

MACDOWELL PREPARATORY ACADEMY

**FINANCIAL REPORT
WITH
SUPPLEMENTAL INFORMATION**

JUNE 30, 2023

MACDOWELL PREPARATORY ACADEMY

Contents

	<u>Page No.</u>
Independent Auditor’s Report	i
Management’s Discussion and Analysis.....	iv
BASIC FINANCIAL STATEMENTS	
Academy-wide Financial Statements:	
Statement of Net Position	1
Statement of Activities.....	2
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet.....	3
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.....	4
Statement of Revenues, Expenditures and Changes in Fund Balance.....	5
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities.....	6
Notes to Financial Statements	7
Required Supplemental Information	
Budgetary Comparison Schedule – General Fund	16



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

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, 2023, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

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

Emphasis of Matter

As discussed in Note 8 of the financial statements the Academy has long-term debt of \$909,629 that is due on June 30, 2024 with a balloon payment of \$827,169. The Academy is confident the loan will be renewed for 5 years, but no renewal is in place as of the date of this report. Our opinion is not modified with respect to this matter.

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.

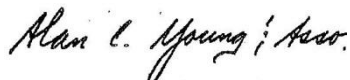
**Independent Auditor's Report
(Continued)**

Required Supplemental 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, 2023 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.



Detroit Michigan
October 31, 2023

MACDOWELL PREPARATORY ACADEMY

Management's Discussion and Analysis (MD&A) June 30, 2023

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, 2023 and 2022.

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, 2023, the Academy's fund balance for the governmental funds was \$2,905,266 as compared to \$2,349,291 at June 30, 2022.
- As of June 30, 2023, the Academy had net position of \$3,169,923 as compared to \$2,467,493 at June 30, 2022.

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.

MACDOWELL PREPARATORY ACADEMY

Management's Discussion and Analysis (MD&A) (Continued)

June 30, 2023

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 academy-wide financial statements. However, unlike the academy-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 academy-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the academy-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 academy-wide and fund financial statements. The notes to the basic financial statements can be found on pages 7 through 14 of this report.

MACDOWELL PREPARATORY ACADEMY

Management's Discussion and Analysis (MD&A) (Continued) June 30, 2023

ACADEMY-WIDE FINANCIAL ANALYSIS

The Academy's net position was \$3,169,923 at June 30, 2023. This amount represents net investment in capital assets of \$267,657, and unrestricted net position of \$2,905,266. The Academy's net position was \$2,467,493 at June 30, 2022 and of this amount \$118,208 represented net investment in capital assets, \$2,349,291 represented unrestricted net position.

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

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Assets		
Current Assets	\$ 3,745,126	\$ 2,869,076
Capital Assets, Net of Depreciation	1,174,284	118,202
Total Assets	<u>4,919,410</u>	<u>2,987,278</u>
Liabilities		
Current Liabilities	839,860	519,785
Long-term Liabilities	909,627	-
Total Liabilities	<u>1,749,487</u>	<u>519,785</u>
Net Position		
Net Investment in Capital Assets	264,657	118,202
Unrestricted	2,905,266	2,349,291
Total Net Position	<u>\$ 3,169,923</u>	<u>\$ 2,467,493</u>

MACDOWELL PREPARATORY ACADEMY

Management's Discussion and Analysis (MD&A) (Continued)
June 30, 2023

ACADEMY-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, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Revenue		
General Revenues	\$ 3,450,469	\$ 2,892,649
Program Revenues	1,852,938	1,543,611
Total Revenues	<u>5,303,407</u>	<u>4,436,260</u>
Functions/Program Expenses		
Instruction	2,180,360	1,518,158
Instruction Support Services	2,416,464	2,056,331
Food Services	4,153	5,539
Total Expenses	<u>4,600,977</u>	<u>3,580,028</u>
Change in Net Position	702,430	856,232
Net Position - Beginning of Year	<u>2,467,493</u>	<u>1,611,261</u>
Net Position - End of the Year	<u>\$ 3,169,923</u>	<u>\$ 2,467,493</u>

GOVERNMENTAL FUND EXPENDITURES

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

<u>Functions/Programs</u>	<u>2023</u>		<u>2022</u>	
	<u>Expenditure</u>	<u>Percent</u>	<u>Expenditure</u>	<u>Percent</u>
Governmental Expenditures				
Instructional Expenditures	\$ 2,180,360	47%	\$ 1,518,158	42%
Support Services	2,416,464	53%	2,056,331	57%
Food Services	4,153	<1%	5,539	<1%
Total Governmental Expenditures	<u>\$ 4,600,977</u>	<u>100%</u>	<u>\$ 3,580,028</u>	<u>100%</u>

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 \$68,015 less than budget or approximately 1%.
- The total budgeted expenses compared to actual expenses varied from line item to line item with the ending actual expenses being \$441,831 more than budget or approximately 8%.

