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# Arts Academy in the Woods

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**Financial Report  
with Supplemental Information  
June 30, 2021**

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## **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, 2021 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, 2021 and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Emphasis of Matter***

As discussed in Note 2 to the financial statements, as of July 1, 2020, the Academy adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. Our opinion is not modified with respect to this matter.

To the Board of Directors  
Arts Academy in the Woods

**Other Matters**

*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 October 29, 2021 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.



October 29, 2021

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, 2021 and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and the related notes to the financial statements and have issued our report thereon dated October 29, 2021.

**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 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 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 29, 2021

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, 2021. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

### ***Using This Annual Report***

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

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

#### **Basic Financial Statements**

Government-wide Financial Statements

Fund Financial Statements

Notes to Financial Statements

#### **Required Supplemental Information**

Budgetary Comparison Schedule - General Fund

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

Schedules of Pension and OPEB Contributions

#### **Other Supplemental Information**

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

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

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

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

## Arts Academy in the Woods

### Management's Discussion and Analysis (Continued)

#### Reporting the Academy's Fund Financial Statements

The Academy's fund financial statements provide detailed information about the most significant funds, not the Academy as a whole. Some funds are required to be established by state law and by bond covenants. However, the Academy establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain grants and other money as directed.

#### Governmental Funds

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

#### The Academy as a Whole

Recall that the statement of net position provides the perspective of the Academy as a whole. The following table provides a summary of the Academy's net position as of June 30, 2021 and 2020:

	Governmental Activities	
	2021	2020
	(in thousands)	
<b>Assets</b>		
Current and other assets	\$ 1,024.6	\$ 971.1
Capital assets	1,900.6	1,910.4
Total assets	2,925.2	2,881.5
<b>Deferred Outflows of Resources</b>	1,474.7	1,793.1
<b>Liabilities</b>		
Current liabilities	644.0	629.4
Noncurrent liabilities	499.9	735.8
Net pension liability	5,097.8	4,941.5
Net OPEB liability	798.9	1,094.6
Total liabilities	7,040.6	7,401.3
<b>Deferred Inflows of Resources</b>	874.5	816.6
<b>Net Position (Deficit)</b>		
Net investment in capital assets	1,535.9	1,369.4
Restricted	157.4	178.9
Unrestricted	(5,208.5)	(5,091.6)
Total net position (deficit)	<u>\$ (3,515.2)</u>	<u>\$ (3,543.3)</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 \$(3,515.2) thousand at June 30, 2021. Net investment in capital assets, totaling \$1,535.9 thousand, compares the original cost, less depreciation of the Academy's capital assets, to long-term debt used to finance the acquisition of those assets. The debt will be repaid through the receipt of unrestricted state aid, based on enrollment, to the extent cash flow is available. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Academy's ability to use that net position for day-to-day operations. The remaining amount of net position (\$(5,208.5) thousand) was unrestricted.



## Arts Academy in the Woods

### Management's Discussion and Analysis (Continued)

The \$(5,208.5) 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.

As required by the Governmental Accounting Standards Board (GASB), the Academy adopted GASB Statement No. 84, *Fiduciary Activities*, as of July 1, 2020. This standard provides guidance on the identification and reporting of fiduciary activities and required the Academy to evaluate activities to determine if they were fiduciary in nature. The standard also changed the reporting and presentation requirements of fiduciary activities. The effect of the adoption on the governmental activities was to increase the July 1, 2020 beginning net position by \$4.4 thousand, which represents the activities that used to be reported as fiduciary but are now reported as governmental under GASB 84. The governmental statement of net position at June 30, 2021 and statement of activities for the year ended June 30, 2021 include all the balances and transactions for those activities that used to be reported as fiduciary but are now reported as governmental. The Academy elected, under GASB 95, to defer the adoption of this pronouncement until July 1, 2020.

