

MACDOWELL PREPARATORY ACADEMY

AUDIT COMMUNICATION LETTER

JUNE 30, 2022



Alan C. Young & Associates, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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October 31, 2022

To the Board of Directors
MacDowell Preparatory Academy
Detroit, Michigan

We have recently completed our audit of the financial statements of MacDowell Preparatory Academy (the Academy) for the year ended June 30, 2022. In addition to our audit report, we are providing the following required communication and recommendations, which impact the Academy.

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We are grateful for the opportunity to be of service to the Academy. Should you have any questions regarding the comments in this report, please do not hesitate to contact us.

Very truly yours,

Alan C. Young & Associates, P.C.
Detroit, Michigan



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RESULTS OF AUDIT

October 31, 2022

Board of Directors
MacDowell Preparatory Academy
Detroit, Michigan

We have audited the financial statements of the governmental activities, major fund and remaining fund information of MacDowell Preparatory Academy (the Academy) for the year ended June 30, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance as well as certain information related to the scope and timing of our audit. We have communicated such information in our letter to you dated July 1, 2022. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards, Government Auditing Standards and the Uniform Guidance

As stated in our engagement letter dated July 1, 2022, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit. Also, in accordance with the Uniform Guidance, we examined, on a test basis, evidence about the Academy's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the Academy's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Academy's compliance with those requirements.

Results of Audit (Continued)

Our Responsibility under U.S. Generally Accepted Auditing Standards, Government Auditing Standards and the Uniform Guidance (Continued)

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the Management Discussion & Analysis, and the Budgetary Comparison Schedule, which supplement the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions examined and the areas tested.

Our audit included obtaining an understanding of the Academy and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the Academy.

We have identified the following significant risks of material misstatement as part of our audit planning which was communicated in our engagement letter dated July 1, 2022.

- Recording of revenues and unearned revenue for restricted grants.
- Year-end cut-off of payables.
- Override of controls.

During our audit procedures we did not note any findings or exceptions related to the above items.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Academy are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Academy during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Depreciation expense is a significant accounting estimate for the Academy. The disclosures in the financial statements are neutral, consistent, and clear.

Results of Audit
(Continued)

Significant Audit Matters (Continued)

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit. We would like to commend management and staff on the assistance provided to us during the audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. No such misstatements were noted as a result of our audit.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 31, 2022.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Academy's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Academy's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Results of Audit
(Continued)

Other Matters

We applied certain limited procedures to the Academy's management discussion & analysis, and the budgetary comparison schedule, which are the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

As required by 2 CFR Part 200, we have also completed an audit of the federal programs administered by the Academy. The results of that audit are provided to the Board of Directors in our report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with 2 CFR Part 22, dated October 31, 2022.

Restriction on Use

This information is intended solely for the information and use of the Board of Directors and management of the Academy and is not intended to be, and should not be, used by anyone other than these specified parties.

Alan C. Young, Assoc.

Detroit, Michigan
October 31, 2022

INFORMATIONAL ITEMS

Upcoming Accounting Pronouncements

In May 2020, the GASB issued Statement No. 96, *Subscription-based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. GASB 96 is effective for the Academy's year ending June 30, 2023.

MACDOWELL PREPARATORY ACADEMY

**FEDERAL AWARDS
SUPPLEMENTAL INFORMATION**

JUNE 30, 2022

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REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
MacDowell Preparatory Academy
Detroit, Michigan

We have audited the financial statements of the governmental activities, major fund and remaining fund information of MacDowell Preparatory Academy (the Academy) as of and for the year ended June 30, 2022, and the related notes to the basic financial statements, which collectively comprise the Academy's basic financial statements. We issued our report thereon dated October 31, 2022 which contained unmodified opinions on the basic financial statements. Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited basic financial statements subsequent to October 31, 2022.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and the reconciliation of the basic financial statements' federal revenue with the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Alan C. Young & Assoc.

Detroit, Michigan
October 31, 2022



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education of
MacDowell Preparatory Academy
Detroit, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, major fund and remaining fund information of MacDowell Preparatory Academy (the Academy) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated October 31, 2022.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001, that we consider to be a material weakness.

**Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
With Government Auditing Standards
(Continued)**

Compliance and Other Matters

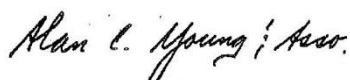
As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Academy's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the Academy's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Academy's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Detroit, Michigan
October 31, 2022



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Education of
MacDowell Preparatory Academy
Detroit, Michigan

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited MacDowell Preparatory Academy's, (the Academy) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Academy's major federal programs for the year ended June 30, 2022. The Academy's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Academy complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Academy and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Academy's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Academy's federal programs.

**Independent Auditor's Report on Compliance
for Each Major Program and on Internal Control
over Compliance Required by the Uniform Guidance
(Continued)**

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Academy's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Academy's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Academy's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Academy's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

**Independent Auditor's Report on Compliance
for Each Major Program and on Internal Control
over Compliance Required by the Uniform Guidance
(Continued)**

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Alan C. Young, Assoc.

Detroit, Michigan
October 31, 2022

MACDOWELL PREPARATORY ACADEMY

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Grant/Project Number</u>	<u>Assistance Listing Number</u>	<u>Approved Awards Amount</u>	<u>Accrued (Unearned) Revenue at July 1, 2021</u>	<u>Current Year Expenditures</u>	<u>Federal Funds/ Payments In-kind Received</u>	<u>Accrued (Unearned) Revenue at June 30, 2022</u>	<u>Passed through to Subrecipients</u>
U.S. DEPARTMENT OF AGRICULTURE								
Passed Through Michigan Department of Education								
National School Lunch Program	221965 2021	10.555	\$ 22,937	\$ -	\$ -	\$ 22,937	\$ (22,937)	\$ -
Total National School Lunch Program			22,937	-	-	22,937	(22,937)	-
Extended SFSP	210904 821	10.559	3,705	3,705	-	3,705	-	-
Extended SFSP	210904 921	10.559	2,981	2,981	-	2,981	-	-
Total Extended SFSP			6,686	6,686	-	6,686	-	-
Food Equipment Grant	191991 EAG2021	10.579	6,100	-	-	6,100	(6,100)	-
Total Food Equipment Grant			6,100	-	-	6,100	(6,100)	-
Total Child Nutrition Cluster			35,723	6,686	-	35,723	(29,037)	-
Pandemic EBT (P-EBT) Local Costs Grants	210980 2021	10.649	614	-	-	614	(614)	-
Total Pandemic EBT (P-EBT) Local Costs Grants			614	-	-	614	(614)	-
Total U.S. Department of Agriculture			36,337	6,686	-	36,337	(29,651)	-
U.S. DEPARTMENT OF EDUCATION								
Passed Through Michigan Department of Education								
Title I, Part A	211530 2021	84.010	264,230	17,376	-	17,376	-	-
Title I, Part A	221530 2122	84.010	260,395	-	188,233	133,756	54,477	-
Total Title I, Part A			524,625	17,376	188,233	151,132	54,477	-
Title II, Part A	220520 2122	84.367	24,221	-	24,221	22,221	2,000	-
Total Title II, Part A			24,221	-	24,221	22,221	2,000	-
Title IV, Part A	220750 2122	84.424	17,874	-	17,874	17,854	20	-
Total Title IV, Part A			17,874	-	17,874	17,854	20	-
ESSER-Formula	203710 1920	84.425D	199,037	20,537	-	20,537	-	-
ESSER-Formula	203720 1920	84.425D	39,807	712	-	712	-	-
ESSER-Formula	213712 20-21 II	84.425D	763,078	-	706,078	-	706,078	-
Total ESSER - Formula			1,001,922	21,249	706,078	21,249	706,078	-
CRF Grant		21.019	65,000	(65,000)	65,000	-	-	-
Total COVID Grant			65,000	(65,000)	65,000	-	-	-
Total Passed through Michigan Department of Education			1,669,979	(19,689)	1,001,406	248,793	732,924	-
Passed Through Wayne County Regional Educational Service Agency								
I.D.E.A. Flowthrough	21-22	84.027A	60,425	-	60,425	-	60,425	-
I.D.E.A. Flowthrough			-	7,653	-	7,653	-	-
Total IDEA Flowthrough Cluster			60,425	7,653	60,425	7,653	60,425	-
TOTAL FEDERAL AWARDS			\$ 1,730,404	\$ (12,036)	\$ 1,061,831	\$ 256,446	\$ 793,349	\$ -

See notes to Schedule of Expenditures of Federal Awards.

1) BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of MacDowell Preparatory Academy (the Academy). The information in this schedule is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Academy and therefore it is not intended to and does not present the financial position or changes in net position of the Academy for year ended June 30, 2022. Expenditures reported on the schedule are reported on the accrual basis of accounting. In addition, expenditures reported on the schedule are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2) GRANT AUDITOR REPORT

Management has utilized the Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards. Unreconciled differences, if any, have been disclosed to the auditor.

3) INDIRECT COST RATE

The Academy has elected not to use 10 percent de minimis indirect cost rate allowed rate allowed under the Uniform Guidance.

4) SUBSEQUENT EVENTS

All subsequent events related to the major programs were evaluated through October 31, 2022, the date the accompanying reports were available to be issued. No significant event was noted that required adjustment or disclosure in the report.

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of Auditor’s Report Issued: Unmodified

Internal Control over Financial Reporting:

- Material Weakness (es) Identified? X Yes No
- Significant Deficiencies Identified? Yes X None Reported
- Non-Compliance Material to Financial Statements noted? Yes X No

Federal Awards

Internal Control over Major Programs:

- Material Weakness (es) Identified? Yes X No
- Significant Deficiencies Identified? Yes X None Reported

Type of Auditor’s Report issued on Compliance for Major Programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2CFR 200.516(a)? Yes X No

Identification of Major Programs:

CFDA Numbers	Name of Federal Program or Cluster
84.425	Education Stabilization Fund Program

Dollar threshold used to distinguish between type A and B programs: \$750,000

Auditee Qualified as Low Risk Auditee? Yes X No

SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS

Reference Number	Findings
2022-001	<p>Finding Type – Material Weakness</p> <p>Condition and Description – During our audit, we noted that the Academy did not utilize proper fund accounting and did not segregate the accounting for the general fund, and food service fund. This created inefficiencies and delays in the audit.</p> <p>Identification of a Repeat Finding – This is not a repeat finding from the immediate previous audit.</p> <p>Recommendation – We recommend the Academy properly utilize fund accounting and segregate activities for the Academy’s food service and the general fund activity.</p> <p>View of Responsible Officials and Corrective Action Plan – The Academy will separate the two funds. The CFO will be responsible to separate the two funds. The implementation will be completed before November 18, 2022.</p>

SECTION III – FEDERAL PROGRAM AUDIT FINDINGS

No Federal Program Audit Findings noted.

SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS

There were no prior year financial statement audit findings.

SECTION III – FEDERAL PROGRAM AUDIT FINDINGS

There was no single audit required for the year ended June 30, 2021.

MACDOWELL PREPARATORY ACADEMY

**FINANCIAL REPORT
WITH
SUPPLEMENTAL INFORMATION**

JUNE 30, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
MacDowell Preparatory Academy
Detroit, Michigan

Opinions

We have audited the accompanying financial statements of the governmental activities, the major fund, and the remaining fund information of MacDowell Preparatory Academy (the Academy) as of and for the year ended June 30, 2022, 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, the major fund, and the remaining fund information of the Academy, as of June 30, 2022, 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 the Academy, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Independent Auditor's Report (Continued)

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

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

**Independent Auditor's Report
(Continued)**

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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 31, 2022 on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Academy's internal control over financial reporting and compliance.

Alan C. Young & Assoc.

Detroit Michigan
October 31, 2022

As management of MacDowell Preparatory Academy (the "Academy"), we offer readers of the Academy's basic financial statements this narrative overview and analysis of the financial activities of the Academy for the years ended June 30, 2022 and 2021.

Management's discussion and analysis is included at the beginning of the Academy's basic financial statements to provide, in layman's terms, the current position of the Academy's financial condition. This summary should not be taken as a replacement for the audit, which consists of the basic financial statements and other supplementary information.

FINANCIAL HIGHLIGHTS

Our basic financial statements provide these insights into the results of this year's operations.

- As of June 30, 2022, the Academy's fund balance for the governmental funds was \$2,349,291 as compared to \$1,471,077 at June 30, 2021.
- As of June 30, 2022, the Academy had net position of \$2,467,493 as compared to \$1,611,261 at June 30, 2021.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Academy's basic financial statements. The Academy's basic financial statements are comprised of three components: 1) academy-wide basic financial statements, 2) fund basic financial statements, and 3) notes to the basic financial statements.