MACDOWELL PREPARATORY ACADEMY

Management's Discussion and Analysis (MD&A) (Continued)
June 30, 2023

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2023, the Academy had capital assets of \$1,174,284, net of accumulated depreciation, compared to \$118,202 at June 30, 2022.

Debt

At June 30, 2023, the Academy had \$909,627 in long-term debt. The debt was taken in order to purchase the building the Academy is housed in. The debt is scheduled to be paid through 2024.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The financial report is only one measure of our school district's viability. Our goal is to focus on student achievement and to close the equity gap by providing appropriate 21st century educational services to students. Consideration should also be given to key components of our vision and mission that highlight non-financial factors:

- A. MPA scholars were assessed using both formative and summative tests. These tests were administered regularly throughout the entire school year using online, research-based tools, such as NWEA/Measuring Academic Progress and iReady. As a result of this, MPA scholars are at the National Average in Reading & Math per the NWEA. 2023 Math and Reading data shows that our scholars scored within 3-5 points near the NWEA - MAP Growth national norm. This baseline data is an improvement from the previous 2022 Fall data.
- B. MPA offers full day kindergarten programs.
- C. MPA provides additional after school enrichment opportunities through its Community Partners including choir, band, debate team, chess, boys & girls basketball, soccer, and more. Some of our community partners include Raquet Up, The Rhonda Walker Foundation, Detroit Parent Network, Mt. Sinai Baptist Church, Project Healthy Communities, and more.
- D. MPA updated all technology including new laptops for scholars and staff, mobile BenQ Smart Boards and LCD Projectors in classrooms.
- E. MPA provided Free Breakfast and Lunch to all scholars and an evening snack to those scholars participating in our After-School Programs.
- F. MPA provided on-site immunizations opportunities for all scholars.
- G. MPA contracted Special Education (SpEd) services through Detroit Institute for Children to provided Special Education Services in accordance with student's Individual Education Plans (IEP) including resource room, speech, occupational therapy, psychologist, social worker, and more.

MACDOWELL PREPARATORY ACADEMY

Management's Discussion and Analysis (MD&A) (Continued)
June 30, 2023

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET (Continued)

- H. MPA hired a Scholar Engagement Specialist to assist with the overall well-being of the scholar and address any barriers that attributed to their chronic absenteeism and tardies, as well as academics. As a result, MPA has seen a 30% increase in scholar attendance resulting in an average attendance rate of 91% daily. This is an increase from 77% daily attendance.
- I. MPA hired a School Social Worker who developed and implemented small group programs of conflict-resolution, anti-bullying (cyber-bullying) solutions, as well as conducted a number of mental health assemblies, career days, and pathway opportunities for scholars.
- J. MPA provides numerous professional development opportunities for staff including:
 - National Charter School Conference, June 2022, Washington, DC
 - PowerSchool University, February 2023, Orlando, FL
 - National Charter School Conference, June 2023, Austin, TX
 - State of Black Learning Conference, August 2023, Pittsburgh, PA
 - Houghton Mifflin
 - Imagine Learning
 - Monthly professional development for staff including social and emotional learning, curriculum, conscious discipline, team building, and more.

The Academy considers many factors when setting the Academy's 2023-2024 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 2023-24 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 2023 based on an enrollment estimate of 350 students in the Fall of 2023-24.

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.

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.

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, 2023

	<u>Governmental Activities</u>
ASSETS	
Cash and Cash Equivalents (Note 3)	\$ 2,619,753
Due From Other Governmental Units (Note 4)	1,102,019
Inventory	17,246
Deposits	112
Prepaid Expense	5,996
Capital Assets, Net of Accumulated Depreciation (Note 6)	<u>1,174,284</u>
Total Assets	<u>4,919,410</u>
LIABILITIES	
Accounts Payable	216,751
Accrued Liabilities	623,109
Long-Term Debt, Current Portion (Note 8)	<u>909,627</u>
Total Liabilities	<u>1,749,487</u>
NET POSITION	
Net Investment in Capital Assets	264,657
Unrestricted	<u>2,905,266</u>
Total Net Position	<u><u>\$ 3,169,923</u></u>