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, 2021 and 2020:

	Governmental Activities	
	2021	2020
	(in thousands)	
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ -	\$ 10.3
Operating grants	1,170.2	603.0
General revenue:		
State aid not restricted to specific purposes	2,658.4	2,637.8
Other	40.6	38.6
Total revenue	3,869.2	3,289.7
<b>Expenses</b>		
Instruction	2,068.8	2,059.4
Support services	1,603.0	1,421.7
Food services	73.5	75.2
Community services	20.0	10.9
Debt service	15.2	20.8
Depreciation expense (unallocated)	65.0	66.1
Total expenses	3,845.5	3,654.1
<b>Change in Net Position</b>	23.7	(364.4)
<b>Net Position (Deficit) - Beginning of year (as restated)</b>	(3,538.9)	(3,178.9)
<b>Net Position (Deficit) - End of year</b>	<b><u><u>\$ (3,515.2)</u></u></b>	<b><u><u>\$ (3,543.3)</u></u></b>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$3,845.5 thousand. Certain activities were partially funded by other governments and organizations that subsidized certain programs with grants and contributions (\$1,170.2 thousand). We paid for the remaining public benefit portion of our governmental activities with \$2,658.4 thousand in state foundation allowance and with other revenue (i.e., interest and general entitlements).

The Academy experienced an increase in net position of \$23.7 thousand. Key reasons for the change in net position were due to the Academy placing an emphasis on reducing expenses in the current year, as well as increased funding from state and federal sources.

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

#### ***The Academy's Funds***

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

As the Academy completed this year, the governmental funds reported a combined fund balance of \$380.5 thousand, which is an increase of \$34.4 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 remote environment for a portion of the school year also impacted expenditures, as well as the receipt of certain federal funds that are short term in nature to provide additional support to the Academy.

In the General Fund, our principal operating fund, fund balance increased by \$60.0 thousand due to cost alignment with revenue.

Fund balance of our special revenue funds increased by \$226 as a result of creating a School Activities Fund required under the adoption of GASB 84. The effect of the adoption was to increase the July 1, 2020 beginning fund balance by approximately \$4.4 thousand.

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

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

#### **Budgetary Highlights**

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted in June 2021. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

There were revisions made to the 2020-2021 original budget. Budgeted revenue was increased by \$256.8 thousand due to changes in state and federal revenue and the expected timing of grant activity.

Budgeted expenditures were also increased by \$270.8 thousand to account for the increase in salaries and purchased professional services resulting from the Academy's revised operating plan due to the fluctuations in revenue.

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

# Arts Academy in the Woods

## Management's Discussion and Analysis (Continued)

### Capital Assets and Debt Administration

#### Capital Assets

As of June 30, 2021, the Academy had \$1.90 million invested in capital assets. This represents a net decrease (including additions, disposals, and depreciation) of approximately \$10.0 thousand, or 0.5 percent, from last year.

	2021	2020
Land	\$ 868,834	\$ 868,834
Buildings and improvements	1,621,636	1,621,636
Furniture and equipment	323,167	267,898
Total capital assets	2,813,637	2,758,368
Less - Accumulated depreciation	913,030	847,998
Total capital assets - Net of accumulated depreciation	<u>\$ 1,900,607</u>	<u>\$ 1,910,370</u>

This year's additions of \$55.3 thousand, consisted primarily of computer equipment for students. No major capital projects are planned for the 2021-2022 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 \$367.8 thousand in general obligation bonds outstanding versus \$544.1 thousand in the previous year. The decrease was due to principal payments made during the year.

The Academy also had liabilities of \$132.1 thousand for state aid penalties levied against the Academy in a previous year. We present more detailed information about our long-term liabilities in the notes to the financial statements.

#### Economic Factors and Next Year's Budgets and Rates

COVID-19-related responses will continue to impact expenditures through portions of fiscal year 2022 and will be mitigated by ESSER funding.

Our elected officials and administration consider many factors when setting the Academy's 2021-2022 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 2021-2022 budget was adopted in June 2021 based on an estimate of students who will enroll in September 2021. Approximately 75.0 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 2021 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2021-2022 budget. Once the final student count and related per pupil funding are validated, state law requires the Academy to amend the budget if actual academy resources are not sufficient to fund original appropriations.

