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Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Merritt Academy's basic financial statements. The accompanying additional supplementary information, as identified in the Table of Contents, including the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information, including the schedule of expenditures of federal awards are 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 30, 2023, on our consideration of Merritt 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 Merritt 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 Merritt Academy's internal control over financial reporting and compliance.



Croskey Lanni, PC

Rochester, Michigan
October 30, 2023

MERRITT ACADEMY

STATEMENT OF NET POSITION JUNE 30, 2023

ASSETS AND DEFERRED OUTFLOWS

Current Assets

Cash and cash equivalents	\$ 528,609
Investments	841,729
Due from other governmental units	1,937,256
Prepaid expenses	<u>12,931</u>
Total current assets	3,320,525

Capital Assets - Net of Accumulated Depreciation / Amortization

5,310,825

Total assets \$ 8,631,350

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

Current Liabilities

Accounts payable	\$ 1,573,895
Unearned revenue	202,225
Other accrued expenses	143,480
Long-term debt - current portion	<u>309,217</u>
Total current liabilities	2,228,817

Long-Term Debt - Long-Term Portion

6,374,318

Net Position

Net investment in capital assets	(6,683,535)
Restricted	893,201
Unrestricted	<u>5,818,549</u>
Total net position	<u>28,215</u>

Total liabilities, deferred inflows and net position \$ 8,631,350

See accompanying notes to financial statements

MERRITT ACADEMY

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2023

		Program Revenues		Net (Expense) Revenues and Changes in Net Position
	Expenses	Charges for Services	Operating Grants	Government Type Activities
Functions				
Instruction				
Basic programs	\$ 3,608,290	\$ 22,116	\$ 824,148	\$ (2,762,026)
Added needs	900,001	-	909,593	9,592
Support services				
Pupil support services	285,201	-	99,240	(185,961)
Instructional staff support services	52,652	-	112,246	59,594
General administration	729,163	-	-	(729,163)
School administration	726,800	-	7,400	(719,400)
Business support services	34,792	-	-	(34,792)
Operations and maintenance	819,272	-	90,557	(728,715)
Pupil transportation services	117,408	-	-	(117,408)
Central support services	1,398	-	-	(1,398)
Pupil activities	23,486	22,829	-	(657)
Athletic activities	125,049	29,079	-	(95,970)
Food services	272,284	23,063	215,683	(33,538)
Community services	1,399	-	757	(642)
Unallocated depreciation / amortization	363,811	-	-	(363,811)
Unallocated interest	332,615	-	-	(332,615)
Total primary government	\$ 8,393,621	\$ 97,087	\$ 2,259,624	(6,036,910)
General Purpose Revenues				
State school aid - unrestricted				5,477,930
Miscellaneous revenues				69,436
Total general purpose revenues				5,547,366
Change in net position				(489,544)
Net position - July 1, 2022				517,759
Net position - June 30, 2023				\$ 28,215

See accompanying notes to financial statements

MERRITT ACADEMY

COMBINED BALANCE SHEET – ALL GOVERNMENTAL FUNDS JUNE 30, 2023

ASSETS

	<u>General</u>	<u>Debt Service</u>	<u>Non-Major</u>	<u>Total</u>
Cash and cash equivalents	\$ 528,596	\$ -	\$ 13	\$ 528,609
Investments	182,609	659,120	-	841,729
Due from other governmental units	1,937,256	-	-	1,937,256
Due from other funds	-	-	51,459	51,459
Prepaid expenses	12,931	-	-	12,931
Total assets	<u>\$ 2,661,392</u>	<u>\$ 659,120</u>	<u>\$ 51,472</u>	<u>\$ 3,371,984</u>

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$ 1,573,895	\$ -	\$ -	\$ 1,573,895
Due to other funds	51,459	-	-	51,459
Unearned revenue	202,225	-	-	202,225
Other accrued expenses	117,244	-	-	117,244
Total liabilities	1,944,823	-	-	1,944,823

Fund Balance

Nonspendable	12,931	-	-	12,931
Restricted	182,609	659,120	51,472	893,201
Unassigned	521,029	-	-	521,029
Total fund balance	716,569	659,120	51,472	1,427,161
Total liabilities and fund balance	<u>\$ 2,661,392</u>	<u>\$ 659,120</u>	<u>\$ 51,472</u>	<u>\$ 3,371,984</u>

