

**MICHIGAN GREAT LAKES VIRTUAL ACADEMY**

**REPORT ON FINANCIAL STATEMENTS**

**JUNE 30, 2023**



MICHIGAN GREAT LAKES VIRTUAL ACADEMY  
MANISTEE, MICHIGAN

ANNUAL FINANCIAL REPORT  
YEAR ENDED JUNE 30, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Michigan Great Lakes Virtual Academy  
Manistee, Michigan

**Report on the Audit of the Financial Statements**

***Opinions***

We have audited the accompanying financial statements of the governmental activities and the major fund of Michigan Great Lakes Virtual Academy, Manistee, Michigan as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Michigan Great Lakes Virtual Academy, as of June 30, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for Opinions***

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

***Responsibilities of Management for the Financial Statements***

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

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

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Michigan Great Lakes Virtual Academy's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Michigan Great Lakes Virtual Academy's ability to continue as a going concern for a reasonable period of time.

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

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as identified in the table of contents, on pages 4-8 and 34-39 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2023, on our consideration of Michigan Great Lakes Virtual Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Michigan Great Lakes Virtual Academy's

internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Michigan Great Lakes Virtual Academy's internal control over financial reporting and compliance.

*UHY LLP*

Cadillac, Michigan  
October 16, 2023

MICHIGAN GREAT LAKES VIRTUAL ACADEMY  
MANISTEE, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2023

This section of Michigan Great Lakes Virtual Academy (“the Academy”) annual report presents our discussion and analysis of the Academy’s financial performance during the year ended June 30, 2023. Please read it in conjunction with the Academy’s financial statements, which immediately follow this section.

This discussion and analysis is intended to serve as an introduction to the Academy’s basic financial statements. The Academy’s financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

**Overview of the Financial Statements**

**Government-Wide Financial Statements**

The *Government-Wide Financial Statements* are designed to provide readers with a broad overview of the Academy’s finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the Academy’s assets, deferred inflows and outflows of resources and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Academy is improving or deteriorating.

The *Statement of Activities* presents the information showing how the Academy’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future periods.

Both of the government-wide statements distinguish functions of the Academy that are principally supported by state and federal revenues (governmental activities) from other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). The governmental activities of the Academy include instruction, supporting services, and community services.

**Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Michigan Great Lakes Virtual Academy, like other state and local governments, uses fund accounting to ensure compliance with finance-related legal requirements. The sole fund of the Academy is a governmental fund.

**Governmental Funds** Governmental funds are used to account for essentially the same functions as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing a government’s near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide



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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2023

financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

**Notes to Financial Statements**

The notes provide additional information that is necessary to acquire a full understanding of the data provided in both the government-wide and the fund financial statements.

**Other Information**

In addition to the basic financial statements and accompanying notes, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

**Summary of Net Position**

The following schedule summarizes the net position at June 30,

	<u>2023</u>	<u>2022</u>
<b>Assets</b>		
Total Assets	<u>\$ 16,127,833</u>	<u>\$ 13,087,256</u>
<b>Deferred Outflows Of Resources</b>		
Total Deferred Outflows of Resources	<u>157,755</u>	<u>0</u>
<b>Liabilities</b>		
Current Liabilities	7,834,240	5,972,653
Noncurrent Liabilities	<u>113,181</u>	<u>0</u>
Total Liabilities	<u>7,947,421</u>	<u>5,972,653</u>
<b>Deferred Inflows Of Resources</b>		
Total Deferred Inflows of Resources	<u>45,586</u>	<u>0</u>
<b>Net Position</b>		
Unrestricted	<u>\$ 8,292,581</u>	<u>\$ 7,114,603</u>

**Analysis of Financial Position**

During the fiscal year ended June 30, 2023, the Academy's net position increased to \$8,311,045. Details of the financial performance for the fiscal year are in the following sections.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2023

**Results of Operations**

For the years ended June 30, 2023 and 2022, the results of operations, on an academy-wide basis, were:

	<u>2023</u>	<u>2022</u>
<b>Program Revenues</b>		
Operating Grants	\$ 8,923,259	\$ 6,596,371
<b>General Revenues</b>		
State Sources	30,566,284	28,125,225
Other Revenues	327	2,839
<b>Total General Revenues</b>	<u>30,566,611</u>	<u>28,128,064</u>
<b>Total Revenues</b>	<u>39,489,870</u>	<u>34,724,435</u>
<b>Expenses</b>		
Instruction	22,459,081	19,697,372
Supporting Services	15,415,481	13,086,843
Community Services	437,330	290,601
<b>Total Expenses</b>	<u>38,311,892</u>	<u>33,074,816</u>
<b>Change in Net Position</b>	<u>\$ 1,177,978</u>	<u>\$ 1,649,619</u>

**Financial Analysis of the Academy's Fund**

The financial performance of the Academy as a whole is also reflected in its governmental fund. The following table shows the change in total fund balance of the Academy's governmental fund:

	<u>2023</u>	<u>2022</u>	<u>Increase (Decrease)</u>
<b>Major Funds</b>			
General Fund	<u>\$ 8,293,593</u>	<u>\$ 7,114,603</u>	<u>\$ 1,178,990</u>