#### Contacting the Academy's Management

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

**June 30, 2021**

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash (Note 4)	\$ 135,198
Due from other governmental units	699,019
Prepaid expenses and other assets	32,731
Restricted cash (Note 4)	157,635
Capital assets - Net (Note 6)	<u>1,900,607</u>
Total assets	2,925,190
<b>Deferred Outflows of Resources</b>	
Deferred pension costs (Note 11)	1,094,558
Deferred OPEB costs (Note 11)	<u>380,181</u>
Total deferred outflows of resources	1,474,739
<b>Liabilities</b>	
Accounts payable	189,113
Accrued payroll-related liabilities	428,816
State aid anticipation note (Note 8)	25,136
Unearned revenue (Note 5)	1,017
Noncurrent liabilities:	
Due within one year (Note 9)	239,786
Due in more than one year (Note 9)	260,092
Net pension liability (Note 11)	5,097,815
Net OPEB liability (Note 11)	<u>798,873</u>
Total liabilities	7,040,648
<b>Deferred Inflows of Resources (Note 11)</b>	
Revenue in support of pension contributions made subsequent to the measurement date	196,214
Deferred pension cost reductions	51,554
Deferred OPEB cost reductions	<u>626,695</u>
Total deferred inflows of resources	<u>874,463</u>
<b>Net Position (Deficit)</b>	
Net investment in capital assets	1,535,927
Restricted - Debt Service Fund	157,409
Unrestricted	<u>(5,208,518)</u>
Total net position (deficit)	<u><b>\$ (3,515,182)</b></u>

# Arts Academy in the Woods

## Statement of Activities

Year Ended June 30, 2021

	Program Revenue		Governmental	
	Expenses	Charges for Services	Operating Grants and Contributions	
			Net (Expense) Revenue and Changes in Net Position	
<b>Functions/Programs</b>				
Primary government - Governmental activities:				
Instruction	\$ 2,068,783	\$ -	\$ 599,969	\$ (1,468,814)
Support services	1,603,043	-	487,332	(1,115,711)
Food services	73,508	-	82,918	9,410
Community services	20,002	-	-	(20,002)
Interest	15,179	-	-	(15,179)
Depreciation expense (unallocated) (Note 6)	65,032	-	-	(65,032)
Total primary government	<b>\$ 3,845,547</b>	<b>\$ -</b>	<b>\$ 1,170,219</b>	(2,675,328)
General revenue:				
State aid not restricted to specific purposes				2,658,417
Interest and investment earnings				33
Other				40,648
Total general revenue				<u>2,699,098</u>
<b>Change in Net Position</b>				23,770
<b>Net Position (Deficit) - Beginning of year (as restated) (Note 2)</b>				<u>(3,538,952)</u>
<b>Net Position (Deficit) - End of year</b>				<b><u>\$ (3,515,182)</u></b>

# Arts Academy in the Woods

## Governmental Funds Balance Sheet

June 30, 2021

	General Fund	Debt Service Fund	Nonmajor Funds	Total Governmental Funds
<b>Assets</b>				
Cash (Note 4)	\$ 131,107	\$ -	\$ 4,091	\$ 135,198
Due from other governmental units	699,019	-	-	699,019
Prepaid expenses and other assets	32,731	-	-	32,731
Restricted cash (Note 4)	-	157,409	226	157,635
Total assets	<u>\$ 862,857</u>	<u>\$ 157,409</u>	<u>\$ 4,317</u>	<u>\$ 1,024,583</u>
<b>Liabilities</b>				
Accounts payable	\$ 189,113	\$ -	\$ -	\$ 189,113
Accrued payroll-related liabilities	428,816	-	-	428,816
State aid anticipation note (Note 8)	25,136	-	-	25,136
Unearned revenue (Note 5)	-	-	1,017	1,017
Total liabilities	643,065	-	1,017	644,082
<b>Fund Balances</b>				
Nonspendable - Prepaid expenses and other assets	26,464	-	-	26,464
Restricted - Debt service	-	157,409	-	157,409
Committed - School activities	-	-	226	226
Assigned - Capital projects	-	-	3,074	3,074
Unassigned	193,328	-	-	193,328
Total fund balances	219,792	157,409	3,300	380,501
Total liabilities and fund balances	<u>\$ 862,857</u>	<u>\$ 157,409</u>	<u>\$ 4,317</u>	<u>\$ 1,024,583</u>

**Governmental Funds**

**Reconciliation of the Balance Sheet to the Statement of Net Position**

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**June 30, 2021**

<b>Fund Balances Reported in Governmental Funds</b>	\$ 380,501
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	2,813,637
Accumulated depreciation	<u>(913,030)</u>
Net capital assets used in governmental activities	1,900,607
Long-term liabilities are not due and payable in the current period and are not reported in the funds - Bonds payable	(499,878)
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	(4,054,811)
Net OPEB liability and related deferred inflows and outflows	(1,045,387)
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>(196,214)</u>
<b>Net Position (Deficit) of Governmental Activities</b>	<b><u><u>\$ (3,515,182)</u></u></b>

