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Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Merritt Academy's basic financial statements. The accompanying combining and individual nonmajor fund financial statements, schedules of revenues and expenditures, and schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, schedules of revenues and expenditures, and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2022, on our consideration of Merritt Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Merritt Academy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Merritt Academy's internal control over financial reporting and compliance.



Croskey Lanni, PC

Rochester, Michigan
October 28, 2022

MERRITT ACADEMY

STATEMENT OF NET POSITION JUNE 30, 2022

ASSETS AND DEFERRED OUTFLOWS

Current Assets

Cash and cash equivalents	\$ 691,772
Investments	781,313
Due from other governmental units	1,671,815
Prepaid expenses	<u>12,628</u>
Total current assets	3,157,528

Capital Assets - Net of Accumulated Depreciation / Amortization

5,244,797

Total assets	<u>\$ 8,402,325</u>
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LIABILITIES, DEFERRED INFLOWS AND NET POSITION

Current Liabilities

Accounts payable	\$ 1,350,838
Unearned revenue	41,269
Other accrued expenses	235,237
Long-term debt - current portion	<u>154,753</u>
Total current liabilities	1,782,097

Long-Term Debt - Long-Term Portion

6,102,469

Net Position

Net investment in capital assets	(6,257,222)
Restricted	877,649
Unrestricted	<u>5,897,332</u>
Total net position	<u>517,759</u>
Total liabilities, deferred inflows and net position	<u>\$ 8,402,325</u>

See accompanying notes to financial statements

MERRITT ACADEMY

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2022

	<u>Expenses</u>	<u>Program Revenues</u>		Net (Expense) Revenues and Changes in Net Position
		<u>Charges for Services</u>	<u>Operating Grants</u>	Government Type Activities
Functions				
Instruction				
Basic programs	\$ 3,503,057	\$ -	\$ 421,298	\$ (3,081,759)
Added needs	1,016,222	-	896,958	(119,264)
Support services				
Pupil support services	248,074	-	83,226	(164,848)
Instructional staff support services	94,255	-	67,869	(26,386)
General administration	844,197	-	-	(844,197)
School administration	697,238	-	-	(697,238)
Business support services	34,618	-	-	(34,618)
Operations and maintenance	773,067	-	98,966	(674,101)
Pupil transportation services	90,136	-	-	(90,136)
Central support services	870	-	-	(870)
Pupil activities	30,144	-	-	(30,144)
Athletic activities	96,362	-	-	(96,362)
Food services	397,992	344	494,571	96,923
Community services	21,755	-	1,321	(20,434)
Site improvement services	-	-	986,582	986,582
Unallocated depreciation / amortization	243,940	-	-	(243,940)
Unallocated interest	339,415	-	-	(339,415)
	<u>\$ 8,431,342</u>	<u>\$ 344</u>	<u>\$ 3,050,791</u>	<u>(5,380,207)</u>
General Purpose Revenues				
State school aid - unrestricted				5,931,229
Miscellaneous revenues				514,250
				<u>6,445,479</u>
Change in net position				1,065,272
Net position - July 1, 2021				<u>(547,513)</u>
Net position - June 30, 2022				<u>\$ 517,759</u>

See accompanying notes to financial statements

MERRITT ACADEMY

COMBINED BALANCE SHEET – ALL GOVERNMENTAL FUNDS JUNE 30, 2022

ASSETS

	General	Debt Service	Non-Major Funds	Total
Cash and cash equivalents	\$ 691,759	\$ -	\$ 13	\$ 691,772
Investments	147,698	633,615	-	781,313
Due from other governmental units	1,671,815	-	-	1,671,815
Due from other funds	-	-	96,323	96,323
Prepaid expenses	12,628	-	-	12,628
	<u>\$ 2,523,900</u>	<u>\$ 633,615</u>	<u>\$ 96,336</u>	<u>\$ 3,253,851</u>

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$ 1,350,838	\$ -	\$ -	\$ 1,350,838
Due to other funds	96,323	-	-	96,323
Unearned revenue	41,269	-	-	41,269
Other accrued expenses	208,355	-	-	208,355
	<u>1,696,785</u>	<u>-</u>	<u>-</u>	<u>1,696,785</u>

Fund Balance

Nonspendable	12,628	-	-	12,628
Restricted	147,698	633,615	96,336	877,649
Unassigned	666,789	-	-	666,789
	<u>827,115</u>	<u>633,615</u>	<u>96,336</u>	<u>1,557,066</u>
Total liabilities and fund balance	<u>\$ 2,523,900</u>	<u>\$ 633,615</u>	<u>\$ 96,336</u>	<u>\$ 3,253,851</u>