Academy-Wide Financial Statements

The academy-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, liabilities, and deferred inflows/outflows of resources, with the difference between these items 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 information showing how the Academy's net position changed during the 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 in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected revenues and services rendered but unpaid).

The academy-wide financial statements include all governmental activities that are principally supported by grants and entitlements from the state for full-time equivalent funding. The Academy does not have any business-type activities. The governmental activities of the Academy primarily include instruction and instructional support services.

The academy-wide basic financial statements can be found on pages 1 and 2 of this report.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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. The Academy, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide basic financial statements, governmental fund basic financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Academy'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 financial statements. By doing so, readers may better understand the long-term impact of the Academy's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and change in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

All of the Academy's services are reported in governmental funds. Information is presented in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and change in fund balance. The general fund is the Academy's primary fund. The Academy also has a school service fund that accounts for the Academy's food service operations.

The Academy adopts an annual budget for its governmental funds. Budgets are revised in an attempt to deal with unexpected changes in revenue and expenditure. State law requires that the budget be amended to ensure that expenditures do not exceed appropriation. A schedule showing the Academy's original and final budget amounts compared with actual revenues and expenditures is provided as required supplemental information of these financial statements.

The governmental fund financial statements can be found on pages 3 and 5 of this report.

Notes to Basic Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 7 through 14 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Academy's net position was \$2,467,493 at June 30, 2022. This amount represents net investment in capital assets of \$118,202, and unrestricted net position of \$2,349,291. The Academy's net position was \$1,611,261 at June 30, 2021 and of this amount \$140,184 represented net investment in capital assets, \$1,465,538 represented unrestricted net position, and \$5,539 represented restricted net position.

Our analysis in the table below focuses on the net position of the Academy's governmental activities:

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Assets		
Current Assets	\$ 2,869,076	\$ 2,023,184
Capital Assets, Net of Depreciation	118,202	140,184
Total Assets	<u>2,987,278</u>	<u>2,163,368</u>
Liabilities		
Current Liabilities	519,785	552,107
Total Liabilities	<u>519,785</u>	<u>552,107</u>
Net Position		
Net Investment in Capital Assets	118,202	140,184
Restricted	-	5,539
Unrestricted	2,349,291	1,465,538
Total Net Position	<u>\$ 2,467,493</u>	<u>\$ 1,611,261</u>

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Governmental Activities

The results of the operations for the Academy as a whole are reported in the statement of activities on page 2. The table below provides a condensed presentation of the Academy's revenues and expenses for the years ended June 30, 2022 and 2021:

	2022	2021
Revenue		
General Revenues	\$ 2,892,649	\$ 3,037,091
Program Revenues	1,543,611	1,096,776
Total Revenues	4,436,260	4,133,867
Functions/Program Expenses		
Instruction	1,518,158	1,242,189
Instruction Support Services	2,056,331	2,252,843
Food Services	5,539	76,619
Total Expenses	3,580,028	3,571,651
Change in Net Position	856,232	562,216
Net Position - Beginning of Year	1,611,261	1,049,045
Net Position - End of the Year	\$ 2,467,493	\$ 1,611,261

GOVERNMENTAL FUND EXPENDITURES

In the table below, we have presented the cost of the largest functions/programs as a percentage of total governmental expenditures:

Functions/Programs	2022		2021	
	Expenditure	Percent	Expenditure	Percent
Governmental Expenditures				
Instructional Expenditures	\$ 1,518,158	42%	\$ 1,242,189	34%
Support Services	2,056,331	58%	2,295,574	64%
Food Services	5,539	<1%	76,619	2%
Total Governmental Expenditures	\$ 3,580,028	100%	\$ 3,614,382	100%

Comments on Budget Comparisons

- General fund budgeted revenue compared to actual revenue varied from line item to line item with the ending actual revenues being \$310,199 less than budget or approximately 7%.
- The total budgeted expenses compared to actual expenses varied from line item to line item with the ending actual expenses being \$1,153,537 less than budget or approximately 25%.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2022, the Academy had capital assets of \$118,202, net of accumulated depreciation, including building and improvements, furniture and equipment and IT equipment and software compared to \$140,184 at June 30, 2021.

