assets being depreciated:				
Buildings and improvements	1,621,636	-	-	1,621,636
Machinery, equipment, and Furniture	257,358	10,540	-	267,898
Subtotal	1,878,994	10,540	-	1,889,534
Accumulated depreciation:				
Buildings and improvements	576,873	56,184	-	633,057
Machinery, equipment, and furniture	205,064	9,877	-	214,941
Subtotal	781,937	66,061	-	847,998
Net capital assets being depreciated	1,097,057	(55,521)	-	1,041,536
Net governmental activities capital assets	<u>\$ 1,965,891</u>	<u>\$ (55,521)</u>	<u>\$ -</u>	<u>\$ 1,910,370</u>

Depreciation expense totaling \$66,061 was not charged to activities, as the Academy's assets benefit multiple activities and allocation is impractical.

Note 7 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Agency Fund	General Fund	\$ (31,399)

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

Interfund Transfers

During the year ended June 30, 2020, the General Fund transferred \$170,000 to the Debt Service Fund to fund debt service obligations and \$36,579 to the Lunch Fund to subsidize expenditures.

June 30, 2020

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 redeemed \$126,830 of these state aid anticipation notes (the "notes") and issued new notes of \$125,000, resulting in an outstanding balance of \$22,425 at June 30, 2020. The current note bears interest at 3.65 percent and was repaid through automatic deductions from the Academy's state aid payments in equal monthly installments from October 2019 through August 2020.

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 for the unpaid principal and interest, and interest becomes due on demand. 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.

In September 2020, the Academy borrowed \$140,000 in state aid anticipation notes, with an interest rate of 3.45 percent. The notes will be repaid through automatic deductions from the Academy's state aid payments in equal monthly installments of \$12,966 from October 2020 through August 2021.

Note 9 - Long-term Debt

Long-term debt activity for the year ended June 30, 2020 can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds payable	\$ 714,679	\$ -	\$ (170,628)	\$ 544,051	\$ 176,297
Other long-term liability	251,482	-	(59,679)	191,803	59,679

General Obligation Bonds and Contracts

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

General obligations outstanding at June 30, 2020 are as follows:

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

Note 9 - Long-term Debt (Continued)

Other Long-term Liabilities

At June 30, 2020, the Academy has a long-term liability for \$191,803 to the remainder of the state aid penalties levied against the Academy during the year ended June 30, 2019. Amounts will be liquidated through the General Fund and paid through automatic deductions from the Academy's state aid payments as follows:

Years Ending June 30	Amount
2021	\$ 59,679
2022	59,679
2023	59,679
2024	12,766
Total	<u>\$ 191,803</u>

Debt Service Requirements to Maturity

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

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
2021	\$ 176,297	\$ 15,175	\$ 191,472
2022	180,107	9,369	189,476
2023	187,647	3,362	191,009
Total	<u>\$ 544,051</u>	<u>\$ 27,906</u>	<u>\$ 571,957</u>

Assets Pledged as Collateral

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

Significant Terms

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

Note 10 - Risk Management

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

June 30, 2020

Note 11 - Michigan Public School Employees' Retirement System

Plan Description

The Academy participates in the Michigan Public School Employees' Retirement System (the "System"), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the Academy. Certain academy employees also receive defined contribution retirement and health care benefits through the System. The System provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The System also provides postemployment health care benefits to retirees and beneficiaries who elect to receive those benefits.

The System is administered by the Office of Retirement Services (ORS). The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the pension and postemployment health care plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement Services at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Benefits Provided

Benefit provisions of the defined benefit (DB) pension plan and the postemployment 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 to 1.50 percent. The requirements to retire range from attaining the age of 46 to 60 with years of service ranging from 5 to 30 years, depending on when the employee became a member. Early retirement is computed in the same manner as a regular pension but is permanently reduced 0.50 percent for each full and partial month between the pension effective date and the date the member will attain age 60. There is no mandatory retirement age.

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

Members are eligible for nonduty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits, but are payable immediately without an actuarial reduction. The disability benefits plus authorized outside earnings are limited to 100 percent of the participant's final average compensation, with an increase of 2 percent each year thereafter.

Benefits may transfer to a beneficiary upon death and are determined in the same manner as retirement benefits, but with an actuarial reduction.

Benefit terms provide for annual cost of living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustment, if applicable, is 3 percent. Some members who do not receive an annual increase are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions.

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

June 30, 2020

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

Contributions

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

Under the OPEB plan, retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits. Participating employers are required to contribute at that rate.