**General Fund** – In 2022-2023, the General Fund's fund balance increased to \$8,293,593. Revenues increased by approximately \$4,800,000. Expenditures also increased \$5,200,000 during this time. The increase in expenditures was more than the increase in revenue, but overall revenues continued to outweigh overall expenditures which caused the increase in fund balance. The increase in revenue is attributed to additional federal revenues received due to the pandemic response, along with an increased pupil count and a foundation allowance increase, which is a driving force behind the Academy's revenue.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2023

**General Fund Budgetary Highlights**

The Uniform Accounting and Budgeting Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30. For the 2022-2023 fiscal year, the Academy amended the General Fund budget throughout the year, with the Board adopting the changes as summarized below. The following schedule shows a comparison of the original General Fund budget, the final amended General Fund budget, and actual totals from operations:

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
Total Revenues	<u>\$ 35,502,147</u>	<u>\$ 38,579,447</u>	<u>\$ 39,508,334</u>
<b><u>EXPENDITURES</u></b>			
Instruction	\$ 20,739,896	\$ 22,731,337	\$ 22,476,533
Supporting Services	13,184,352	15,742,205	15,415,481
Community Services	<u>408,945</u>	<u>453,999</u>	<u>437,330</u>
Total Expenditures	<u>\$ 34,333,193</u>	<u>\$ 38,927,541</u>	<u>\$ 38,329,344</u>

The changes from original budget and final budget resulted from funding amounts from various sources and expenditures related to instruction, supporting services, and community services becoming clearer as the year progressed. The variances between the final budgeted revenues and expenditures compared to actual revenues and expenditures were minimal.

**Capital Asset and Debt Administration**

***Capital Assets***

The Academy does not own any assets that rise to the level of being capitalized and depreciated as defined by GASB 34.

***Long-Term Obligations***

At June 30, 2023, the District reported its net share of the pension liability of \$99,938 and its net share of the other postemployment benefits liability of \$13,243. Additional information related to the long-term obligations can be found in the footnotes to this report.

**Factors Bearing on the Academy's Future**

At the time that these financial statements were prepared and audited, the Academy was aware of the following items that could significantly affect its financial health in the future:

- State aid funding from the State of Michigan represents most of the Academy's revenue. Due to uncertainty from year to year related to state funding, the Academy continues to monitor current legislature in order

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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2023

to get a better idea of funding levels for the upcoming 2023-2024 school year and beyond. Specific funding for virtual schools like the Academy has been scrutinized over the past several years and causes even more uncertainty for the largest revenue stream of the Academy.

- Because per pupil state aid funding is the driving force behind most of the Academy's revenue, student enrollment strongly effects the budget. As student enrollment numbers continue to increase, it poses challenges to the Academy on how to provide educational services to its students in a manner that is fiscally responsible.
- Revenues associated with the response to the pandemic are phasing out. The Academy is aware that those revenues are dissipating in 2023-2024.
- The Academy continues to try and improve its services to keep up with other schools in order to attract students to the Academy.

**Request for Information**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact the Academy at 50 Filer Street #324, Manistee, Michigan, 49660.

MICHIGAN GREAT LAKES VIRTUAL ACADEMY  
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STATEMENT OF NET POSITION

JUNE 30, 2023

ASSETS

CURRENT ASSETS

Cash	\$ 7,635,438
Accounts Receivable	774
Due from Other Governments	8,421,672
Prepaid Expenses	69,949

TOTAL ASSETS 16,127,833

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows of Resources Related to Pension	108,238
Deferred Outflows of Resources Related to Other Postemployment Benefits	49,517

TOTAL DEFERRED OUTFLOWS OF RESOURCES 157,755

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	4,293,253
Accrued Expenses	2,170,954
Unearned Revenue	1,370,033

Total Current Liabilities 7,834,240

NONCURRENT LIABILITIES

Net Pension Liability	99,938
Net Other Postemployment Benefit Liability	13,243

Total Noncurrent Liabilities 113,181

TOTAL LIABILITIES 7,947,421

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows of Resources Related to Pension	18,687
Deferred Inflows of Resources Related to Other Postemployment Benefits	26,899

TOTAL DEFERRED INFLOWS OF RESOURCES 45,586

NET POSITION

Unrestricted	<u>\$ 8,292,581</u>
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The notes to the financial statements are an integral part of this statement.

MICHIGAN GREAT LAKES VIRTUAL ACADEMY  
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STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2023

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		GOVERNMENTAL ACTIVITIES
		CHARGES FOR SERVICES	OPERATING GRANTS	NET (EXPENSES) REVENUES AND CHANGE IN NET POSITION
<u>GOVERNMENTAL ACTIVITIES</u>				
Instruction	\$ 22,459,081	\$ 0	\$ 2,019,652	\$ (20,439,429)
Supporting Services	15,415,481	0	6,510,555	(8,904,926)
Community Services	437,330	0	393,052	(44,278)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 38,311,892	\$ 0	\$ 8,923,259	(29,388,633)
 <u>GENERAL REVENUES</u>				
State Sources				30,566,284
Other Revenues				327
TOTAL GENERAL REVENUES				30,566,611
Change in Net Position				1,177,978
<u>NET POSITION - Beginning of Year</u>				7,114,603
<u>NET POSITION - End of Year</u>				\$ 8,292,581

The notes to the financial statements are an integral part of this statement.