Debt

At June 30, 2022 and 2021, the Academy had no long-term outstanding debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Academy considers many factors when setting the Academy's 2022-2023 fiscal year budgets. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2022-23 fiscal years is 90 percent of the current school year October count and 10 percent of the prior February count. The all-inclusive budget was adopted in June 2022 based on an enrollment estimate of 362 students in the Fall of 2021-22.

Under State law, the Academy cannot assess property taxes for additional revenue for general operations. As a result, the Academy is heavily dependent on the State's ability to fund school operations. Based on early enrollment data and aggressive recruiting efforts, the estimated fall count of 389 students is not in line with the estimate used to create the budget. The Academy currently has approximately 365 students enrolled as of fall count day.

Once the final student count and related pupil funding are validated, State law requires the Academy to amend the budget if actual Academy resources are not sufficient to fund original appropriations. Since the Academy's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenue to fund its appropriations to public schools and public school academies. The State periodically holds a revenue estimating conference to estimate revenues.

Since the Academy's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its revenues. Based on the results of the most recent conference, the State estimates funds will be sufficient to fund the appropriation. However, due to the uncertainty surrounding COVID-19, it remains to be determined whether these funds will continue to be allocated to the State School Aid Fund, or whether resources will be diverted elsewhere in order to support the many areas impacted by COVID-19.

REQUESTS FOR INFORMATION

If you have questions about this report or need additional information, please contact the Academy's Business Office at 4201 W. Outer Drive, Detroit, Michigan 48221.

MACDOWELL PREPARATORY ACADEMY

Statement of Net Position June 30, 2022

	Governmental Activities
ASSETS	
Cash and Cash Equivalents (Note 3)	\$ 1,440,105
Due From Other Governmental Units (Note 4)	1,410,617
Inventory	17,246
Deposits	112
Prepaid Expense	996
Capital Assets, Net of Accumulated Depreciation (Note 6)	118,202
Total Assets	2,987,278
LIABILITIES	
Accounts Payable	271,259
Accrued Liabilities	220,267
Due to State (Note 1)	28,259
Total Liabilities	519,785
NET POSITION	
Net Investment in Capital Assets	118,202
Unrestricted	2,349,291
Total Net Position	\$ 2,467,493

The accompanying notes are an integral part of these financial statements

MACDOWELL PREPARATORY ACADEMY

Statement of Activities
Year Ended June 30, 2022

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position
Governmental Activities				
Basic Instruction	\$ 1,136,208	\$ -	\$ 776,901	\$ (359,307)
Instruction - Added Needs	381,950	-	261,165	(120,785)
<u>Supporting Services</u>				
Pupil Support Services	24,125	-	-	(24,125)
Instructional Staff Services	423,180	-	289,356	(133,824)
General Administration Services	167,066	-	-	(167,066)
School Administration Services	316,174	-	216,189	(99,985)
Business Services	117,816	-	-	(117,816)
Operations and Maintenance	591,443	-	-	(591,443)
Central Services	216,171	-	-	(216,171)
Transportation	124,122	-	-	(124,122)
Support Services - Other	902	-	-	(902)
Depreciation Expenses (Unallocated)	21,982	-	-	(21,982)
Community Services	52,850	-	-	(52,850)
Welfare Activities	500	-	-	(500)
Food Services	5,539	-	-	(5,539)
Total Governmental Activities	3,580,028	-	1,543,611	(2,036,417)
<u>General Revenues</u>				
State Aid - Formula Grants				2,866,737
Other Revenue				25,912
Total General Revenues				2,892,649
Change in Net Position				856,232
Net Position - July 1, 2021				1,611,261
Net Position - June 30, 2022				\$ 2,467,493