## Arts Academy in the Woods

### Governmental Funds

### Statement of Revenue, Expenditures, and Changes in Fund Balances

**Year Ended June 30, 2021**

	General Fund	Debt Service Fund	Nonmajor Funds	Total Governmental Funds
<b>Revenue</b>				
Local sources	\$ 40,471	\$ 1	\$ 209	\$ 40,681
State sources	2,894,135	-	24,411	2,918,546
Federal sources	608,047	-	82,918	690,965
Interdistrict sources	186,229	-	-	186,229
Total revenue	3,728,882	1	107,538	3,836,421
<b>Expenditures</b>				
Current:				
Instruction:				
Basic programs	1,414,092	-	-	1,414,092
Added needs	514,092	-	-	514,092
Support services:				
Pupil	334,990	-	-	334,990
Instructional staff	16,673	-	-	16,673
General administration	192,566	-	-	192,566
School administration	367,469	-	-	367,469
Business	9,968	-	26,419	36,387
Operations and maintenance	445,595	-	18,340	463,935
Central	122,896	-	-	122,896
Food services	-	-	73,508	73,508
Community services	18,623	-	-	18,623
Debt service:				
Principal	-	176,297	-	176,297
Interest	-	15,179	-	15,179
Capital outlay	55,269	-	-	55,269
Total expenditures	3,492,233	191,476	118,267	3,801,976
<b>Excess of Revenue Over (Under)</b>				
<b>Expenditures</b>	236,649	(191,475)	(10,729)	34,445
<b>Other Financing Sources (Uses)</b>				
Transfers in (Note 7)	-	170,000	6,569	176,569
Transfers out (Note 7)	(176,569)	-	-	(176,569)
Total other financing (uses) sources	(176,569)	170,000	6,569	-
<b>Net Change in Fund Balances</b>	60,080	(21,475)	(4,160)	34,445
<b>Fund Balances - Beginning of year (as restated) (Note 2)</b>	159,712	178,884	7,460	346,056
<b>Fund Balances - End of year</b>	<u>\$ 219,792</u>	<u>\$ 157,409</u>	<u>\$ 3,300</u>	<u>\$ 380,501</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, 2021

<b>Net Change in Fund Balances Reported in Governmental Funds</b>	<b>\$ 34,445</b>
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	55,269
Depreciation expense	<u>(65,032)</u>
Total	(9,763)
Revenue in support of pension contributions made subsequent to the measurement date	(26,783)
Repayment of bond principal is an expenditure in the governmental funds but not in the statement of activities (where it reduces long-term debt); amortization of premium/discounts and inflows/outflows related to bond refundings are not expenses in the governmental funds	176,297
Some employee costs (pension, OPEB, and compensated absences) do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	(210,105)
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>
<b>Change in Net Position of Governmental Activities</b>	<b><u><u>\$ 23,770</u></u></b>

June 30, 2021

### 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 June 2018, the Academy entered into another contract with the MISD that extended the charter through June 30, 2022 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, 2021, administrative and fiscal agent fees totaled \$156,086, which is included in the accounts payable balance at June 30, 2021.

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*

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.

June 30, 2021

**Note 2 - Significant Accounting Policies (Continued)**

***Report Presentation***

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

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

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

***Fund Accounting***

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

**Governmental Funds**

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

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

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

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

Note 2 - Significant Accounting Policies (Continued)

Specific Balances and Transactions

Cash and Cash Equivalents

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

Receivables

Accounts receivable are shown net of an allowance for uncollectible amounts. The Academy considers all accounts receivable to be fully collectible. Accordingly, no allowance for uncollectible amounts is recorded.

Restricted Assets

The following amounts are reported as restricted assets:

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

Capital Assets

Capital assets, which include property, building, equipment, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure-type assets.

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

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

Long-term Obligations

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

Deferred Outflows/Inflows of Resources

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

June 30, 2021

**Note 2 - Significant Accounting Policies (Continued)**

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

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

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

**Net Position**

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

**Fund Balance Flow Assumptions**

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

**Fund Balance Policies**

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Academy's highest level of decision-making authority. The board of directors is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the Academy for specific purposes but do not meet the criteria to be classified as committed. The assignment is based on direction provided by the board of directors.