See accompanying notes to financial statements

MERRITT ACADEMY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES JUNE 30, 2023

Amounts reported for governmental activities in the statement of net position are different because:

Total Governmental Fund Balances	\$ 1,427,161
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$9,614,099 and the accumulated depreciation / amortization is \$4,303,274.	5,310,825
Interest is not payable until due in governmental activities and, therefore, is not recorded in the funds.	(26,236)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(6,683,535)</u>
Net Position of Governmental Activities	<u>\$ 28,215</u>

See accompanying notes to financial statements

MERRITT ACADEMY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – ALL GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2023

	Debt			Total
	General	Service	Non-Major	
Revenues				
Local sources	\$ 123,655	\$ 19,805	\$ 23,063	\$ 166,523
State sources	6,301,640	-	21,845	6,323,485
Federal sources	774,089	-	193,523	967,612
Interdistrict sources	446,457	-	-	446,457
Total governmental fund revenues	7,645,841	19,805	238,431	7,904,077
Expenditures				
Instruction				
Basic programs	3,608,290	-	-	3,608,290
Added needs	900,001	-	-	900,001
Support services				
Pupil support services	285,201	-	-	285,201
Instructional staff support services	52,652	-	-	52,652
General administration	729,163	-	-	729,163
School administration	726,800	-	-	726,800
Business support services	34,792	-	-	34,792
Operations and maintenance	819,272	-	-	819,272
Pupil transportation services	117,408	-	-	117,408
Central support services	1,398	-	-	1,398
Pupil activities	23,486	-	-	23,486
Athletic activities	125,049	-	-	125,049
Food services	-	-	272,284	272,284
Community services	1,399	-	-	1,399
Capital outlay	418,828	-	11,011	429,839
Debt principal and interest	155,286	473,363	-	628,649
Total governmental fund expenditures	7,999,025	473,363	283,295	8,755,683
Excess (deficiency) of revenues over expenditures	(353,184)	(453,558)	(44,864)	(851,606)
Other Financing Sources (Uses)				
Proceeds from leases and long-term debt	721,701	-	-	721,701
Operating transfers in	-	479,063	-	479,063
Operating transfers out	(479,063)	-	-	(479,063)
Total other financing sources (uses)	242,638	479,063	-	721,701
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	(110,546)	25,505	(44,864)	(129,905)
Fund balance - July 1, 2022	827,115	633,615	96,336	1,557,066
Fund balance - June 30, 2023	<u>\$ 716,569</u>	<u>\$ 659,120</u>	<u>\$ 51,472</u>	<u>\$ 1,427,161</u>

See accompanying notes to financial statements

MERRITT ACADEMY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2023

Amounts reported for governmental activities in the statement of activities are different because:

Net Change in Fund Balances - Total Governmental Funds	\$	(129,905)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation and amortization expense. This is the amount by which depreciation and amortization exceeded capital outlay in the current period:

Capital outlay	\$	429,839	
Depreciation and amortization expense		<u>(363,811)</u>	66,028

The governmental funds report loan proceeds as an other financing source, while repayment of loan principal is reported as an expenditure. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of general loan obligations is as follows:

Proceeds from long-term debt	\$	(721,701)	
Repayment of loan principal		298,835	
Interest expense		<u>(2,801)</u>	<u>(425,667)</u>

Change in Net Position of Governmental Activities	\$	<u>(489,544)</u>
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See accompanying notes to financial statements

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Merritt Academy (the “Academy”) conform to generally accepted accounting principles applicable to public school academies. The following is a summary of the significant accounting policies:

Reporting Entity

Merritt 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. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, on May 30, 1997, and began operation in July 2002.

In July 2020, the Academy extended a contract with Saginaw Valley State University's Board of Control to charter a public school academy for an additional five years. 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 University's Board of Control 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 Saginaw Valley State University's Board of Control three percent of state aid as administrative fees. Total administrative fees paid for the year ended June 30, 2023 were approximately \$177,500.