MICHIGAN GREAT LAKES VIRTUAL ACADEMY  
MANISTEE, MICHIGAN

BALANCE SHEET  
GOVERNMENTAL FUNDS

JUNE 30, 2023

	<u>GENERAL FUND</u>
<u>ASSETS</u>	
Cash	\$ 7,635,438
Accounts Receivable	774
Due from Other Governments	8,421,672
Prepaid Expenditures	<u>69,949</u>
 TOTAL ASSETS	 <u>\$ 16,127,833</u>
 <u>LIABILITIES AND FUND BALANCES</u>	
<u>LIABILITIES</u>	
Accounts Payable	\$ 4,293,253
Accrued Expenditures	2,170,954
Unearned Revenue	<u>1,370,033</u>
 Total Liabilities	 <u>7,834,240</u>
 <u>FUND BALANCES</u>	
Nonspendable, Prepaid Expenditures	69,949
Unassigned	<u>8,223,644</u>
 Total Fund Balances	 <u>8,293,593</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 16,127,833</u>

The notes to the financial statements are an integral part of this statement.

MICHIGAN GREAT LAKES VIRTUAL ACADEMY  
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RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION

JUNE 30, 2023

Total Governmental Fund Balances	\$ 8,293,593
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Long-term liabilities are not due and payable in the current period and are not reported in the funds.	
Net Pension Liability	(99,938)
Other Postemployment Benefits Liability	(13,243)
Deferred outflows and inflows of resources related to pensions and other postemployment benefits are applicable to future periods and, therefore, are not reported in the funds.	
Deferred Outflows of Resources Related to Pensions and Other Postemployment Benefits	157,755
Deferred Inflows of Resources Related to Pensions and Other Postemployment Benefits	<u>(45,586)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 8,292,581</u></u>

The notes to the financial statements are an integral part of this statement.



MICHIGAN GREAT LAKES VIRTUAL ACADEMY  
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STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2023

	<u>GENERAL FUND</u>
<u>REVENUES</u>	
Local Sources	\$ 327
State Sources	33,434,580
Federal Sources	<u>6,073,427</u>
Total Revenues	<u>39,508,334</u>
<u>EXPENDITURES</u>	
Instruction	
Basic Programs	16,748,374
Added Needs	5,728,159
Supporting Services	
Pupil	3,163,283
Instructional Staff	1,939,674
General Administration	7,139,942
School Administration	198,602
Operation and Maintenance	151,533
Central	2,822,447
Community Services	
Community Activities	425,970
Welfare Activities	<u>11,360</u>
Total Expenditures	<u>38,329,344</u>
Excess (Deficiency) of Revenues Over Expenditures	1,178,990
<u>FUND BALANCE</u> - Beginning of Year	<u>7,114,603</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 8,293,593</u>

The notes to the financial statements are an integral part of this statement.

MICHIGAN GREAT LAKES VIRTUAL ACADEMY  
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RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2023

Net Change in Fund Balances Total Governmental Funds	\$ 1,178,990
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Amounts reported for governmental activities are different because:

Governmental funds report District pension contributions as expenditures. However, in the Statement of Activities, the cost of pension and other postemployment benefits earned net of employee contributions are reported as expenses.

Change in Pension and Other Postemployment Benefits Related Items	17,452
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Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to Section 147C pension contributions subsequent to the measurement date.

Change in State Aid Funding for Pension Benefits	<u>(18,464)</u>
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 1,177,978</u></u>
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The notes to the financial statements are an integral part of this statement.

MICHIGAN GREAT LAKES VIRTUAL ACADEMY  
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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2023

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Michigan Great Lakes Virtual Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Academy's accounting policies are described below.

**A. Reporting Entity**

Public School Academies were formed pursuant to the Michigan School Code of 1976 as amended by Act 362 of the Public Acts of 1993 and Act Number 416 of the Public Acts of 1994; Act Number 416 became effective March 30, 1995. The Academy filed Articles of Incorporation as a non-profit corporation April 1, 2013.

The Academy has an agreement with Manistee Area Public Schools to organize and administer the Academy. The agreement 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 Manistee Area Public Schools' Board is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays Manistee Area Public Schools 3 percent of state aid foundation funds as administrative fees.

**B. Description of Government-Wide Financial Statements**

The government-wide financial statements (i.e., the *Statement of Net Position* and the *Statement of Activities*) report the information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable. The Academy does not have any business-type activities or component units.

**C. Basis of Presentation – Government-Wide Financial Statements**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds.

**D. Basis of Presentation – Fund Financial Statements**

The fund financial statements provide information about the government's funds. Separate statements for each fund category – governmental funds – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The Academy reports the following major governmental fund:

The *General Fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy.

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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2023

**E. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt are reported as other financing sources.

State and federal aid and interest, if applicable, associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue resource (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

**F. Budgetary Information**

**1. Budgetary Basis of Accounting**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds.

The Academy's approved budgets were adopted at the function level for the General Fund. These are the legal enacted levels under the State Uniform Budgeting and Accounting Act and the level of budgetary control adopted by the Board (the level at which expenditures may not legally exceed appropriations).