**Note 2 - Significant Accounting Policies (Continued)**

**Pension and Other Postemployment Benefit (OPEB) Plans**

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

**Use of Estimates**

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

**Comparative Data/Reclassifications**

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

**Subsequent Events**

The financial statements and related disclosures include evaluation of events up through and including October 29, 2021, which is the date the financial statements were available to be issued.

**Adoption of New Accounting Pronouncement**

During the current year, the Academy adopted GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying and reporting fiduciary activities. As a result of implementing this standard, school activities not previously reported in the financial statements now meet the definition of a fiduciary activity and are reported as such within the new nonmajor governmental fund, the School Activities Fund.

The effect of this new standard on net position/fund balance was as follows:

	Governmental Activities	School Activities Fund
Net position (deficit)/fund balance - June 30, 2020 - As previously reported	\$ (3,543,338)	\$ -
Adjustment for GASB Statement No. 84 - To change fund type	4,386	4,386
Net position (deficit)/fund balance - June 30, 2020 - As restated	\$ (3,534,566)	\$ (3,534,566)

June 30, 2021

**Note 3 - Stewardship, Compliance, and Accountability**

***Budgetary Information***

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

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

***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 \$356,411 had \$106,411 in bank deposits (checking accounts) that were uninsured and uncollateralized. The Academy believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. The Academy evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

June 30, 2021

**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, 2021, the Academy had no unavailable revenue and \$1,017 in unearned revenue related to grant payments received prior to meeting all eligibility requirements.

**Note 6 - Capital Assets**

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

**Governmental Activities**

	Balance July 1, 2020	Additions	Balance June 30, 2021
Capital assets not being depreciated - Land	\$ 868,834	\$ -	\$ 868,834
Capital assets being depreciated:			
Buildings and improvements	1,621,636	-	1,621,636
Furniture and equipment	267,898	55,269	323,167
Subtotal	1,889,534	55,269	1,944,803
Accumulated depreciation:			
Buildings and improvements	633,057	56,184	689,241
Furniture and equipment	214,941	8,848	223,789
Subtotal	847,998	65,032	913,030
Net governmental activities capital assets	<u>\$ 1,910,370</u>	<u>\$ (9,763)</u>	<u>\$ 1,900,607</u>

Depreciation expense totaling \$65,032 was not charged to activities, as the Academy's assets benefit multiple activities and allocation is not practical.

**Note 7 - Interfund Receivables, Payables, and Transfers**

**Interfund Transfers**

During the year, the General Fund transferred \$170,000 to the Debt Service Fund to finance debt service commitments. The General Fund also transferred \$6,569 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 notes of \$140,000, resulting in an outstanding balance of \$25,136 at June 30, 2021. The current notes bear interest at 3.45 percent and are due on August 20, 2021. The note is paid through automatic deductions from the Academy's state aid payments on the 20th of each month.



June 30, 2021

**Note 8 - State Aid Anticipation Note (Continued)**

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.

In September 2021, the Academy borrowed \$150,000 in state aid anticipation notes with an interest rate of 3.30 percent. The notes mature in August 2022 and have similar terms and provisions as the notes outstanding at June 30, 2021.

**Note 9 - Long-term Debt**

Long-term debt activity for the year ended June 30, 2021 can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds payable	\$ 544,051	\$ -	\$ (176,297)	\$ 367,754	\$ 180,107
Other long-term liability	191,803	-	(59,679)	132,124	59,679

**General Obligation Bonds and Contracts**

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

General obligations outstanding at June 30, 2021 are as follows:

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

**Other Long-term Liabilities**

At June 30, 2021, the Academy has a long-term liability for \$132,124 to the remainder of the state aid penalties levied against the Academy during the year ended June 30, 2019. Amounts will be liquidated through the General Fund and paid through automatic deductions from the Academy's state aid payments as follows: Annual payments of \$59,679 will be required each year until 2024, when the final payment of \$12,766 will be required.