In June 2015, the Academy entered into an agreement with The Romine Group, Inc. The agreement was renewed through June 2025. Under the terms of this agreement, The Romine Group, Inc. provides a variety of services including financial management, educational programs and consulting, as well as teacher training. The Academy is obligated to pay The Romine Group, Inc. ten percent of its state school aid revenue and all other governmental revenue sources. Total compensation in no event shall be less than \$250,000 in any fiscal year. The total expense for these services amounted to approximately \$501,800 for the year ended June 30, 2023. The Academy also had fees payable to The Romine Group, Inc. of approximately \$1,075,000 included in accounts payable at June 30, 2023.

The accompanying 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 public school academy. Based on application of criteria, the Academy does not contain component units.

Fund Financial Statements

Fund financial statements report detailed information about the Academy. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

Basis of Presentation – Fund Accounting

The accounts of the Academy are organized on the basis of funds. The operations of a fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report, into generic fund types in two broad fund categories.

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Governmental Funds

A governmental fund is a fund through which most Academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities, are accounted for through a governmental fund.

General Fund - The general fund is used to record the general operations of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Fund (Food Services) - The special revenue fund – food services is used to account for the food service program operations. The special revenue fund is a subsidiary operation and is an obligation of the general fund. Therefore, any shortfall in the special revenue fund will be covered by an operating transfer from the general fund.

Debt Service Fund - The debt service fund is used to record certain revenue and the payment of interest, principal and other expenditures on long-term debt.

Capital Projects Fund - The capital projects fund accounts for financial resources to be used for the acquisition, construction, or improvement of capital facilities.

Governmental and agency funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. 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 Academy considers revenues to be available if they are collected within sixty days of the end of the current fiscal period.
- b. Payments for inventorable types of supplies, which are not significant at year end, are recorded as expenditures at the time of purchase.
- c. Principal and interest of general long-term debt are not recorded as expenditures until their due dates.
- d. The State of Michigan utilizes a foundation allowance funding approach, which provides for specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law. A major portion of the Academy's revenue is derived from this state aid. As such, the Academy is considered to be economically dependent on this aid. The Academy's existence is dependent upon qualification for such aid.

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Government-Wide Financial Statements

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationships between the government-wide statements and the statements for governmental funds.

The government-wide Statement of Activities presents a comparison between expenses and program revenues for each segment of the business-type activities of the Academy and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. The Academy does not allocate indirect expenses to programs. In creating the government-wide financial statements the Academy has eliminated inter-fund transactions. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or function is self-financing or draws from the general revenues of the Academy. When both restricted and unrestricted resources are available for use, it is the Academy's policy to use restricted resources first.

Net position should be reported as restricted when constraints placed on net position use is either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The Academy first utilizes restricted resources to finance qualifying activities.

Cash and Cash Equivalents

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition. The Academy reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and GASB No. 40, Deposit and Investment Risk Disclosures. Under these standards, 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. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity. The Academy held investments in mutual funds that invest solely in U.S. Treasury obligations. The funds are held in trust for debt service and capital projects. State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, saving accounts, deposit accounts, and or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan 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. Government or Federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Receivables

Receivables at June 30, 2023 consist primarily of state school aid due from the State of Michigan and the federal government. All receivables are expected to be fully collected in July and August of 2023 and are considered current for the purposes of these financial statements.

Prepaid Assets

Payments made to vendors for services that will benefit periods beyond June 30, 2023, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

Capital Assets and Depreciation

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions or retirements during the year. The Academy follows the policy of not capitalizing assets with a useful life of less than one year. The Academy does not possess any infrastructure assets.

All reported capital assets, with the exception of land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Right to use assets of the Academy are amortized using the straight-line method over the shorter of the lease/subscription period or the estimated useful lives. Depreciation is computed using the straight-line method over the following useful lives:

Building and improvements	10 – 50 years
Furniture and equipment	5 – 15 years
Computers and software	3 – 10 years

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the non-current portion of capital leases that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Net Position

Net position represents the difference between assets, deferred outflows, liabilities, and deferred inflows. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws of regulations of other governments.

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Equity

The Academy has adopted GASB 54 as part of its fiscal year reporting. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the Academy's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on those resources.