See accompanying notes to financial statements

MERRITT ACADEMY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES JUNE 30, 2022

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

Total Governmental Fund Balances	\$ 1,557,066
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$9,184,260 and the accumulated depreciation / amortization is \$3,939,463.	5,244,797
Interest is not payable until due in governmental activities and, therefore, is not recorded in the funds.	(26,882)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(6,257,222)</u>
Net Position of Governmental Activities	<u><u>\$ 517,759</u></u>

See accompanying notes to financial statements

MERRITT ACADEMY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – ALL GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2022

	<u>General</u>	<u>Debt Service</u>	<u>Non-Major Funds</u>	<u>Total</u>
Revenues				
Local sources	\$ 119,497	\$ 217	\$ 344	\$ 120,058
State sources	6,724,292	-	6,597	6,730,889
Federal sources	1,731,243	-	487,374	2,218,617
Interdistrict sources	427,050	-	-	427,050
Total governmental fund revenues	9,002,082	217	494,315	9,496,614
Expenditures				
Instruction				
Basic programs	3,503,057	-	-	3,503,057
Added needs	1,016,222	-	-	1,016,222
Support services				
Pupil support services	248,074	-	-	248,074
Instructional staff support services	94,255	-	-	94,255
General administration	844,197	-	-	844,197
School administration	697,238	-	-	697,238
Business support services	34,618	-	-	34,618
Operations and maintenance	773,067	-	-	773,067
Pupil transportation services	90,136	-	-	90,136
Central support services	870	-	-	870
Pupil activities	30,144	-	-	30,144
Athletic activities	96,362	-	-	96,362
Food services	-	-	397,992	397,992
Community services	21,755	-	-	21,755
Capital outlay	1,004,856	-	-	1,004,856
Debt principal and interest	10,550	475,488	-	486,038
Total governmental fund expenditures	8,465,401	475,488	397,992	9,338,881
Excess (deficiency) of revenues over expenditures	536,681	(475,271)	96,323	157,733
Other Financing Sources (Uses)				
Operating transfers in	-	478,040	-	478,040
Operating transfers out	(478,040)	-	-	(478,040)
Total other financing sources (uses)	(478,040)	478,040	-	-
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	58,641	2,769	96,323	157,733
Fund balance - July 1, 2021	768,474	630,846	13	1,399,333
Fund balance - June 30, 2022	<u>\$ 827,115</u>	<u>\$ 633,615</u>	<u>\$ 96,336</u>	<u>\$ 1,557,066</u>

See accompanying notes to financial statements

MERRITT ACADEMY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2022

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

Net Change in Fund Balances - Total Governmental Funds	\$	157,733
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation and amortization expense. This is the amount by which depreciation and amortization exceeded capital outlay in the current period:

Capital outlay	\$	1,004,856	
Depreciation and amortization expense		<u>(243,940)</u>	760,916

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

Repayment of loan principal	\$	149,465	
Interest expense		<u>(2,842)</u>	<u>146,623</u>

Change in Net Position of Governmental Activities	\$	<u><u>1,065,272</u></u>
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See accompanying notes to financial statements

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

Merritt Academy was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, on May 30, 1997, and began operation in July 2002.

In July 2020, the Academy extended a contract with Saginaw Valley State University's Board of Control to charter a public school academy for an additional five years. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State constitution. The University's Board of Control is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays Saginaw Valley State University's Board of Control three percent of state aid as administrative fees. Total administrative fees paid for the year ended June 30, 2022 were approximately \$177,800.

In June 2015, the Academy entered into an agreement with The Romine Group, Inc. The agreement was renewed through June 2025. Under the terms of this agreement, The Romine Group, Inc. provides a variety of services including financial management, educational programs and consulting, as well as teacher training. The Academy is obligated to pay The Romine Group, Inc. ten percent of its state school aid revenue and all other governmental revenue sources. Total compensation in no event shall be less than \$250,000 in any fiscal year. The total expense for these services amounted to approximately \$631,600 for the year ended June 30, 2022. The Academy also had fees payable to The Romine Group, Inc. of approximately \$1,075,000 included in accounts payable at June 30, 2022.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the public school academy. Based on application of criteria, the Academy does not contain component units.