The accompanying notes are an integral part of these financial statements

MACDOWELL PREPARATORY ACADEMY

Governmental Funds Balance Sheet June 30, 2022

	General Fund	Non-Major Fund School Service Fund	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents (Note 3)	\$ 1,440,105	\$ -	\$ 1,440,105
Due From Other Governmental Units (Note 4)	1,410,617	-	1,410,617
Due From Other Funds (Note 5)	-	28,259	28,259
Inventory	17,246	-	17,246
Deposits	112	-	112
Prepaid Expense	996	-	996
Total Assets	\$ 2,869,076	\$ 28,259	\$ 2,897,335
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 271,259	\$ -	\$ 271,259
Accrued Liabilities	220,267	-	220,267
Due to other Funds (Note 5)	28,259	-	28,259
Due to State (Note 1)	-	28,259	28,259
Total Liabilities	519,785	28,259	548,044
Fund Balance (Note 1)			
Nonspendable	18,242	-	18,242
Unassigned	2,331,049	-	2,331,049
Total Fund Balance	2,349,291	-	2,349,291
Total Liabilities and Fund Balance	\$ 2,869,076	\$ 28,259	\$ 2,897,335

The accompanying notes are an integral part of these financial statements

MACDOWELL PREPARATORY ACADEMY

**Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Position
June 30, 2022**

Total Fund Balances - Governmental Funds \$ 2,349,291

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

Capital assets used in governmental activities are not
financial resources and therefore, not reported as assets in
governmental funds:

Cost of capital assets	483,534	
Accumulated depreciation	<u>(365,332)</u>	<u>118,202</u>

Total Net Position - Governmental Activities \$ 2,467,493

The accompanying notes are an integral part of these financial statements

MACDOWELL PREPARATORY ACADEMY

**Statement of Revenues, Expenditures and
Changes in Fund Balance
Year Ended June 30, 2022**

	General Fund	Non-Major Fund School Service Fund	Total Governmental Funds
REVENUE			
Federal Sources	\$ 1,061,831	\$ -	\$ 1,061,831
State Sources	3,348,517	-	3,348,517
Local Sources	25,912	-	25,912
Total Revenue	4,436,260	-	4,436,260
EXPENDITURES			
Basic Instruction	1,136,208	-	1,136,208
Instruction - Added Needs	381,950	-	381,950
<u>Supporting Services:</u>			
Pupil Support Services	24,125	-	24,125
Instructional Staff Services	423,180	-	423,180
General Administration Services	167,066	-	167,066
School Administration Services	316,174	-	316,174
Business Services	117,816	-	117,816
Operations and Maintenance	591,443	-	591,443
Central Services	216,171	-	216,171
Transportation	124,122	-	124,122
Other Support Services	902	-	902
Community Services	52,850	-	52,850
Welfare Activities	500	-	500
Food Service	-	5,539	5,539
Total Expenditures	3,552,507	5,539	3,558,046
Excess of Revenue Over Expenditures	883,753	(5,539)	878,214
Fund Balance - July 1, 2021	1,465,538	5,539	1,471,077
Fund Balance - June 30, 2022	\$ 2,349,291	\$ -	\$ 2,349,291

The accompanying notes are an integral part of these financial statements

MACDOWELL PREPARATORY ACADEMY

**Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures and
Changes in Fund Balance to the
Statement of Activities
Year Ended June 30, 2022**

Net Change in Fund Balances - Total Governmental Funds \$ 878,214

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

Governmental funds report capital outlays as expenditures. In the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense (21,982)

Change in Net Position - Governmental Activities \$ 856,232

The accompanying notes are an integral part of these financial statements

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of MacDowell Preparatory Academy (the Academy), conform to generally accepted accounting principles as applicable to schools. The following is a summary of the significant policies:

Reporting Entity

MacDowell Preparatory Academy is a charter school academy organized under 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.

On July 31, 2012 the Academy entered into a five year contract with the Detroit Public Schools Community District (DPSCD) to Charter a Public School Academy. The Academy renewed its contract with DPSCD on July 1, 2017, through June 30, 2022. Subsequently, a new contract was issued effective July 1, 2022, through June 30, 2025. The DPSCD Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws and other related activities for which compensation is permissible. By agreement between DPSCD and the Academy, the Academy pays the DPSCD Board of Trustees 3 percent of the Academy's State School Aid payments as an administrative fee. The total administrative fee paid for the year ended June 30, 2022 to DPSCD was approximately \$90,000.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation**Academy-Wide and Fund Financial Statements**

The academy-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Academy. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy's activities are considered governmental activities.

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

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

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**Academy-Wide and Fund Financial Statements

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

Fund Financial Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy 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.

Unrestricted State Aid and Intergovernmental Grants, associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Academy.