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. This category typically includes prepaid items and inventories.

In addition to nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- a. *Restricted fund balance* – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation. The balances shown as restricted, include \$841,729 of resources held in trust for the payment of revenue bond obligations as well as \$51,472 amounts for food service and student activities
- b. *Committed fund balance* – amounts constrained to specific purposes by the Board; to be reported as committed, amounts cannot be used for any other purpose unless the Board takes action to remove or change the constraint.
- c. *Assigned fund balance* – amounts the Board intends to use for a specific purpose; intent can be expressed by the Board or by an official or committee to which the Board delegates the authority.
- d. *Unassigned fund balance* – amounts that are available for any purpose; these amounts are reported only in the general fund.

The Academy follows the policy that restricted, committed, or assigned amounts will be considered to have been spent when an expenditure is incurred for purposes for which both unassigned and restricted, committed, or assigned fund balances are available. There are no governmental funds with a deficit.

Leases

Leases and Subscription Based IT Arrangements (SBITA)

The Academy is a lessee for a noncancelable lease/subscription of equipment. The Academy recognizes a lease liability and an intangible right-to-use lease asset in the government-wide financial statements.

At the commencement of a lease/subscription, the Academy initially measures the lease/SBITA liability at the present value of payments expected to be made during the lease/SBITA term. Subsequently, the lease/SBITA liability is reduced by the principal portion of lease/SBITA payments made. The lease/SBITA asset is initially measured as the initial amount of the lease/SBITA liability, adjusted for lease/SBITA payments made at or before the lease/SBITA commencement date, plus certain initial direct costs. Subsequently, the lease/SBITA asset is amortized on a straight-line basis over its useful life.

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Key estimates and judgements related to leases included how the Academy determines (1) the discount rate it uses to discount the expected lease/SBITA payments to present value, (2) lease/SBITA term, and (3) lease/SBITA payments.

- The Academy uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Academy generally uses its estimated incremental borrowing rate as the discount rate for leases/SBITA.
- The lease/SBITA term includes the noncancelable period of the lease/subscription. Lease/SBITA payments included in the measurement of the lease/SBITA liability are composed of fixed payments and purchase option price that the Academy is reasonably certain to exercise.

The Academy monitors changes in circumstances that would require a remeasurement of its lease/SBITA and will remeasure the lease/SBITA asset and liability if certain changes occur that are expected to significantly affect the amount of the lease/SBITA liability.

Lease/SBITA assets are reported with other capital assets and lease/SBITA liabilities are reported with long-term obligations on the statement of net position.

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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

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.

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2023

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a consistent basis with accounting principles generally accepted in the United States of America and state law for the general fund. All annual appropriations lapse at fiscal year end and encumbrances are not formally recorded.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. The Academy is required by law to adopt general and special revenue fund budgets. During the year ended June 30, 2023 the budget was amended in a legally permissible manner. A comparison of amounts appropriated against actual results can be found on page 20 of these financial statements.

NOTE 3 - DEPOSITS AND INVESTMENTS

As of June 30, 2023, the Academy had the following investments:

<u>Type</u>	<u>S&P Rating</u>	<u>Maturities</u>	<u>Carrying Value</u>
Deposits:			
Demand deposits			\$ 528,609
Investments:			
U.S. Treasury and agency obligations	AAAm	Various	<u>841,729</u>
Total deposits and investments			<u>\$ 1,370,338</u>

The above amounts are reported in the financial statements as follows:

Deposits:			
Cash - General fund			\$ 528,596
Cash - Capital projects fund			13
Investments:			
Investments - General fund			182,609
Investments - Debt service fund			<u>659,120</u>
Total deposits and investments			<u>\$ 1,370,338</u>

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2023

NOTE 3 - DEPOSITS AND INVESTMENTS - Continued

Interest Rate Risk

In accordance with its investment policy, 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 investment pools and limiting the average maturity in accordance with the Academy's cash requirements.

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 (NRSROs). As of June 30, 2023, the Academy's investments were rated AAAM by Standards & Poor's and Aaa by Moody's Investors Service.