**Debt Service Requirements to Maturity**

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

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
2022	\$ 180,107	\$ 9,369	\$ 189,476
2023	187,647	3,362	191,009
Total	\$ 367,754	\$ 12,731	\$ 380,485

**Assets Pledged as Collateral**

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

June 30, 2021

**Note 9 - Long-term Debt (Continued)**

**Significant Terms**

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

**Note 10 - Risk Management**

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

**Note 11 - Michigan Public School Employees' Retirement System**

***Plan Description***

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

The System is administered by the Office of Retirement Services (ORS). The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the pension and postemployment health care plans. That report is available on the web at <http://www.michigan.gov/orsschools> 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 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, MPERS 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.

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

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

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

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

**Contributions**

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

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

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

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, 2018 - September 30, 2019	13.39% - 19.59%	7.57% - 8.09%
October 1, 2019 - September 30, 2020	13.39% - 19.78%	7.57% - 8.43%

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.

June 30, 2021

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

The Academy's required and actual pension contributions to the plan for the year ended June 30, 2021 were \$485,099, which includes the Academy's contributions required for those members with a defined contribution benefit. The Academy's required and actual pension contributions include an allocation of \$196,214 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, 2021.

The Academy's required and actual OPEB contributions to the plan for the year ended June 30, 2021 were \$125,619, which includes the Academy's contributions required for those members with a defined contribution benefit.

**Net Pension Liability**

At June 30, 2021, the Academy reported a liability of \$5,097,815 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2019, which used update procedures to roll forward the estimated liability to September 30, 2020. 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, 2020 and 2019, the Academy's proportion was 0.01 percent.

**Net OPEB Liability**

At June 30, 2021, the Academy reported a liability of \$798,873 for its proportionate share of the net OPEB liability. The net OPEB liability for fiscal year 2021 was measured as of September 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2019, which used update procedures to roll forward the estimated liability to September 30, 2020. 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, 2020 and 2019, the Academy's proportion was 0.01 percent.

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

For 2021, the Academy recognized pension expense of \$779,363, inclusive of payments to fund the MPSERS UAAL stabilization rate. At June 30, 2021, 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	\$ 77,890	\$ (10,881)
Changes in assumptions	564,887	-
Net difference between projected and actual earnings on pension plan investments	21,419	-
Changes in proportion and differences between the Academy's contributions and proportionate share of contributions	35,279	(40,673)
The Academy's contributions to the plan subsequent to the measurement date	395,083	-
Total	<u>\$ 1,094,558</u>	<u>\$ (51,554)</u>

June 30, 2021

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

The \$196,214 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, 2022. 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
2022	\$ 304,365
2023	203,739
2024	107,985
2025	31,832
Total	<u>\$ 647,921</u>

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, 2021, the Academy recognized OPEB expense of \$(22,844).

At June 30, 2021, 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	\$ -	\$ (595,235)
Changes in assumptions	263,404	-
Net difference between projected and actual earnings on OPEB plan investments	6,667	-
Changes in proportionate share or difference between amount contributed and proportionate share of contributions	24,787	(31,460)
Employer contributions to the plan subsequent to the measurement date	85,323	-
Total	<u>\$ 380,181</u>	<u>\$ (626,695)</u>

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

Years Ending	Amount
2022	\$ (89,056)
2023	(80,002)
2024	(64,741)
2025	(51,887)
2026	(46,151)
Total	<u>\$ (331,837)</u>

June 30, 2021

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

**Actuarial Assumptions**

The total pension liability and total OPEB liability as of September 30, 2020 are based on the results of an actuarial valuation as of September 30, 2019 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		Year 1, graded to 3.5% year 15, 3.0% year 120
Mortality basis	7.0%	RP-2014 Male and Female Employee Annuitant Mortality tables, scaled 100% (retirees: 82% for males and 78% for females) and adjusted for mortality improvements using projection scale MP-2017 from 2006
Cost of living pension adjustments	3.00%	Annual noncompounded for MIP members

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

Significant assumption changes since the prior measurement date, September 30, 2019, for the OPEB plan include a reduction in the health care cost trend rate of 0.50 percentage points, and the actual per person health benefit cost was lower than projected. There were no significant benefit terms changes for the pension or OPEB plans since the prior measurement date of September 30, 2019.

**Discount Rate**

The discount rate used to measure the total pension liability was 6.00 to 6.80 percent as of September 30, 2020 depending on the plan option. The discount rate used to measure the total OPEB liability was 6.95 percent as of September 30, 2020. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that academy contributions will be made at statutorily required rates.