General Fund - The Academy's major fund is the General Fund. This fund is used to account for all operational activities of the Academy. The General Fund includes the current operating expenditures of the Academy. Revenues are derived primarily from the State of Michigan.

School Service Fund – The School Service Fund is used to account for the food service operation. Its revenues are derived primarily from a federal grant and student charges.

Assets, Liabilities and Net Position or Equity

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Receivables – Receivables are shown net of an allowance for uncollectible amounts. The Academy considers all receivables to be fully collectible. Accordingly, no allowance for uncollectible amounts has been recorded.

Inventories – Inventories are valued at cost, on a first-in, first-out basis. Inventories are recorded as expenditures when consumed rather than when purchased.

Prepaid Costs – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both government-wide and fund financial statements.

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Assets, Liabilities and Net Position or Equity (Continued)**

Capital Assets – Capital assets, which include building improvements, furniture and equipment, and computer hardware, are reported in the applicable governmental column in the academy-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$500 and a useful life greater than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Cost of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure-type assets.

All the Academy's assets are depreciated using the straight-line method over the following useful lives:

Leasehold Improvements	5 years
Furniture and Other Equipment	5 to 10 years

Deferred Outflows of Resources – In addition to assets, the financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. The Academy has no deferred outflows of resources at June 30, 2022.

Deferred Inflows of Resources – In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues, which arises only under a modified accrual basis of accounting, from grants receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The Academy had no deferred inflows of resources at June 30, 2022.

Unearned Revenue – Unearned Revenue is reported in connection with funds that have been received for services which have not been performed, and is therefore not yet earned. At June 30, 2022, the Academy had no unearned revenue.

Due to State – As of July 2021, the Academy utilized an alternate agreement for its school service fund, relinquishing its authority legally and financially to operate its food services. However, the Academy still received funding for this program in fiscal 2021-22 and has recorded the balance of \$28,259 as due to the State.

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Assets, Liabilities and Net Position or Equity (Continued)**

Compensated Absences (Vacation) – A Liability for compensated absences would be reported in the government-wide statements and consist of earned but unused accumulated vacation benefits. A liability for these amounts would be reported in governmental funds as it comes due for payment. The Academy had no liability for compensated absences at June 30, 2022.

Fund Balance – GASB 54 provides for two major types of fund balances, which are non-spendable and spendable. Non-spendable 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 non-spendable 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.
- 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.

Net Position – Net position of the Academy is classified in three components. Net Investment in capital assets consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase of those assets. Restricted net position is further classified as expendable and nonexpendable. The Academy did not have any non-expendable restricted net position during the year. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

Use of Estimates – The preparation of the 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 of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statement, and the reported revenues and expenses during the reporting period. Actual results may differ from those estimates.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Pronouncement – In June 2017, the GASB issued Statement No. 87, Leases, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Academy had no leases required to be recognized at June 30, 2022.

2) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for the General Fund. Capital outlay expenditures are budgeted within the various functions. All annual appropriations lapse at fiscal year ended.

The budget document presents information by fund, function, and object. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the object level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits schools to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner.

The following expenditures exceeded the final amended budget:

	Final Budget	Actual
Added Needs	\$ 283,407	\$ 381,950
General Administration Services	160,547	167,066
School Administration Services	307,813	316,174
Other Support Service	-	902

In total, actual expenditures were \$1,153,537 less than the final amended budget.

Grants – Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, would become a liability of the General Fund. In the Academy's opinion, no disallowed claims are expected and would not have a material effect on the financial statements as of and for the year ended June 30, 2022.

3) DEPOSITS AND INVESTMENTS

State statutes authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Academy is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Academy's deposits are in accordance with the statutory authority. As of June 30, 2022, the Academy does not have any investments.

The Academy has designated one bank for the deposit of its funds.

The Academy's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of bank failure, the Academy's deposits may not be returned to it. At the year end, the Academy had a deposit balance of \$1,244,483, out of which \$994,483 was not covered by federal depository insurance.

The Academy evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that value of investments will decrease as a result of a rise in interest rates. The Academy does not have investments with interest rate risk.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Academy held no such investment at June 30, 2022.

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value, as a result of changes in foreign currency exchange rates. State law and Academy's policy prohibit investment in foreign currency.