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. More than 5% of the Academy's investments are in pooled investment accounts which represent 100% of the Academy's total 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, \$278,596 of the Academy's cash was exposed to custodial credit risk because it was uninsured. All cash balances were uncollateralized as of June 30, 2023.

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Academy will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Academy will do business.

Foreign Currency Risk

The Academy is not authorized to invest in investments which have this type of risk.

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2023

NOTE 3 - DEPOSITS AND INVESTMENTS - Continued

Fair Value

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Academy has the ability to access.
- b. Level 2 inputs are inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly.
- c. Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The observable inputs should be developed based on the best information available in the circumstances and may include the Academy's own data.)

The Academy does not have any investments that are subject to the fair value measurement.

NOTE 4 – DUE FROM OTHER GOVERNMENTAL UNITS

Amounts due from other governmental units consist of the following:

Local sources	\$ 6,827
State sources	1,499,798
Federal sources	<u>430,631</u>
Total	<u>\$ 1,937,256</u>

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2023

NOTE 5 - CAPITAL ASSETS

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

	<u>Balance July 1, 2022</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2023</u>
Capital assets subject to depreciation / amortization				
Right to use - equipment	\$ 40,498	\$ 26,255	\$ -	\$ 66,753
Right to use - subscription-based IT	-	288,486	-	288,486
Building	7,851,074	74,690	-	7,925,764
Equipment	38,010	11,966	-	49,976
Furniture	505,473	9,148	-	514,621
Computer	749,205	19,294	-	768,499
Sub-total	<u>9,184,260</u>	<u>429,839</u>	<u>-</u>	<u>9,614,099</u>
Accumulated depreciation / amortization				
Right to use - assets	10,223	15,047	-	25,270
Right to use - subscription-based IT	-	96,162	-	96,162
Building	2,730,173	206,266	-	2,936,439
Equipment	34,425	2,891	-	37,316
Furniture	483,605	7,166	-	490,771
Computer	681,037	36,279	-	717,316
Sub-total	<u>3,939,463</u>	<u>363,811</u>	<u>-</u>	<u>4,303,274</u>
Total net capital assets	<u>\$ 5,244,797</u>	<u>\$ 66,028</u>	<u>\$ -</u>	<u>\$ 5,310,825</u>

Depreciation and amortization expense was not charged to activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

NOTE 6 – OTHER ACCRUED EXPENSES

Other accrued expenses may be summarized as follows:

	<u>Net Position</u>	<u>Funds</u>
Purchased services - payroll and benefits	\$ 79,888	\$ 79,888
University oversight fee	37,356	37,356
Interest	26,236	-
Total other accrued expenses	<u>\$ 143,480</u>	<u>\$ 117,244</u>

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2023

NOTE 7 - LONG-TERM OBLIGATIONS PAYABLE

The following is a summary of long-term obligations for the Academy during the year ended June 30, 2023:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Other</u>
Direct borrowing - Konica Minolta	3.00%	June, 2025	Copier lease
Direct borrowing - Cannon	3.00%	June, 2027	Copier lease
Deferred state aid adjustment	0.00%	October, 2026	Adjustment to be payable \$139,089 once yearly through a state aid payment reduction
Revenue bonds 2018	5.00%	December, 2043	Collateralized by a mortgage on the Academy's facility as well as a pledge for 20% of the state school aid payments and funds held in trust for debt service.

Loan Activity

	<u>Balance July 1, 2022</u>	<u>Additions</u>	<u>Retirements and Payments</u>	<u>Balance June 30, 2023</u>	<u>Due Within One Year</u>
Direct borrowing - equipment	\$ 31,033	\$ -	\$ 9,753	\$ 21,280	\$ 10,049
Direct borrowing - equipment	-	26,255	4,993	21,262	5,079
Deferred state aid adjustment	-	695,446	139,089	556,357	139,089
Revenue bonds 2018	6,300,000	-	145,000	6,155,000	155,000
	<u>\$ 6,331,033</u>	<u>\$ 721,701</u>	<u>\$ 298,835</u>	<u>\$ 6,753,899</u>	<u>\$ 309,217</u>
Discount on bond				70,364	
Total				<u>\$ 6,683,535</u>	