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the governmental funds. While

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all appropriations and encumbrances lapse at year-end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

- a) In June, the finance department submits to the school board a proposed operating budget for the fiscal year commencing on July 1.
- b) A public hearing is conducted during June to obtain taxpayer comments.
- c) Prior to June 30, the budget is legally adopted by the Academy Board resolution pursuant to the Uniform Budgeting and Accounting Act. The Act requires that the budget be amended prior to the end of the fiscal year, when necessary, to adjust appropriations if it appears that revenues and other financial sources will be less than anticipated, or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated.
- d) The finance department and Board of Education are charged with general supervision of the budgets and shall hold the department heads responsible for performance of their responsibilities.
- e) For purposes of meeting emergency needs of the Academy, transfer of appropriations may be made by the authorization of the finance department. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.
- f) During the year the budgets are monitored and amendments to the budget resolution are made when it is deemed necessary.
- g) Budgeted amounts are as originally adopted on June 16, 2022, or as amended by the Academy Board of Education throughout the year.

**2. Excess of Expenditures over Appropriations**

	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>
General Fund		
Instruction		
Added Needs	\$ 5,726,227	\$ 5,728,159
Supporting Services		
General Administration	7,076,359	7,139,942

These overages were funded with additional revenues and expenditure reductions in other functions.

**G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance**

**1. Cash and Cash Equivalents**

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments. The Academy considers all highly liquid investments (including certificates of deposit) to be cash equivalents.

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**2. Investments**

Certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. Standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration and the rate of return is fixed, and the Academy intends to hold the investment until maturity.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings, and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Academy or federal agency obligation repurchase agreements, banker's acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Investments in the U.S. Treasury securities and those other securities completely guaranteed by the Treasury as to payment of principal and interest may be purchased in any dollar amount or up to 100 percent of the available reserves.

All investments must mature or be redeemable within two years of the date of purchase. The Academy's deposits and investments are held separately by the Academy's fund.

**3. Inventory and Prepaid Items**

Inventory is valued at cost using the first-in/first-out method. Inventory consists of supplies held for consumption. Inventories are recorded as expenditures when consumed rather than when purchased. The Academy did not have any inventory as of the end of the fiscal year.

Certain payments made to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

The nonspendable fund balance at the governmental fund level is equal to the amount of inventories and prepaid items at year-end to indicate the portion of the governmental fund balances that are nonspendable.

**4. Unearned Revenue**

Unearned revenue arises when resources are received by the Academy before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, revenue is recognized. The Academy recognizes unearned revenue related to funds received by the Academy from the State of Michigan in the amount of \$1,370,033 as of June 30, 2023.

**5. Defined Benefit Plans**

For purposes of measuring the net pension and other postemployment benefit liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and other postemployment benefits, and pension and other postemployment benefits expense, information about the fiduciary net position of the Michigan Public

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School Employees' Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**6. *Deferred Outflows/Inflows of Resources***

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Academy does not have any items that qualify for reporting in this category except those related to its pension plan and other postemployment benefits plan, which are discussed in Note 3-E and Note 3-F of this report.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Academy does not have any items that qualify for reporting in this category except those related to its pension plan and other postemployment benefits plan, which are discussed in Note 3-E and Note 3-F of this report.

**7. *Net Position Flow Assumption***

Sometimes the Academy will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Academy's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

**8. *Fund Balance Flow Assumption***

Sometimes the Academy will 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. Further, 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.

**9. *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 governing board

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is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) 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 governing board has by resolution authorized the superintendent to assign fund balance. The board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**10. Use of Estimates**

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**H. Revenues and Expenditures/Expenses**

**1. State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to Academies based on information supplied by the Academies. For the year ended June 30, 2023 the foundation allowance was based on pupil membership counts taken in October 2022 and February 2022. For fiscal year ended June 30, 2023, the per pupil foundation allowance was \$9,150 for Michigan Great Lakes Virtual Academy.

The State revenue is recognized during the foundation period and is funded through payments from October 2022 to August 2023. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The Academy also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as unearned revenue. Other categorical funding is recognized when the appropriation is received.

**2. Program Revenues**

Amounts reported as program revenue include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, state foundation aid, certain revenue from the



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intermediate school Academy and other unrestricted items are not included as program revenue but instead as *general revenues*.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Violations of Legal or Contractual Provisions**

Note 1.F.2, on the Excess of Expenditures over Appropriations, describes a budgetary violation that occurred for the year ended June 30, 2023.

**NOTE 3 - DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2023, the Academy's bank balance was \$7,781,946 and \$7,531,946 of that amount was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying value on the books for deposits at the end of the fiscal year was \$7,635,437 as reported as cash on the financial statements.

*Interest rate risk.* The Academy will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Academy's cash requirement.

*Credit risk.* State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSOs). Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

*Concentration of credit risk.* The Academy will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

*Foreign currency risk.* The Academy is not authorized to invest in investments which have this type of risk; therefore, it is not addressed in the investment policy.

**B. Receivables**

The Academy reports \$8,421,672 as due from other governments at June 30, 2023. The amount recorded as due from other governments is made up of state aid and federal grant revenues. The Academy also reports \$774 in accounts receivable as of June 30, 2023.

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**C. Long-Term Obligations**

The following is a summary of governmental long-term obligation transactions for the Academy for the year ended June 30, 2023:

	NET PENSION LIABILITY	NET OPEB LIABILITY	TOTAL
Balance, July 1, 2022	\$ 0	\$ 0	\$ 0
Additions	108,982	18,006	126,988
Deletions	(9,044)	(4,763)	(13,807)
Balance, June 30, 2023	99,938	13,243	113,181
Less current portion	Unknown	Unknown	Unknown
Total due after one year	\$ 99,938	\$ 13,243	\$ 113,181

The annual requirements to amortize the pension liability and the other postemployment benefits liability are uncertain because it is unknown when the repayments will be made.