Fund Financial Statements

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

Basis of Presentation – Fund Accounting

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

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Governmental Funds

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

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

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

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

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

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

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

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Government-Wide Financial Statements

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

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

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

Cash and Cash Equivalents

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition. The Academy reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and GASB No. 40, Deposit and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity. The Academy held investments in mutual funds that invest solely in U.S. Treasury obligations. The funds are held in trust for debt service and capital projects. State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, saving accounts, deposit accounts, and or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Corporation or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or Federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Receivables

Receivables at June 30, 2022 consist primarily of state school aid due from the State of Michigan and the federal government. All receivables are expected to be fully collected in July and August of 2022 and are considered current for the purposes of these financial statements.

Prepaid Assets

Payments made to vendors for services that will benefit periods beyond June 30, 2022, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

Capital Assets and Depreciation

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

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

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

Accrued Liabilities and Long-Term Obligations

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

Net Position

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

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Equity

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

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

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

- a. *Restricted fund balance* – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation. The balances shown as restricted, include \$781,313 of resources held in trust for the payment of revenue bond obligations.
- b. *Committed fund balance* – amounts constrained to specific purposes by the Board; to be reported as committed, amounts cannot be used for any other purpose unless the Board takes action to remove or change the constraint.
- c. *Assigned fund balance* – amounts the Board intends to use for a specific purpose; intent can be expressed by the Board or by an official or committee to which the Board delegates the authority.
- d. *Unassigned fund balance* – amounts that are available for any purpose; these amounts are reported only in the general fund.

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

Leases

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

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Upcoming Accounting Pronouncements

In 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. The Academy is currently evaluating the impact this standard will have on the financial statements when adopted during the 2022-2023 fiscal year.

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. The Academy is required by law to adopt general and special revenue fund budgets. During the year ended June 30, 2022 the budget was amended in a legally permissible manner. A comparison of amounts appropriated against actual results can be found on page 20 of these financial statements.

NOTE 3 - DEPOSITS AND INVESTMENTS

As of June 30, 2022, the Academy had the following investments:

<u>Type</u>	<u>S&P Rating</u>	<u>Maturities</u>	<u>Carrying Value</u>
Deposits:			
Demand deposits			\$ 691,772
Investments:			
U.S. Treasury and agency obligations	AAAm	Various	<u>781,313</u>
Total deposits and investments			<u>\$ 1,473,085</u>

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

Deposits:			
Cash - General fund			\$ 691,759
Cash - Capital projects fund			13
Investments:			
Investments - General fund			147,698
Investments - Debt service fund			<u>633,615</u>
Total deposits and investments			<u>\$ 1,473,085</u>

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 3 - DEPOSITS AND INVESTMENTS - Continued

Interest Rate Risk

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

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2022, the Academy's investments were rated AAAM by Standards & Poor's and Aaa by Moody's Investors Service.

Concentration of Credit Risk

The Academy will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. More than 5% of the Academy's investments are in pooled investment accounts which represent 100% of the Academy's total investments.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2022, \$445,228 of the Academy's cash was exposed to custodial credit risk because it was uninsured. All cash balances were uncollateralized as of June 30, 2022.

Custodial Credit Risk - Investments

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

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

Foreign Currency Risk

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

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 3 - DEPOSITS AND INVESTMENTS - Continued

Fair Value

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

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

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

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

NOTE 4 – DUE FROM OTHER GOVERNMENTAL UNITS

Amounts due from other governmental units consist of the following:

State sources	\$ 1,345,710
Federal sources	<u>326,105</u>
Total	<u>\$ 1,671,815</u>

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 5 - CAPITAL ASSETS

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

	As Restated Balance July 1, 2021	Additions	Disposals	Balance June 30, 2022
Capital assets subject to depreciation / amortization				
Right to use - equipment	\$ 40,498	\$ -	\$ -	\$ 40,498
Building	6,854,924	996,150	-	7,851,074
Equipment	38,010	-	-	38,010
Furniture	505,473	-	-	505,473
Computer	740,499	8,706	-	749,205
Sub-total	8,179,404	1,004,856	-	9,184,260
Accumulated depreciation / amortization				
Right to use - assets	-	10,223	-	10,223
Building	2,548,767	181,406	-	2,730,173
Equipment	32,739	1,686	-	34,425
Furniture	476,580	7,025	-	483,605
Computer	637,437	43,600	-	681,037
Sub-total	3,695,523	243,940	-	3,939,463
Total net capital assets	<u>\$ 4,483,881</u>	<u>\$ 760,916</u>	<u>\$ -</u>	<u>\$ 5,244,797</u>