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2023

NOTE 7 - LONG-TERM OBLIGATIONS PAYABLE - Continued

Following are maturities of long-term obligations for principal and interest for the next five years and in total:

	<u>Principal</u>	<u>Interest</u>
2024	\$ 309,217	\$ 319,782
2025	314,677	311,447
2026	315,358	302,845
2027	324,647	293,929
2028	190,000	284,588
2029 - 2033	1,105,000	1,264,372
2034 - 2038	1,425,000	940,872
2039 - 2043	1,850,000	506,594
2044	920,000	24,725

NOTE 8 - RETIREMENT PLAN

All employees leased by the Academy are eligible to participate in a retirement plan established by The Romine Group which qualifies under the provisions of Section 401(k) of the Internal Revenue Code. The employer under this plan will contribute 4% of salaries regardless of the amount of the employee contribution. The employer will additionally match up to 4% of employee contributed funds. Eligible employees may contribute up to 15% of their salaries under the terms of this plan.

NOTE 9 - INTERFUND TRANSFERS

During the normal course of the school year the Academy transferred amounts between its funds as follows:

	<u>General</u>	<u>Debt Service</u>
Transfer In	\$ -	\$ 479,063
Transfer Out	479,063	-

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2023

NOTE 9 - INTERFUND TRANSFERS – Continued

As stipulated by the Academy's revenue bond agreement as described in Note 7, the Academy must transfer 20% of its state aid to a trustee. The trustee retains the required portion for debt service and returns the remainder to the Academy. These above transactions account for the major activity in the Academy's interfund transfer accounts.

NOTE 10 - RISK MANAGEMENT

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's 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.

SUPPLEMENTARY INFORMATION

MERRITT ACADEMY

REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2023

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Local sources	\$ 140,465	\$ 129,486	\$ 123,655	\$ (5,831)
State sources	7,061,618	6,917,131	6,301,640	(615,491)
Federal sources	1,031,631	782,140	774,089	(8,051)
Other sources	-	488,234	446,457	(41,777)
Total general fund revenues	<u>8,233,714</u>	<u>8,316,991</u>	<u>7,645,841</u>	<u>(671,150)</u>
Expenditures				
Instruction				
Basic programs	3,728,070	3,711,692	3,608,290	(103,402)
Added needs	1,017,740	1,110,412	900,001	(210,411)
Support services				
Pupil support services	9,000	307,626	285,201	(22,425)
Instructional staff support services	-	130,105	52,652	(77,453)
General administration	36,100	719,173	729,163	9,990
School administration	1,495,635	703,903	726,800	22,897
Business support services	35,700	34,830	34,792	(38)
Operations and maintenance	1,097,752	1,054,534	819,272	(235,262)
Pupil transportation services	115,000	122,500	117,408	(5,092)
Central support services	-	-	1,398	1,398
Pupil activities	20,000	16,000	23,486	7,486
Athletic activities	70,000	126,155	125,049	(1,106)
Community services	500	3,675	1,399	(2,276)
Capital outlay	-	-	418,828	418,828
Debt principal and interest	-	16,198	155,286	139,088
Total general fund expenditures	<u>7,625,497</u>	<u>8,056,803</u>	<u>7,999,025</u>	<u>(57,778)</u>
Excess (deficiency) of revenues over expenditures	608,217	260,188	(353,184)	(613,372)
Other Financing Sources (Uses)				
Proceeds from long-term debt	-	-	721,701	721,701
Operating transfers out	(476,000)	(482,000)	(479,063)	2,937
Total other financing sources (uses)	<u>(476,000)</u>	<u>(482,000)</u>	<u>242,638</u>	<u>724,638</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	132,217	(221,812)	(110,546)	111,266
Fund balance - July 1, 2022	<u>827,115</u>	<u>827,115</u>	<u>827,115</u>	<u>-</u>
Fund balance - June 30, 2023	<u>\$ 959,332</u>	<u>\$ 605,303</u>	<u>\$ 716,569</u>	<u>\$ 111,266</u>