Under Public Act 300 of 2012, members were given the choice between continuing the 3 percent contribution to retiree health care and keeping the premium subsidy benefit described above, or choosing not to pay the 3 percent contribution and, instead, opting out of the subsidy benefit and becoming a participant 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 account as of their transition date, earning them a 2 percent employer match into a 401(k) account. Members who selected this option stopped paying the 3 percent contribution to the retiree health care as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

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

	Pension	OPEB
October 1, 2018 - September 30, 2019	13.39% - 19.59%	7.57% - 7.93%
October 1, 2019 - September 30, 2020	13.39% - 19.59%	7.57% - 8.09%

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

The Academy's required and actual pension contributions to the plan for the year ended June 30, 2020 were \$442,774, which include the Academy's contributions required for those members with a defined contribution benefit. The Academy's required and actual pension contributions include an allocation of \$169,431 in revenue received from the State of Michigan and remitted to the System to fund the MPSERS unfunded actuarial accrued liability (UAAL) stabilization rate for the year ended June 30, 2020.

The Academy's required and actual OPEB contributions to the plan for the year ended June 30, 2020 were \$118,891, which include the Academy's contributions required for those members with a defined contribution benefit.

June 30, 2020

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

Net Pension Liability

At June 30, 2020, the Academy reported a liability of \$4,941,532 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2018, which used update procedures to roll forward the estimated liability to September 30, 2019. 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, 2019 and 2018, the Academy's proportion was 0.014922 and 0.014789 percent, respectively, representing a change of less than 1 percent.

Net OPEB Liability

At June 30, 2020, the Academy reported a liability of \$1,094,556 for its proportionate share of the net OPEB liability. The net OPEB liability for fiscal year 2020 was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2018, which used update procedures to roll forward the estimated liability to September 30, 2019. The Academy's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2019 and 2018, the Academy's proportion was 0.015249 and 0.014855 percent, respectively, representing a change of 2.65 percent.

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

For 2020, the Academy recognized pension expense of \$839,042, inclusive of payments to fund the MPSERS UAAL stabilization rate. At June 30, 2020, 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	\$ 22,150	\$ (20,606)
Changes in assumptions	967,555	-
Net difference between projected and actual earnings on pension plan investments	-	(158,368)
Changes in proportion and differences between the Academy's contributions and proportionate share of contributions	89,300	(36,683)
The Academy's contributions to the plan subsequent to the measurement date	364,846	-
Total	<u>\$ 1,443,851</u>	<u>\$ (215,657)</u>

The \$169,431 reported as deferred inflows of resources resulting from the pension portion of state aid payments received pursuant to the UAAL payment will be recognized as state appropriations revenue for the year ending June 30, 2020. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending	Amount
2021	\$ 361,654
2022	266,739
2023	165,625
2024	69,330
Total	<u>\$ 863,348</u>

June 30, 2020

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

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

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

For the year ended June 30, 2020, the Academy recognized OPEB expense of \$31,679.

At June 30, 2020, 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	\$ -	\$ (401,624)
Changes in assumptions	237,168	-
Net difference between projected and actual earnings on OPEB plan investments	-	(19,035)
Changes in proportionate share or difference between amount contributed and proportionate share of contributions	30,065	(10,828)
Employer contributions to the plan subsequent to the measurement date	82,055	-
Total	\$ 349,288	\$ (431,487)

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

Years Ending	Amount
2021	\$ (47,274)
2022	(47,274)
2023	(38,009)
2024	(22,422)
2025	(9,275)
Total	\$ (164,254)

Actuarial Assumptions

The total pension liability and total OPEB liability as of September 30, 2019 are based on the results of an actuarial valuation as of September 30, 2018 and rolled forward. The total pension liability and OPEB liability were determined using the following actuarial assumptions:

Actuarial cost method		Entry age normal
Investment rate of return - Pension	6.00% - 6.80%	Net of investment expenses based on the groups
Investment rate of return - OPEB	6.95%	Net of investment expenses based on the groups
Salary increases	2.75% - 11.55%	Including wage inflation of 2.75%
Health care cost trend rate - OPEB	7.50%	Year 1 graded to 3.5% year 12
Mortality basis		RP-2014 Male and Female Employee Annuitant Mortality tables, scaled 100% (retirees: 82% for males and 78% for females) and adjusted for mortality improvements using projection scale MP-2017 from 2006
Cost of living pension adjustments	3.00%	Annual noncompounded for MIP members

June 30, 2020

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

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

Significant assumption changes since the prior measurement date, September 30, 2018, for pension and OPEB include a reduction in both discount rates; continued impact of the updated experience study, which resulted in a lower than projected per person health benefit cost for OPEB; and favorable investment experience for both plans. There were no significant benefit terms changes for the pension or OPEB plans since the prior measurement date of September 30, 2018.