**D. Defined Benefit Plan and Postemployment Benefits**

**Plan Description** – The Michigan Public School Employees’ Retirement System (MPSERS) (System) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the Board’s authority to promulgate or amend the provisions of the System. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at [www://michigan.gov/orsschools](http://www://michigan.gov/orsschools).

The System’s pension plan was established by the State to provide retirement, survivor, and disability benefits to public school employees. In addition, the System’s health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees’ Retirement Act.

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State of Michigan Investments Board serves as the investment fiduciary and custodian of the System.

**Benefits Provided- Overall**

***Introduction***

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the plans offered by MPSERS is as follows:

<u>Plan Name</u>	<u>Plan Type</u>	<u>Plan Status</u>
Basic	Defined Benefit	Closed
Member Investment Plan (MIP)	Defined Benefit	Closed
Pension Plus	Hybrid	Closed
Pension Plus 2	Hybrid	Open
Defined Contribution	Defined Contribution	Open

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**Benefits Provided – Pension**

Benefit provisions of the defined benefit pension 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 (DB) pension plan. Retirement benefits for DB plan members are determined by final average compensation and years of service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

Prior to Pension reform of 2010 there were two plans commonly referred to as Basic and the Member Investment Plan (MIP). Basic Plan member's contributions range from 0% - 4%. On January 1, 1987, the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990, or later including Pension Plus Plan members, contribute at various graduated permanently fixed contribution rates from 3.0% - 7.0%.

***Pension Reform 2010***

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employees' Retirement System (MPSERS) who became a member of MPSERS after June 30, 2010, is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

***Pension Reform 2012***

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

An amount determined by the member's election of Option 1, 2, 3, or 4 described below:

**Option 1** - Members voluntarily elected to increase their contributions to the pension fund as noted below and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they terminate public school employment.

- Basic plan members: 4% contribution
- Member Investment Plan (MIP)-Fixed, MIP-Graded, and MIP-Plus members: a flat 7% contribution

**Option 2** - Members voluntarily elected to increase their contribution to the pension fund as stated in Option 1 and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they reach 30 years of service. If and when they reach 30 years of service, their contribution

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rates will return to the previous level in place as of the day before their transition date (0% for Basic plan members, 3.9% for MIP-Fixed, up to 4.3% for MIP-Graded, or up to 6.4% for MIP-Plus). The pension formula for any service thereafter would include a 1.25% pension factor.

**Option 3** - Members voluntarily elected not to increase their contribution to the pension fund and maintain their current level of contribution to the pension fund. The pension formula for their years of service as of the day before their transition date will include a 1.5% pension factor. The pension formula for any service thereafter will include a 1.25% pension factor.

**Option 4** - Members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the Defined Contribution plan for future service as of their transition date. As a DC participant they receive a 4% employer contribution to the tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS to a 457 account. They vest in employer contributions and related earnings in their 401(k) account based on the following schedule: 50% at 2 years, 75% at 3 years, and 100% at 4 years of service. They are 100% vested in any personal contributions and related earnings in their 457 account. Upon retirement, if they meet age and service requirements (including their total years of service), they would also receive a pension (calculated based on years of service and final average compensation as of the day before their transition date and a 1.5% pension factor).

Members who did not make an election before the deadline defaulted to Option 3 as described above. Deferred or nonvested public school employees on September 3, 2012, who return to public school employment on or after September 4, 2012, will be considered as if they had elected Option 3 above. Returning members who made the retirement plan election will retain whichever option they chose.

Employees who first work on or after September 4, 2012, choose between two retirement plans: the Pension Plus Plan and a Defined Contribution that provides a 50% employer match up to 3% of salary on employee contributions.

**Final Average Compensation (FAC)** - Average of highest 60 consecutive months for Basic Plan members and Pension Plus members (36 months for MIP members). FAC is calculated as of the last day worked unless the member elected Option 4, in which case the FAC is calculated at the transition date.

***Pension Reform of 2017***

On July 13, 2017, the Governor signed Public Act 92 of 2017 into law. The legislation closed the Pension Plus plan to newly hired employees as of February 1, 2018 and created a new, optional Pension Plus 2 plan with similar plan benefit calculations but containing a 50/50 cost share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the Pension Plus 2 plan is 6%. Further, under certain adverse actuarial conditions, the Pension Plus 2 plan will close to new employees if the actuarial funded ratio falls below 85% for two consecutive years. The law included other provisions to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

**Benefits Provided – Other postemployment benefit (OPEB)**

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP-Graded plan members), the subsidy is the maximum allowed by

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statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008, (MIP-Plus plan members), have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date.

***Retiree Healthcare Reform of 2012***

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above or choosing not to pay the 3% 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 healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions will be deposited into their 401(k) accounts.

***Regular Retirement (no reduction factor for age)***

Eligibility - A Basic plan member may retire at age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, age 46 with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60<sup>th</sup> birthday and has credited service in each of the last 5 years. For Pension Plus Plan (PPP) members, age 60 with 10 years of credited service.

Annual Amount - The annual pension is paid monthly for the lifetime of a retiree. The calculation of a member's pension is determined by their pension election under PA 300 of 2012.

**Member Contributions**

Depending on the plan selected, member contributions range from 0% to 7% for pension and 0% to 3% for other postemployment benefits. Plan members electing the defined contribution plan are not required to make additional contributions.