MERRITT ACADEMY

COMBINING BALANCE SHEETS – NON-MAJOR FUNDS JUNE 30, 2023

ASSETS

	<u>Special Revenue - Food Services</u>	<u>Capital Projects</u>	<u>Total</u>
Cash and cash equivalents	\$ -	\$ 13	\$ 13
Due from other funds	<u>51,459</u>	<u>-</u>	<u>51,459</u>
Total assets	<u>\$ 51,459</u>	<u>\$ 13</u>	<u>\$ 51,472</u>

LIABILITIES AND FUND BALANCE

Fund Balance			
Restricted	<u>\$ 51,459</u>	<u>\$ 13</u>	<u>\$ 51,472</u>

MERRITT ACADEMY

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – NON-MAJOR FUNDS FOR THE YEAR ENDED JUNE 30, 2023

	Special Revenue - Food Services	Capital Projects	Total
Revenues			
Local sources	\$ 23,063	\$ -	\$ 23,063
State sources	21,845	-	21,845
Federal sources	193,523	-	193,523
Total governmental fund revenues	238,431	-	238,431
Expenditures			
Support services			
Food services	272,284	-	272,284
Capital outlay	11,011	-	11,011
Total governmental fund expenditures	283,295	-	283,295
Excess (deficiency) of revenues over expenditures	(44,864)	-	(44,864)
Fund balance - July 1, 2022	96,323	13	96,336
Fund balance - June 30, 2023	\$ 51,459	\$ 13	\$ 51,472

MERRITT ACADEMY

SCHEDULE OF REVENUES – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2023

Local Sources

Earnings on investments	4,211
Student activities	\$ 22,829
Other local revenues	<u>96,615</u>
Total local sources	123,655

State Sources

At risk	278,195
Great Start Readiness Program	377,869
Special education	167,646
State aid	<u>5,477,930</u>
Total state sources	6,301,640

Federal Sources

IDEA	138,721
Title I	181,278
Title II A	22,956
Title IV	13,608
Other program revenue	<u>417,526</u>
Total federal sources	774,089

Interdistrict Sources

	<u>446,457</u>
Total general fund revenues	<u>\$ 7,645,841</u>

MERRITT ACADEMY

SCHEDULE OF EXPENDITURES – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2023

Basic Programs

Purchased services	\$ 3,500,550
Supplies and materials	98,850
Other expenditures	<u>8,890</u>
Total basic programs	3,608,290

Added Needs

Purchased services	865,358
Supplies and materials	<u>34,643</u>
Total added needs	900,001

Pupil Support Services

Guidance services	99,308
Psychological services	4,800
Speech pathology and audiology	127,689
Social work services	<u>53,404</u>
Total pupil support services	285,201

Instructional Staff Support Services

Purchased services	44,358
Other purchased services	526
Supplies and materials	<u>7,768</u>
Total instructional staff support services	52,652

General Administration

Purchased services	49,406
Management fees	501,838
University oversight	177,513
Other expenditures	<u>406</u>
Total general administration	729,163

MERRITT ACADEMY

SCHEDULE OF EXPENDITURES – GENERAL FUND - CONTINUED FOR THE YEAR ENDED JUNE 30, 2023

School Administration

Purchased services	693,074
Supplies and materials	12,954
Other expenditures	<u>20,772</u>
Total school administration	726,800

Business Support Services

Purchased services	34,210
Other expenditures	<u>582</u>
Total business support services	34,792

Operations and Maintenance

Purchased services	150,559
Repairs and maintenance	526,132
Supplies and materials	141,231
Other expenditures	<u>1,350</u>
Total operations and maintenance	819,272

Pupil Transportation Services

Purchased services	117,408
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Central Support Services

Repairs and maintenance	270
Other expenditures	<u>1,128</u>
Total central support services	1,398

Pupil Activities

Purchased services	54
Other expenditures	<u>23,432</u>
Total athletic activities	23,486

Athletic Activities

Purchased services	52,980
Other expenditures	<u>72,069</u>
Total athletic activities	125,049

MERRITT ACADEMY

SCHEDULE OF EXPENDITURES – GENERAL FUND - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2023

Community Services

Purchased services	612
Supplies and materials	487
Other expenditures	300

Total community services 1,399

Capital Outlay 418,828

Debt Principal and Interest 155,286

Total general fund expenditures \$ 7,999,025