The accompanying notes are an integral part of these financial statements

MACDOWELL PREPARATORY ACADEMY

Statement of Activities Year Ended June 30, 2023

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	\$ 1,738,545	\$ -	\$ 1,107,843	\$ (630,702)
Instruction - Added Needs	441,815	-	281,535	(160,280)
<u>Supporting Services</u>				
Pupil Support Services	382,215	-	-	(382,215)
Instructional Staff Services	291,674	-	185,862	(105,812)
General Administration Services	230,066	-	-	(230,066)
School Administration Services	435,793	-	277,698	(158,095)
Business Services	112,690	-	-	(112,690)
Operations and Maintenance	590,474	-	-	(590,474)
Central Services	154,436	-	-	(154,436)
Transportation	77,700	-	-	(77,700)
Depreciation Expenses (Unallocated)	62,532	-	-	(62,532)
Community Services	57,312	-	-	(57,312)
Interest Expense	21,572	-	-	(21,572)
Food Services	4,153	-	-	(4,153)
Total Governmental Activities	4,600,977	-	1,852,938	(2,748,039)
<u>General Revenues</u>				
State Aid - Formula Grants				3,287,229
Other Revenue				163,240
Total General Revenues				3,450,469
Change in Net Position				702,430
Net Position - July 1, 2022				2,467,493
Net Position - June 30, 2023				\$ 3,169,923

The accompanying notes are an integral part of these financial statements

MACDOWELL PREPARATORY ACADEMY

Governmental Funds Balance Sheet June 30, 2023

	General Fund	Non-Major Fund School Service Fund	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents (Note 3)	\$ 2,623,906	\$ (4,153)	\$ 2,619,753
Due From Other Governmental Units (Note 4)	1,102,019	-	1,102,019
Due From Other Funds (Note 5)	-	4,153	4,153
Inventory	17,246	-	17,246
Deposits	112	-	112
Prepaid Expense	5,996	-	5,996
Total Assets	\$ 3,749,279	\$ -	\$ 3,749,279
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 216,751	\$ -	\$ 216,751
Accrued Liabilities	623,109	-	623,109
Due to Other Funds (Note 5)	4,153	-	4,153
Total Liabilities	844,013	-	844,013
Fund Balance (Note 1)			
Nonspendable	23,242	-	23,242
Unassigned	2,882,024	-	2,882,024
Total Fund Balance	2,905,266	-	2,905,266
Total Liabilities and Fund Balance	\$ 3,749,279	\$ -	\$ 3,749,279

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, 2023

Total Fund Balances - Governmental Funds \$ 2,905,266

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

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

Cost of capital assets	1,602,148	
Accumulated depreciation	<u>(427,864)</u>	1,174,284

Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds (909,627)

Total Net Position - Governmental Activities \$ 3,169,923

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, 2023

	General Fund	Non-Major Fund School Service Fund	Total Governmental Funds
REVENUE			
Federal Sources	\$ 1,358,750	\$ -	\$ 1,358,750
State Sources	3,781,417	-	3,781,417
Local Sources	163,240	-	163,240
Total Revenue	5,303,407	-	5,303,407
EXPENDITURES			
Basic Instruction	1,738,545	-	1,738,545
Instruction - Added Needs	441,815	-	441,815
<u>Supporting Services:</u>			
Pupil Support Services	382,215	-	382,215
Instructional Staff Services	291,674	-	291,674
General Administration Services	230,066	-	230,066
School Administration Services	435,793	-	435,793
Business Services	112,690	-	112,690
Operations and Maintenance	1,709,088	-	1,709,088
Central Services	154,436	-	154,436
Transportation	77,700	-	77,700
Community Services	57,312	-	57,312
Principal Payments on Building Loan	90,373	-	90,373
Interest Payments on Building Loan	21,572	-	21,572
Food Service	-	4,153	4,153
Total Expenditures	5,743,279	4,153	5,747,432
Excess (Deficiency) of Revenue Over Expenditures	(439,872)	(4,153)	(444,025)
Other Financing Sources (Uses)			
Interfund Transfer In	-	4,153	4,153
Interfund Transfer Out	(4,153)	-	(4,153)
Proceeds from Building Loan	1,000,000	-	1,000,000
Net Change in Fund Balance	555,975	-	555,975
Fund Balance - July 1, 2022	2,349,291	-	2,349,291
Fund Balance - June 30, 2023	\$ 2,905,266	\$ -	\$ 2,905,266

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, 2023

Net Change in Fund Balances - Total Governmental Funds \$ 555,975

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	(62,532)	
Capitalized capital outlay expense	<u>1,118,614</u>	1,056,082

Repayment of loan principal is an expenditure governmental funds, but not in the statement of activities (where it reduces the long-term debt). 90,373

Other financing sources are not included on statement of activities (1,000,000)

Change in Net Position - Governmental Activities \$ 702,430

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, 2023 to DPSCD was approximately \$102,000.

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. School service activities have been transferred to an outside party and this fund is no longer active.

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.

MACDOWELL PREPARATORY ACADEMY

Notes to Financial Statements (Continued)
June 30, 2023

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:

Building	25 years
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, 2023.

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, 2023.

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, 2023, the Academy had no unearned revenue.

MACDOWELL PREPARATORY ACADEMY

Notes to Financial Statements (Continued)

June 30, 2023

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, 2023.

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.