**Employer Contributions**

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of pension benefits and OPEB. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The normal cost is the annual cost assigned under the actuarial funding method, to the current and subsequent plan years. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis.

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Pension and OPEB contributions made in the plan year ending September 30, 2022, were determined as of the September 30, 2019 actuarial valuations. For the pension and OPEB benefits, the unfunded (overfunded) actuarial accrued liabilities as of September 30, 2019, are amortized over a 17-year period beginning October 1, 2021 and ending September 30, 2038.

The Academy's contributions are determined based on employee elections. There are several different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by the ORS. The range of rates is as follows:

	<u>Pension</u>	<u>Other Postemployment Benefit</u>
October 1, 2021 - September 30, 2022	13.73% - 20.14%	7.23% - 8.09%
October 1, 2022 - September 30, 2023	13.75% - 20.16%	7.21% - 8.07%

The Academy's pension contributions for the year ended June 30, 2023, were equal to the required contribution total. Total pension contributions were \$23,452, all of which was contributed to the Defined Benefit Plan.

The Academy's OPEB contributions for the year ended June 30, 2023, were equal to the required contribution total. Total OPEB contributions were \$1,945, all of which was contributed to the Defined Benefit Plan.

These amounts, for both pension and OPEB, include contributions funded from State Revenue Section 147c restricted to fund MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (100% for pension and 0% for OPEB).

**E. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

**Pension Liabilities**

At June 30, 2023, the Academy reported a liability of \$99,938 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2021, and rolled-forward using generally accepted actuarial procedures. 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. On September 30, 2022 and 2021, the Academy's proportion was 0.00026573% and 0.00%.

**MPSERS (Plan) Non-University Employers Net Pension Liability**

	<u>September 30, 2022</u>	<u>September 30, 2021</u>
Total Pension Liability	\$ 95,876,795,620	\$ 86,392,473,395
Fiduciary Net Position	(58,268,076,344)	(62,717,060,920)
Net Pension Liability	<u>\$ 37,608,719,276</u>	<u>\$ 23,675,412,475</u>
Fiduciary Net Position as a percentage of Total Pension Liability	60.77%	72.60%
Net Pension Liability as a percentage of Covered Payroll	386.25%	261.68%

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

For the year ended June 30, 2023, the Academy recognized total pension expense of \$17,868. At June 30, 2023, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 1,000	\$ 223
Section 147c revenue related to District Pension contributions subsequent to measurement date	0	18,464
Changes of assumptions	17,173	0
Net difference between projected and actual earnings on pension plan investments	234	0
Changes in proportion and differences between District contributions and proportionate share of contributions	66,379	0
District contributions subsequent to the measurement date	23,452	0
<b>Total</b>	<b>\$ 108,238</b>	<b>\$ 18,687</b>

\$23,452 reported as deferred outflows of resources and \$18,464 reported as deferred inflows of resources related to pensions resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

Other amounts reported as deferred outflows of resources (+) and deferred inflows of resources (-) related to pensions will be recognized in pension expense as follows:

<b>Year Ended September 30,</b>	<b>Amount</b>
2023	\$ 24,815
2024	23,450
2025	22,884
2026	13,414
	<b>\$ 84,563</b>

**F. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

**OPEB Liabilities**

At June 30, 2023, the Academy reported a liability of \$13,243 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2022, and the total OPEB liability used to calculate the net OPEB

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liability was determined by an actuarial valuation date of September 30, 2021, and rolled-forward using generally accepted actuarial procedures. 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, 2022 and 2021, the Academy's proportion was 0.00062525% and 0.00%.

**MPSERS (Plan) Non-University Employers Net OPEB Liability**

	<u>September 30, 2022</u>	<u>September 30, 2021</u>
Total OPEB Liability	\$ 12,522,713,324	\$ 12,046,393,511
Fiduciary Net Position	(10,404,650,683)	(10,520,015,621)
Net OPEB Liability	<u>\$ 2,118,062,641</u>	<u>\$ 1,526,377,890</u>
Fiduciary Net Position as a percentage of Total OPEB Liability	83.09%	87.33%
District OPEB Liability as a percentage of Covered Payroll	21.75%	16.87%

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

For the year ended June 30, 2023, the Academy recognized total OPEB benefit of \$6,454.

At June 30, 2023, the Academy reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 0	\$ 25,938
Changes of assumptions	11,804	961
Net difference between projected and actual earnings on pension plan investments	1,035	0
Changes in proportion and differences between District contributions and proportionate share of contributions	34,733	0
District contributions subsequent to the measurement date	1,945	0
<b>Total</b>	<u>\$ 49,517</u>	<u>\$ 26,899</u>

\$1,945 reported as deferred outflows of resources related to OPEB resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year.



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Other amounts reported as deferred outflows of resources (+) and deferred inflows of resources (-) related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended September 30,</u>	<u>Amount</u>
2023	\$ 1,659
2024	2,203
2025	2,615
2026	6,297
2027	6,398
Thereafter	1,501
	\$ 20,673

**G. Actuarial Assumptions**

**Investment rate of return for Pension** – 6.00% a year, compounded annually net of investment and administrative expenses for the MIP, Basic, and Pension Plus groups.

**Investment rate of return for OPEB** – 6.00% a year, compounded annually net of investment and administrative expenses.

**Salary increases** - The rate of pay increase used for individual members is 2.75%-11.55%, including wage inflation of 2.75%.