Discount Rate

The discount rate used to measure the total pension liability was 6.00 to 6.80 percent as of September 30, 2019 depending on the plan option. The discount rate used to measure the total OPEB liability was 6.95 percent as of September 30, 2019. 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	28.00 %	5.50 %
Private equity pools	18.00	8.60
International equity pools	16.00	7.30
Fixed-income pools	10.50	1.20
Real estate and infrastructure pools	10.00	4.20
Absolute return pools	15.50	5.40
Short-term investment pools	2.00	0.80
Total	100.00 %	

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

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

	1 Percentage Point Decrease (5.00 - 5.80%)	Current Discount Rate (6.00 - 6.80%)	1 Percentage Point Increase (7.00 - 7.80%)
Net pension liability of the Academy	\$ 6,424,308	\$ 4,941,532	\$ 3,712,260

June 30, 2020

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

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

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

	1 Percentage Point Decrease (5.95%)	Current Discount Rate (6.95%)	1 Percentage Point Increase (7.95%)
Net OPEB liability of the Academy	\$ 1,342,638	\$ 1,094,556	\$ 886,237

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

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

	1 Percentage Point Decrease (6.50%)	Current Rate (7.50%)	1 Percentage Point Increase (8.50%)
Net OPEB liability of the Academy	\$ 877,405	\$ 1,094,556	\$ 1,342,608

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, 2020, the Academy reported a payable of \$46,624 for the outstanding amount of contributions to the pension plan and OPEB plan required for the year ended June 30, 2020.

Required Supplemental Information

Arts Academy in the Woods

Required Supplemental Information Budgetary Comparison Schedule General Fund

Year Ended June 30, 2020

	Original Budget	Final Budget	Actual	(Under) Over Final Budget
Revenue				
Local sources	\$ 12,300	\$ 39,075	\$ 38,577	\$ (498)
State sources	3,323,028	3,025,454	2,920,848	(104,606)
Federal sources	181,376	226,002	180,312	(45,690)
Intergovernmental sources	35,389	42,905	38,615	(4,290)
Total revenue	3,552,093	3,333,436	3,178,352	(155,084)
Expenditures				
Current:				
Instruction:				
Basic programs	1,582,063	1,562,562	1,495,027	(67,535)
Added needs	261,207	259,961	340,105	80,144
Total instruction	1,843,270	1,822,523	1,835,132	12,609
Support services:				
Pupil	309,733	313,890	302,726	(11,164)
Instructional staff	36,633	49,584	1,539	(48,045)
General administration	305,900	199,900	190,183	(9,717)
School administration	422,057	412,763	351,503	(61,260)
Business	10,209	10,089	9,820	(269)
Operations and maintenance	307,916	343,165	321,683	(21,482)
Pupil transportation services	1,000	1,000	-	(1,000)
Central	79,272	93,169	109,898	16,729
Total support services	1,472,720	1,423,560	1,287,352	(136,208)
Community services	18,522	27,125	9,491	(17,634)
Total expenditures	3,334,512	3,273,208	3,131,975	(141,233)
Excess of Revenue Over Expenditures	217,581	60,228	46,377	(13,851)
Other Financing Uses - Transfers out	(214,354)	(210,413)	(206,579)	3,834
Net Change in Fund Balance	3,227	(150,185)	(160,202)	(10,017)
Fund Balance - Beginning of year	319,914	319,914	319,914	-
Fund Balance - End of year	\$ 323,141	\$ 169,729	\$ 159,712	\$ (10,017)

Arts Academy in the Woods

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

	Last Six Plan Years					
	Plan Years Ended September 30					
	2019	2018	2017	2016	2015	2014
Academy's proportion of the net pension liability	0.01492 %	0.01479 %	0.01496 %	0.01437 %	0.01392 %	0.01311 %
Academy's proportionate share of the net pension liability	\$ 4,941,532	\$ 4,445,846	\$ 3,875,533	\$ 3,584,506	\$ 3,400,108	\$ 2,887,692
Academy's covered payroll	\$ 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	367.54 %	348.97 %	303.02 %	289.01 %	290.87 %	254.95 %
Plan fiduciary net position as a percentage of total pension liability	60.08 %	62.12 %	63.96 %	63.01 %	62.92 %	66.15 %

Arts Academy in the Woods

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

	Last Six Fiscal Years Years Ended June 30					
	2020	2019	2018	2017	2016	2015
Statutorily required contribution	\$ 426,173	\$ 401,536	\$ 379,483	\$ 352,174	\$ 328,055	\$ 235,436
Contributions in relation to the statutorily required contribution	<u>426,173</u>	<u>401,536</u>	<u>379,483</u>	<u>352,174</u>	<u>328,055</u>	<u>235,436</u>
Contribution Deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's Covered Payroll	\$ 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	31.45 %	30.63 %	30.38 %	27.83 %	27.75 %	19.91 %