MACDOWELL PREPARATORY ACADEMY

Notes to Financial Statements (Continued)
June 30, 2023

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Pronouncement – In May 2020, the GASB issued Statement No. 96, which provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. The requirements of this Statement improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. It defines a SBITA as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

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:

	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Expenditures			
<u>Instructional Services</u>			
Added Needs	\$ 362,056	\$ 441,815	\$ 79,759
<u>Supporting Services:</u>			
School Administration Services	408,865	435,793	26,928
Operation and Maintenance	587,466	1,709,088	1,121,622

In total, actual expenditures were \$441,831 more 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, 2023.

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, 2023 the Academy does not have any investments.

The Academy has designated two banks 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 \$2,762,270, out of which \$2,262,270 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, 2023.

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 \$682,626 from the State of Michigan, and \$409,393 from Federal grants.

MACDOWELL PREPARATORY ACADEMY

Notes to Financial Statements (Continued)
June 30, 2023

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 Fund</u>	<u>Total</u>
Cafeteria Fund	\$ 4,153	\$ 4,153
Total	\$ 4,153	\$ 4,153

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, 2022</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2023</u>
Capital Assets Being Depreciated:			
Building	\$ -	\$ 1,079,862	\$ 1,079,862
Buildings & Improvements	111,516	38,752	150,268
IT Equipment	334,816	-	334,816
Furniture and Equipment	37,202	-	37,202
Subtotal	<u>483,534</u>	<u>1,118,614</u>	<u>1,602,148</u>
Accumulated Depreciation:			
Building	-	43,195	43,195
Buildings & Improvements	56,315	5,064	61,379
IT Equipment	273,276	13,698	286,974
Furniture and Equipment	35,741	575	36,316
Subtotal	<u>365,332</u>	<u>62,532</u>	<u>427,864</u>
Net Governmental Capital Assets	<u>\$ 118,202</u>	<u>\$ 1,056,082</u>	<u>\$ 1,174,284</u>

Total depreciation expense was \$62,532 for the year ended June 30, 2023. Depreciation is unallocated in the Statement of Activities.

7) MANAGEMENT COMPANY AGREEMENT

Effective July 1, 2022, the Academy became a self-managed school where the school leader manages the operations of the school.

MACDOWELL PREPARATORY ACADEMY

Notes to Financial Statements (Continued)
June 30, 2023

8) LONG-TERM DEBT

During the year, the Academy signed a loan agreement with Credit Union One. According to the agreement, the Academy received \$1,000,000 to purchase the school building that it has been leasing in the past. The loan has an initial interest rate of 2.25% until the maturity date of June, 2024. The monthly installments will be in 23 regular payments of \$9,328.75 each and one irregular last payment of \$827,169.

Principal maturities of the long-term liability are as follows:

<u>Year</u>	<u>Amount</u>
2024	<u>\$ 909,627</u>
	<u>\$ 909,627</u>

9) DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS

Plan Description – The Academy currently does not participate in the Michigan Public School Employees' Retirement System (MPERS), 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, 2023, 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, 2023

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Federal Sources	\$ 1,694,708	\$ 1,461,810	\$ 1,358,750	\$ (103,060)
State Sources	3,631,301	3,777,612	3,781,417	3,805
Local Sources	10,090	132,000	163,240	31,240
Total Revenue	5,336,099	5,371,422	5,303,407	(68,015)
Expenditures				
<u>Instructional Services</u>				
Basic Programs	2,082,584	1,793,670	1,738,545	(55,125)
Added Needs	310,956	362,056	441,815	79,759
<u>Supporting Services:</u>				
Pupil Support Services	438,798	433,878	382,215	(51,663)
Instructional Staff Services	482,335	355,210	291,674	(63,536)
General Administration Services	372,839	270,111	230,066	(40,045)
School Administration Services	335,865	408,865	435,793	26,928
Business Services	190,926	127,355	112,690	(14,665)
Operation and Maintenance	354,569	587,466	1,709,088	1,121,622
Other Central Support	148,470	161,945	154,436	(7,509)
Pupil Transportation Services	150,000	106,200	77,700	(28,500)
Community Services	74,049	73,500	57,312	(16,188)
Welfare Activities	500	500	-	(500)
Building Improvements	50,000	506,952	-	(506,952)
Debt Services	348,974	113,740	111,945	(1,795)
Total Expenditure	5,340,865	5,301,448	5,743,279	441,831
Excess of Revenue over Expenditures	(4,766)	69,974	(439,872)	(509,846)
Other Financing Sources - Uses				
Proceeds from Building Loan	-	-	1,000,000	1,000,000
Interfund Transfer out	-	-	(4,153)	(4,153)
Net Change in Fund Balance	(4,766)	69,974	555,975	486,001
Fund Balance - July 1, 2022			2,349,291	
Fund Balance - June 30, 2023			\$ 2,905,266	