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

NOTE 6 – OTHER ACCRUED EXPENSES

Other accrued expenses may be summarized as follows:

	Net Position	Funds
Purchased services - payroll and benefits	\$ 72,468	\$ 72,468
Management fee	103,693	103,693
University oversight fee	32,194	32,194
Interest	26,882	-
Total other accrued expenses	<u>\$ 235,237</u>	<u>\$ 208,355</u>

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 7 - LONG-TERM OBLIGATIONS PAYABLE

The following is a summary of long-term obligations for the Academy during the year ended June 30, 2022:

Loan Information

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Other</u>
Direct borrowing - equipment	3.00%	June, 2025	Copier lease
Revenue Bonds 2018	5.00%	December, 2043	Collateralized by a mortgage on the Academy's facility as well as a pledge for 20% of the state school aid payments and funds held in trust for debt service.

Loan Activity

	<u>As Restated Balance July 1, 2021</u>	<u>Additions</u>	<u>Retirements and Payments</u>	<u>Balance June 30, 2022</u>	<u>Due Within One Year</u>
Direct borrowing - equipment	\$ 40,498	\$ -	\$ 9,465	\$ 31,033	\$ 9,753
Revenue Bonds 2018	6,440,000	-	140,000	6,300,000	145,000
	<u>\$ 6,480,498</u>	<u>\$ -</u>	<u>\$ 149,465</u>	\$ 6,331,033	<u>\$ 154,753</u>
Discount on bond				<u>73,811</u>	
Total				<u>\$ 6,257,222</u>	

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

	<u>Principal</u>	<u>Interest</u>
2023	\$ 154,753	\$ 327,011
2024	165,048	319,214
2025	170,355	311,033
2026	170,877	302,590
2027	180,000	293,838
2028 - 2032	1,050,000	1,319,225
2033 - 2037	1,355,000	1,013,253
2038 - 2042	1,755,000	603,478
2043 - 2044	1,330,000	85,194

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 8 - RETIREMENT PLAN

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

NOTE 9 - INTERFUND TRANSFERS

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

	<u>General</u>	<u>Debt Service</u>
Transfer In	\$ -	\$ 478,040
Transfer Out	478,040	-

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

NOTE 10 - RISK MANAGEMENT

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

MERRITT ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 11 – CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2022, the Academy implemented the following new pronouncement: GASB Statement No. 87, *Leases*.

Summary

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017. The objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were 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 the 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, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The restatement of the beginning of the year balances had no impact on net position. The changes to capital assets and long-term obligations is as follows:

	<u>Capital Assets</u>	<u>Long Term Obligations</u>
Balances as of July 1, 2021, as previously stated	\$ 4,443,383	\$ 6,440,000
Adoption of GASB Statement 87	<u>40,498</u>	<u>40,498</u>
Balances as of July 1, 2021, as restated	<u>\$ 4,483,881</u>	<u>\$ 6,480,498</u>

SUPPLEMENTARY INFORMATION

MERRITT ACADEMY

REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2022

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Local sources	\$ 182,000	\$ 101,887	\$ 119,497	\$ 17,610
State sources	6,135,396	6,780,279	6,724,292	(55,987)
Federal sources	2,224,050	1,735,943	1,731,243	(4,700)
Other sources	-	401,944	427,050	25,106
Total general fund revenues	8,541,446	9,020,053	9,002,082	(17,971)
Expenditures				
Instruction				
Basic programs	3,502,772	3,573,054	3,503,057	(69,997)
Added needs	870,638	1,035,468	1,016,222	(19,246)
Support services				
Pupil support services	77,891	244,343	248,074	3,731
Instructional staff support services	272,115	107,502	94,255	(13,247)
General administration	758,780	806,688	844,197	37,509
School administration	547,087	706,389	697,238	(9,151)
Business support services	35,700	34,665	34,618	(47)
Operations and maintenance	1,482,500	809,748	773,067	(36,681)
Pupil transportation services	66,000	95,000	90,136	(4,864)
Central support services	198,885	2,000	870	(1,130)
Pupil activities	20,000	20,000	30,144	10,144
Athletic activities	80,000	100,105	96,362	(3,743)
Community services	51,056	22,056	21,755	(301)
Capital outlay	-	986,582	1,004,856	18,274
Debt principal and interest	-	-	10,550	10,550
Total general fund expenditures	7,963,424	8,543,600	8,465,401	(78,199)
Excess (deficiency) of revenues over expenditures	578,022	476,453	536,681	60,228
Other Financing Sources (Uses)				
Operating transfers out	(540,914)	(476,000)	(478,040)	(2,040)
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	37,108	453	58,641	58,188
Fund balance - July 1, 2021	768,474	768,474	768,474	-
Fund balance - June 30, 2022	<u>\$ 805,582</u>	<u>\$ 768,927</u>	<u>\$ 827,115</u>	<u>\$ 58,188</u>