Arts Academy in the Woods

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

	Last Three Plan Years Plan Years Ended September 30		
	2019	2018	2017
Academy's proportion of the net OPEB liability	0.01525 %	0.01485 %	0.01500 %
Academy's proportionate share of the net OPEB liability	\$ 1,094,556	\$ 1,180,806	\$ 1,328,464
Academy's covered payroll	\$ 1,344,473	\$ 1,273,987	\$ 1,278,990
Academy's proportionate share of the net OPEB liability as a percentage of its covered payroll	81.41 %	92.69 %	103.87 %
Plan fiduciary net position as a percentage of total OPEB liability	48.67 %	43.10 %	36.53 %

Arts Academy in the Woods

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

	Last Three Fiscal Years Years Ended June 30		
	2020	2019	2018
Statutorily required contribution	\$ 108,880	\$ 102,977	\$ 90,221
Contributions in relation to the statutorily required contribution	108,880	102,977	90,221
Contribution Deficiency	\$ -	\$ -	\$ -
Academy's Covered Payroll	\$ 1,354,976	\$ 1,310,969	\$ 1,249,124
Contributions as a Percentage of Covered Payroll	8.04 %	7.86 %	7.22 %

June 30, 2020

Pension Information

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

Benefit Changes

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

Changes in Assumptions

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

- 2019 - The discount rate used in the September 30, 2018 actuarial valuation decreased by 0.25 percentage points.
- 2018 - The discount rate used in the September 30, 2017 actuarial valuation decreased by 0.45 percentage points. The valuation also includes the impact of an updated experience study for the periods from 2012 to 2017.
- 2017 - The discount rate used in the September 30, 2016 actuarial valuation decreased by 0.50 percentage points.

OPEB Information

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

Benefit Changes

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

Changes in Assumptions

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

- 2019 The discount rate used in the September 30, 2018 actuarial valuation decreased by 0.20 percentage points. The valuation also includes the impact of an updated experience study for the periods from 2012 to 2017. This resulted in a lower than projected per person health benefit cost to reduce the plan's total OPEB liability by an additional \$1.4 billion in 2019.
- 2018 - The discount rate used in the September 30, 2017 actuarial valuation decreased by 0.35 percentage points. The valuation also includes the impact of an updated experience study for the periods from 2012 to 2017. This resulted in a lower than projected per person health benefit cost to reduce the plan's total OPEB liability by \$1.4 billion in 2018.

Other Supplemental Information

Arts Academy in the Woods

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds

June 30, 2020

	Special Revenue Lunch Fund	Capital Projects Fund	Total Nonmajor Governmental Funds
Assets - Cash	<u>\$ 1,277</u>	<u>\$ 3,074</u>	<u>\$ 4,351</u>
Liabilities - Unearned revenue	\$ 1,277	\$ -	\$ 1,277
Fund Balances - Assigned	<u>-</u>	<u>3,074</u>	<u>3,074</u>
Total liabilities and fund balances	<u>\$ 1,277</u>	<u>\$ 3,074</u>	<u>\$ 4,351</u>

Arts Academy in the Woods

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

Year Ended June 30, 2020

	Special Revenue Lunch Fund	Capital Projects Fund	Total Nonmajor Governmental Funds
Revenue			
Local sources	\$ 10,298	\$ -	\$ 10,298
State sources	4,723	-	4,723
Federal sources	40,752	-	40,752
Total revenue	55,773	-	55,773
Expenditures			
Current:			
Support services - Operations and maintenance	17,145	-	17,145
Food services	75,207	-	75,207
Total expenditures	92,352	-	92,352
Excess of Expenditures Over Revenue	(36,579)	-	(36,579)
Other Financing Sources - Transfers in	36,579	-	36,579
Net Change in Fund Balances	-	-	-
Fund Balances - Beginning of year	-	3,074	3,074
Fund Balances - End of year	\$ -	\$ 3,074	\$ 3,074

**Other Supplemental Information
Schedule of Bonded Indebtedness**

June 30, 2020

<u>Years Ending June 30</u>	<u>Revenue and Refunding Bond, Series 2016</u>
2021	\$ 176,297
2022	180,107
2023	<u>187,647</u>
Total remaining payments	<u>\$ 544,051</u>
Principal payments due	Monthly
Interest payments due	Monthly
Interest rate	3.20%
Original issue	<u>\$ 1,200,000</u>