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

June 30, 2021

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

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	25.00 %	5.60 %
Private equity pools	16.00	9.30
International equity pools	15.00	7.40
Fixed-income pools	10.50	0.50
Real return/opportunistic pools	12.50	6.60
Real estate and infrastructure pools	10.00	3.90
Absolute return pools	9.00	3.20
Short-term investment pools	2.00	(0.10)
Total	100.00 %	

Long-term rates of return are net of administrative expense and inflation of 2.1 percent.

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

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

	1 Percentage Point Decrease (5.00 - 5.80%)	Current Discount Rate (6.00 - 6.80%)	1 Percentage Point Increase (7.00 - 7.80%)
Net pension liability of the Academy	\$ 6,598,256	\$ 5,097,815	\$ 3,854,283

**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	\$ 1,026,243	\$ 798,873	\$ 607,446

June 30, 2021

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

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

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

	1 Percentage Point Decrease (6.00%)	Current Rate (7.00%)	1 Percentage Point Increase (8.00%)
Net OPEB liability of the Academy	\$ 600,117	\$ 798,873	\$ 1,024,933

***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, 2021, the Academy reported a payable of \$12,745 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2021.



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## Required Supplemental Information

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# Arts Academy in the Woods

## Required Supplemental Information Budgetary Comparison Schedule - General Fund

Year Ended June 30, 2021

	Original Budget	Final Budget	Actual	(Under) Over Final Budget
<b>Revenue</b>				
Local sources	\$ 32,600	\$ 40,480	\$ 40,471	\$ (9)
State sources	2,923,232	2,885,476	2,894,135	8,659
Federal sources	362,360	651,408	608,047	(43,361)
Interdistrict sources	186,905	184,508	186,229	1,721
Total revenue	3,505,097	3,761,872	3,728,882	(32,990)
<b>Expenditures</b>				
Current:				
Instruction:				
Basic programs	1,613,226	1,621,001	1,619,365	(1,636)
Added needs	271,211	313,496	314,852	1,356
Support services:				
Pupil	318,457	366,160	332,194	(33,966)
Instructional staff	34,000	49,697	37,027	(12,670)
General administration	215,000	194,000	192,566	(1,434)
School administration	408,407	399,762	399,549	(213)
Business	10,000	10,431	9,968	(463)
Operations and maintenance	317,371	502,919	467,419	(35,500)
Pupil transportation services	1,000	1,000	-	(1,000)
Other	88,581	91,127	87,973	(3,154)
Total support services	1,392,816	1,615,096	1,526,696	(88,400)
Community services	32,955	31,374	31,320	(54)
Total expenditures	3,310,208	3,580,967	3,492,233	(88,734)
<b>Excess of Revenue Over Expenditures</b>	194,889	180,905	236,649	55,744
<b>Other Financing Uses - Transfers out</b>	(182,000)	(180,378)	(176,569)	3,809
<b>Net Change in Fund Balance</b>	12,889	527	60,080	59,553
<b>Fund Balance - Beginning of year</b>	159,712	159,712	159,712	-
<b>Fund Balance - End of year</b>	<u>\$ 172,601</u>	<u>\$ 160,239</u>	<u>\$ 219,792</u>	<u>\$ 59,553</u>

## 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

	<b>Last Seven Plan Years</b>						
	<b>Plan Years Ended September 30</b>						
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Academy's proportion of the net pension liability	0.01484 %	0.01492 %	0.01479 %	0.01496 %	0.01437 %	0.01392 %	0.01311 %
Academy's proportionate share of the net pension liability	\$ 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	\$ 1,338,157	\$ 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	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	59.49 %	62.12 %	62.12 %	63.96 %	63.01 %	62.92 %	66.15 %

## Arts Academy in the Woods

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

	<b>Last Seven Fiscal Years</b>						
	<b>Years Ended June 30</b>						
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 460,158	\$ 426,173	\$ 401,536	\$ 379,483	\$ 352,174	\$ 328,055	\$ 235,436
Contributions in relation to the statutorily required contribution	<u>460,158</u>	<u>426,173</u>	<u>401,536</u>	<u>379,483</u>	<u>352,174</u>	<u>328,055</u>	<u>235,436</u>
<b>Contribution Excess</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>
<b>Academy's Covered-employee Payroll</b>	\$ 1,353,659	\$ 1,354,976	\$ 1,310,969	\$ 1,249,124	\$ 1,265,450	\$ 1,182,388	\$ 1,182,575
<b>Contributions as a Percentage of Covered-employee Payroll</b>	33.99 %	31.45 %	30.63 %	30.38 %	27.83 %	27.75 %	19.91 %