4) DUE FROM OTHER GOVERNMENTAL UNITS

Receivables from other governmental units as of year-end for the Academy include \$587,617 from the State of Michigan, and \$823,000 from Federal grants.

5) INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of inter-fund balances is as follows:

<u>Fund Due To</u>	<u>Fund Due From</u> <u>General</u> <u>Fund</u>	<u>Total</u>
Cafeteria Fund	\$ 28,259	\$ 28,259
Total	\$ 28,259	\$ 28,259

Inter-fund receivables and payables occur during the normal course of business and are settled routinely during the year.

6) CAPITAL ASSETS

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

	<u>Balance</u> <u>July 1, 2021</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2022</u>
Capital Assets Being Depreciated:			
Buildings & Improvements	\$ 111,516	\$ -	\$ 111,516
IT Equipment	334,816	-	334,816
Furniture and Equipment	37,202	-	37,202
Subtotal	483,534	-	483,534
Accumulated Depreciation:			
Buildings & Improvements	51,681	4,634	56,315
IT Equipment	259,991	13,285	273,276
Furniture and Equipment	31,678	4,063	35,741
Subtotal	343,350	21,982	365,332
Net Governmental Capital Assets	<u>\$ 140,184</u>	<u>\$ (21,982)</u>	<u>\$ 118,202</u>

Total depreciation expense was \$21,982 for the year ended June 30, 2022. Depreciation is unallocated in the Statement of Activities.

7) MANAGEMENT COMPANY AGREEMENT

The Academy had a management company Excel Management for a number of years. The Academy Board discontinued that relationship on June 30, 2021 and became a self-management school where the school leader manages the operations of the school.

8) LEASES

The Academy leases its School building from the DPSCD. The lease was entered into on July 1, 2017 and expires on June 30, 2022. The lease is cancelable in the event of the charter contract between the Academy and DPSCD being terminated. The Annual rent for the year 2021-2022 was calculated as 10 percent of total state aid revenue received by the Academy. Rent expense for the year was \$291,510. Subsequent to the year end, the academy purchased the building in starting effective July 1, 2022. Since this was a variable rate lease, the provisions of GASB 87 are not applicable.

9) DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS

Plan Description – The Academy currently does not participate in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan.

Post-employment Benefits – Currently, the Academy does not offer any post-employment benefits.

10) SUBSEQUENT EVENTS

The Academy has evaluated all subsequent events through October 31, 2022, the date the financial statements were available to be issued. No items were noted requiring disclosure in this report.

REQUIRED SUPPLEMENTAL INFORMATION

MACDOWELL PREPARATORY ACADEMY

**Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2022**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Revenue				
Federal Sources	\$ 1,268,420	\$ 1,268,420	\$ 1,061,831	\$ (206,589)
State Sources	3,475,539	3,475,539	3,348,517	(127,022)
Local Sources	2,500	2,500	25,912	23,412
Total Revenue	<u>4,746,459</u>	<u>4,746,459</u>	<u>4,436,260</u>	<u>(310,199)</u>
Expenditures				
<u>Instructional Services</u>				
Basic Programs	1,589,087	1,589,087	1,136,208	(452,879)
Added Needs	283,407	283,407	381,950	98,543
<u>Supporting Services:</u>				
Pupil Support Services	349,435	349,435	24,125	(325,310)
Instructional Staff Services	520,884	520,884	423,180	(97,704)
General Administration Services	160,547	160,547	167,066	6,519
School Administration Services	307,813	307,813	316,174	8,361
Business Services	247,738	247,738	117,816	(129,922)
Operation and Maintenance	735,213	735,213	591,443	(143,770)
Other Central Support	217,720	217,720	216,171	(1,549)
Pupil Transportation Services	175,000	175,000	124,122	(50,878)
Other Support Service	-	-	902	902
Community Services	98,700	98,700	52,850	(45,850)
Welfare Activities	500	500	500	-
Building Improvements	20,000	20,000	-	(20,000)
Total Expenditure	<u>4,706,044</u>	<u>4,706,044</u>	<u>3,552,507</u>	<u>(1,153,537)</u>
Excess of Revenue over Expenditures	40,415	40,415	883,753	843,338
Fund Balance - July 1, 2021			<u>1,465,538</u>	
Fund Balance - June 30, 2022			<u>\$ 2,349,291</u>	