**Inflation** – 3.0%

**Mortality assumptions –**

Retirees: RP-2014 Male and Female Healthy Annuitant Mortality Tables scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Active: RP-2014 Male and Female Employee Annuitant Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Disabled Retirees: RP-2014 Male and Female Disabled Annuitant Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

**Experience study** – The annual actuarial valuation report of the System used for these statements is dated September 30, 2021. Assumption changes as a result of an experience study for the periods 2012 through 2017 have been adopted by the System for use in the determination of the total pension and OPEB liability beginning with the September 30, 2018 valuation.

**The long-term expected rate of return on pension and other postemployment benefit plan investments** - The pension rate was 6.00% (MIP, Basic, Pension Plus Plan, and Pension Plus 2 Plan) and the other postemployment benefit rate was 6.00%, net of investment and administrative expenses was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension and OPEB 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.

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**Cost of Living Pension Adjustments** – 3.0% annual non-compounded for MIP members.

**Healthcare cost trend rate for other postemployment benefit** – Pre 65, 7.75% for year one graded to 3.5% in year fifteen. Post 65, 5.25% for year one and graded to 3.5% in year fifteen.

**Additional assumptions for other postemployment benefit only – Applies to individuals hired before September 4, 2012:**

**Opt Out Assumption** – 21% of eligible participants hired before July 1, 2008, and 30% of those hired after June 30, 2008, are assumed to opt out of the retiree health plan.

**Survivor Coverage** – 80% of male retirees and 67% of female retirees are assumed to have coverage continuing after the retiree’s death.

**Coverage Election at Retirement** – 75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

The target asset allocation at September 30, 2022 and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return*</u>
Domestic Equity Pools	25.00%	5.10%
Private Equity Pools	16.00%	8.70%
International Equity	15.00%	6.70%
Fixed Income Pools	13.00%	-0.20%
Real Estate & Infrastructure Pools	10.00%	5.30%
Absolute Return Pools	9.00%	2.70%
Real Return/Opportunistic Pools	10.00%	5.80%
Short-Term Investment Pools	2.00%	-0.50%
	<u>100%</u>	

\*Long-term rate of return are net of administrative expenses and 2.2% inflation.

**Rate of return**

For fiscal year ended September 30, 2022, the annual money-weighted rate of return on pension and OPEB plan investments, net of pension and OPEB plan investment expense, was (4.18)% and (4.99)% respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Pension Discount Rate**

A single discount rate of 6.00% was used to measure the total pension liability. This discount rate was based on the expected rate of return on pension plan investments of 6.00%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions from school Academies will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan’s fiduciary net position was

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projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

***OPEB Discount Rate***

A single discount rate of 6.00% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 6.00%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that school Academies contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

***Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate***

The following presents the Academy's proportionate share of the net pension liability calculated using a single discount rate of 6.00%, as well as what the Academy's proportionate share of the 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:

Pension				
1% Decrease	Pension Discount Rate	1% Increase		
\$ 131,881	\$ 99,938	\$ 73,615		

***Sensitivity of the Academy's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate***

The following presents the Academy's proportionate share of the net OPEB liability calculated using a single discount rate of 6.00%, as well as what the Academy's proportionate share of the 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:

OPEB				
1% Decrease	OPEB Discount Rate	1% Increase		
\$ 22,214	\$ 13,243	\$ 5,689		

***Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates***

The following presents the Academy's proportionate share of the net other postemployment benefit liability calculated using the healthcare cost trend rate as well as what the Academy's proportionate share of the net other postemployment benefit liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

OPEB				
Current Healthcare Cost				
1% Decrease	Trend Rates	1% Increase		
\$ 5,546	\$ 13,243	\$ 21,884		

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**H. Pension and OPEB Plan Fiduciary Net Position**

Detailed information about the pension and OPEB plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2022 Annual Comprehensive Financial Report.

**I. Payables to the Pension and OPEB Plan**

As of June 30, 2023, the Academy is current on all required pension and OPEB plan payments. As of June 30, 2023, the Academy reported payables in the amount of \$3,359 to the pension and OPEB plan. These amounts represent the contributions due from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL).

**NOTE 4 - OTHER INFORMATION**

**A. Risk Management**

The Academy participates in a distinct pool of education institutions within the State of Michigan for various risks of loss, including general liability, property and casualty. The pool is considered a public entity risk pool. The Academy pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Academy has not been informed of any special assessments being required.

**B. Oversight Fees**

The Academy pays an administrative oversight fee of 3 percent of its unrestricted state school aid to Manistee Public Schools as set forth by contract, to reimburse the Board of Education for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2023, the Academy incurred \$1,028,245 of expenses for oversight fees.

**C. Contracted Services/Related Party Transaction**

The Academy contracted with K12 Management, Inc. (K12) to provide teaching, administrative and various other services for the Academy. Payments for such services were made to K12 throughout the year as the Academy incurred these expenses. The Academy also pays an administrative services fee of 15 percent of its program revenues to K12 Management Inc., as set forth by contract. The amount paid to K12 for administrative services during the fiscal year was \$5,926,039. Additionally, the Academy pays 7 percent of its program revenues to K12 Management Inc. for technology services provided to the Academy. The amount paid to K12 for technology services during the fiscal year was \$2,765,484.