## Arts Academy in the Woods

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

	<b>Last Four Plan Years</b>			
	<b>Plan Years Ended September 30</b>			
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Academy's proportion of the net OPEB liability	0.01491 %	0.01525 %	0.01485 %	0.01500 %
Academy's proportionate share of the net OPEB liability	\$ 798,873	\$ 1,094,556	\$ 1,180,806	\$ 1,328,464
Academy's covered payroll	\$ 1,338,157	\$ 1,344,473	\$ 1,273,987	\$ 1,278,990
Academy's proportionate share of the net OPEB liability as a percentage of its covered payroll	59.70 %	81.41 %	92.69 %	103.87 %
Plan fiduciary net position as a percentage of total OPEB liability	59.76 %	48.67 %	43.10 %	36.53 %

## Arts Academy in the Woods

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

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

June 30, 2021

### ***Pension Information***

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

### **Benefit Changes**

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

### **Changes in Assumptions**

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

- 2019 - The discount rate used in the September 30, 2018 actuarial valuation decreased by 0.25 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 in for each of the reported plan years ended September 30.

### **Changes in Assumptions**

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

- 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.

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## Other Supplemental Information

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**Arts Academy in the Woods**

Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds

**June 30, 2021**

	Special Revenue Funds			Capital Projects Fund	Total
	Lunch Fund	School Activities Fund	Total Special Revenue Funds		
<b>Assets - Cash</b>	<b>\$ 1,017</b>	<b>\$ 226</b>	<b>\$ 1,243</b>	<b>\$ 3,074</b>	<b>\$ 4,317</b>
<b>Liabilities - Unearned revenue</b>	\$ 1,017	\$ -	\$ 1,017	\$ -	\$ 1,017
<b>Fund Balances</b>					
Committed - School activities	-	226	226	-	226
Assigned	-	-	-	3,074	3,074
Total fund balances	-	226	226	3,074	3,300
Total liabilities and fund balances	<b>\$ 1,017</b>	<b>\$ 226</b>	<b>\$ 1,243</b>	<b>\$ 3,074</b>	<b>\$ 4,317</b>

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

**Year Ended June 30, 2021**

	Special Revenue Funds			Capital Projects Fund	Total
	Lunch Fund	School Activities Fund	Total Special Revenue Funds		
<b>Revenue</b>					
Local sources	\$ 209	\$ -	\$ 209	\$ -	\$ 209
State sources	2,152	22,259	24,411	-	24,411
Federal sources	82,918	-	82,918	-	82,918
Total revenue	85,279	22,259	107,538	-	107,538
<b>Expenditures</b>					
Current:					
Support services:					
Business	-	26,419	26,419	-	26,419
Operations and maintenance	18,340	-	18,340	-	18,340
Food services	73,508	-	73,508	-	73,508
Total expenditures	91,848	26,419	118,267	-	118,267
<b>Excess of Expenditures Over Revenue</b>	(6,569)	(4,160)	(10,729)	-	(10,729)
<b>Other Financing Sources</b> - Transfers in	6,569	-	6,569	-	6,569
<b>Net Change in Fund Balances</b>	-	(4,160)	(4,160)	-	(4,160)
<b>Fund Balances</b> - Beginning of year (as restated)	-	4,386	4,386	3,074	7,460
<b>Fund Balances</b> - End of year	<u>\$ -</u>	<u>\$ 226</u>	<u>\$ 226</u>	<u>\$ 3,074</u>	<u>\$ 3,300</u>

## Arts Academy in the Woods

### Other Supplemental Information Schedule of Bonded Indebtedness

		<b>June 30, 2021</b>
Years Ending June 30		Revenue and Refund Bond, Series 2016 Principal
	2022	\$ 180,107
	2023	187,647
Total remaining payments		<b><u>\$ 367,754</u></b>
Principal payments due		Monthly
Interest payments due		Monthly
Interest rate		3.20%
Original issue		<b><u>\$ 1,200,000</u></b>