MERRITT ACADEMY

COMBINING BALANCE SHEETS – NON-MAJOR FUNDS
JUNE 30, 2022

ASSETS

	<u>Special Revenue - Food Services</u>	<u>Capital Projects</u>	<u>Total</u>
Cash and cash equivalents	\$ -	\$ 13	\$ 13
Due from other funds	<u>96,323</u>	<u>-</u>	<u>96,323</u>
Total assets	<u>\$ 96,323</u>	<u>\$ 13</u>	<u>\$ 96,336</u>

LIABILITIES AND FUND BALANCE

Fund Balance			
Restricted	<u>\$ 96,323</u>	<u>\$ 13</u>	<u>\$ 96,336</u>

MERRITT ACADEMY

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – NON-MAJOR FUNDS FOR THE YEAR ENDED JUNE 30, 2022

	Special Revenue - Food Services	Capital Projects	Total
Revenues			
Local sources	\$ 344	\$ -	\$ 344
State sources	6,597	-	6,597
Federal sources	487,374	-	487,374
Total governmental fund revenues	494,315	-	494,315
Expenditures			
Food services	397,992	-	397,992
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	96,323	-	96,323
Fund balance - July 1, 2021	-	13	13
Fund balance - June 30, 2022	\$ 96,323	\$ 13	\$ 96,336

MERRITT ACADEMY

SCHEDULE OF REVENUES – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2022

Local Sources

Student activities	\$ 28,316
Other local revenues	<u>91,181</u>
Total local sources	119,497

State Sources

At risk	234,253
Great Start Readiness Program	398,607
Special education	156,190
State aid	<u>5,935,242</u>
Total state sources	6,724,292

Federal Sources

IDEA	124,805
Title I	160,452
Title II A	37,893
Title IV	8,295
Other program revenue	<u>1,399,798</u>
Total federal sources	1,731,243

Interdistrict Sources

	<u>427,050</u>
Total general fund revenues	<u>\$ 9,002,082</u>

MERRITT ACADEMY

SCHEDULE OF EXPENDITURES – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2022

Basic Programs

Purchased services	\$ 3,336,237
Supplies and materials	150,817
Other expenditures	<u>16,003</u>
Total basic programs	3,503,057

Added Needs

Purchased services	851,679
Supplies and materials	<u>164,543</u>
Total added needs	1,016,222

Pupil Support Services

Guidance services	83,226
Psychological services	6,440
Speech pathology and audiology	68,796
Social work services	<u>89,612</u>
Total pupil support services	248,074

Instructional Staff Support Services

Purchased services	60,669
Supplies and materials	30,490
Other expenditures	<u>3,096</u>
Total instructional staff support services	94,255

General Administration

Purchased services	33,002
Management fees	631,619
University oversight	177,772
Other expenditures	<u>1,804</u>
Total general administration	844,197

School Administration

Purchased services	670,821
Supplies and materials	6,108
Other expenditures	<u>20,309</u>
Total school administration	697,238

MERRITT ACADEMY

SCHEDULE OF EXPENDITURES – GENERAL FUND - CONTINUED FOR THE YEAR ENDED JUNE 30, 2022

Business Support Services	
Purchased services	34,265
Other expenditures	353
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Total business support services	34,618
Operations and Maintenance	
Purchased services	72,943
Repairs and maintenance	629,397
Supplies and materials	70,727
	<hr/>
Total operations and maintenance	773,067
Pupil Transportation Services	
Other expenditures	90,136
Central Support Services	
Repairs and maintenance	870
Pupil Activities	
Total athletic activities	30,144
Athletic Activities	
Purchased services	34,006
Other expenditures	62,356
	<hr/>
Total athletic activities	96,362
Community Services	
Purchased services	21,302
Supplies and materials	453
	<hr/>
Total community services	21,755
Capital Outlay	1,004,856
Debt Principal and Interest	10,550
	<hr/>
Total general fund expenditures	<u>\$ 8,465,401</u>