**D. GASB Statement No. 96 – Subscription-based Information Technology Arrangements**

It has been determined that the Academy has subscription-based information technology arrangements as defined by GASB Statement No. 96. However, the total of these subscription-based information technology arrangements has been determined they are not significant enough to warrant disclosure.

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**E. Commitments and Contingencies**

Under the terms of various state grants and regulatory requirements, periodic audits are required, and certain cost may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the Academy.

**F. Single Audit**

Current federal guidelines require entities with federal expenditures exceeding \$750,000 to have a “single audit” of federally funded programs. This audit is being performed and the reports based thereon will be issued under a separate cover.

**NOTE 5 - UPCOMING ACCOUNTING PRONOUNCEMENTS**

In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections - an amendment of GASB Statement No. 62*. This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The Academy is currently evaluating the impact this standard will have on the financial statements when adopted during the 2023-2024 fiscal year.

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee’s pay rate as of the date of the financial statements. The Academy is currently evaluating the impact this standard will have on the financial statements when adopted during the 2024-2025 fiscal year.

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REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND

YEAR ENDED JUNE 30, 2023

	ORIGINAL BUDGET	FINAL BUDGET	AMOUNTS BUDGETARY BASIS
<u>REVENUES</u>			
Local Sources	\$ 0	\$ 75	\$ 327
State Sources	30,843,961	33,312,845	33,434,580
Federal Sources	4,658,186	5,266,527	6,073,427
Total Revenues	35,502,147	38,579,447	39,508,334
<u>EXPENDITURES</u>			
Instruction			
Basic Programs	15,909,589	17,005,110	16,748,374
Added Needs	4,830,307	5,726,227	5,728,159
Supporting Services			
Pupil	2,899,576	3,271,363	3,163,283
Instructional Staff	1,127,331	2,131,207	1,939,674
General Administration	6,315,041	7,076,359	7,139,942
School Administration	162,574	235,587	198,602
Operation and Maintenance	188,828	169,933	151,533
Central	2,491,002	2,857,756	2,822,447
Community Services			
Community Activities	387,476	441,711	425,970
Welfare Activities	21,469	12,288	11,360
Total Expenditures	34,333,193	38,927,541	38,329,344
Excess (Deficiency) of Revenues Over Expenditures	1,168,954	(348,094)	1,178,990
<u>FUND BALANCE - Beginning of Year</u>	6,867,479	7,767,193	7,114,603
<u>FUND BALANCE - End of Year</u>	\$ 8,036,433	\$ 7,419,099	\$ 8,293,593

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REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM  
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 9/30 OF EACH PLAN YEAR)  
JUNE 30, 2023

	2031	2030	2029	2028	2027	2026	2025	2024	2023	2022
District's proportion of net pension liability (%)										0.00027%
District's proportionate share of net pension liability									\$	99,938
District's covered payroll										65,874
District's proportionate share of net pension liability as a percentage of its covered payroll										151.71%
Plan fiduciary net position as a percentage of total pension liability										60.77%

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REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF PENSION CONTRIBUTIONS

MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM  
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 6/30 OF EACH FISCAL YEAR)  
JUNE 30, 2023

	2032	2031	2030	2029	2028	2027	2026	2025	2024	2023
Statutorily required contributions										\$ 23,452
Contributions in relation to statutorily required contributions *										23,452
Contribution deficiency (excess)										\$ 0
Covered payroll										\$ 49,626
Contributions as a percentage of covered payroll										47.26%

\* Contributions in relation to statutorily contributions are the contributions a reporting unit actually made to the System, as distinct from the statutorily required contributions.



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REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF PROPORTIONATE SHARE OF THE NET OTHER POSTEMPLOYMENT BENEFIT LIABILITY  
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM  
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 9/30 OF EACH PLAN YEAR)  
JUNE 30, 2023

	2031	2030	2029	2028	2027	2026	2025	2024	2023	2022
District's proportion of net OPEB liability (%)										0.00063%
District's proportionate share of net OPEB liability									\$	13,243
District's covered payroll										65,874
District's proportionate share of net OPEB liability as a percentage of its covered payroll										20.10%
Plan fiduciary net position as a percentage of total OPEB liability										83.09%

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REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF OTHER POSTEMPLOYMENT BENEFIT CONTRIBUTIONS  
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM  
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 6/30 OF EACH FISCAL YEAR)  
JUNE 30, 2023

	2032	2031	2030	2029	2028	2027	2026	2025	2024	2023
Statutorily required contributions									\$	1,945
Contributions in relation to statutorily required contributions *										1,945
Contribution deficiency (excess)									\$	0
Covered payroll									\$	49,626
Contributions as a percentage of covered payroll										3.92%

\* Contributions in relation to statutorily contributions are the contributions a reporting unit actually made to the System, as distinct from the statutorily required contributions.

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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR YEAR ENDED JUNE 30, 2023

Pension Information

**Changes of Benefit Terms** - There were no changes of benefit terms for the plan year ended September 30, 2022.

**Changes of Assumptions** – The assumption changes for the plan year ended September 30, 2022 were:

Discount rate for MIP, Basic, and Pension Plus plans decreased to 6.00% from 6.80%.

OPEB Information

**Changes of Benefit Terms** - There were no changes of benefit terms for the plan year ended September 30, 2022.

**Changes of Assumptions** – The assumption changes for the plan year ended September 30, 2022 were:

Discount rate decreased to 6.00% from 6.95%.



