

# **Macomb Academy**

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**Financial Report  
with Supplemental Information  
June 30, 2016**

# Macomb Academy

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## Independent Auditor's Report

To the Board of Directors  
Macomb Academy

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Macomb Academy (the "Academy") as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise Macomb Academy's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Macomb Academy as of June 30, 2016 and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors  
Macomb Academy

### **Required Supplemental Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the General Fund budgetary comparison schedule, schedule of Macomb Academy's proportionate share of the net pension liability determined as of the plan year ended September 30, and schedule of Macomb Academy's contributions determined as of the year ended June 30, as identified on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which 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 supplemental 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 Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Macomb Academy's basic financial statements. The other supplemental information, as identified in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other supplemental information, as identified in the table of contents, 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. Such 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 other supplemental information, as identified in the table of contents is 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 20, 2016 on our consideration of Macomb Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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 Macomb Academy's internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

October 20, 2016

Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To Management and the Board of Directors  
Macomb Academy

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Macomb Academy (the "Academy") as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated October 20, 2016.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described below to be a material weakness.

To Management and the Board of Directors  
Macomb Academy

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control. We consider the control deficiency that follows to be a material weakness in internal control over financial reporting.

During the course of our audit, we noted the Academy had turnover in the key financial role, which resulted in the lack of adequate controls around the timely review and reconciliation of account balances, including certain cash accounts, as well as monitoring of the budget to actual spending during the year. The types of adjustments required to appropriately report activity included correction of certain bank reconciling items and interfund balances. Additionally, the expenditures for the year are approximately 7 percent higher than the final adopted budget, which will likely generate an inquiry from the Michigan Department of Education. The Academy should verify the appropriate skilled staff are in place to ensure control procedures related to accuracy and oversight of budgeting, account reconciliations, and financial reporting are functioning and are being performed in a timely manner.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Macomb Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To Management and the Board of Directors  
Macomb Academy

**Purpose of this Report**

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

*Plante & Moran, PLLC*

October 20, 2016

# Macomb Academy

## Management's Discussion and Analysis

This section of Macomb Academy's (the "Academy") annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2016. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

### Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Macomb Academy financially as a whole. The Academy-wide financial statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the Academy's operations in more detail than the Academy-wide financial statements by providing information about the Academy's most significant funds - the General Fund and the Debt Service Fund, with all other funds presented in one column as nonmajor funds.

Management's Discussion and Analysis (MD&A)  
(Required Supplemental Information)

#### Basic Financial Statements

Academy-wide Financial Statements      Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for Major Funds

Schedule of Macomb Academy's Proportionate Share of the Net Pension Liability

MPERS Determined as of the Plan Year Ended September 30

Schedule of Macomb Academy's Contributions MPERS Determined  
as of the Year Ended June 30

Other Supplemental Information

# **Macomb Academy**

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## **Management's Discussion and Analysis (Continued)**

### ***Reporting the Academy as a Whole - Academy-wide Financial Statements***

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. These two statements report the Academy's net position - the difference between assets and liabilities, as reported in the statement of net position - as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net position - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenue and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the Academy. The statement of net position and the statement of activities report the governmental activities for the Academy, which encompass all of the Academy's services, including instruction, support services, and community services. State aid and state and federal grants finance most of these activities.

### ***Reporting the Academy's Most Significant Funds - Fund Financial Statements***

The Academy's fund financial statements provide detailed information about the most significant funds - not the Academy as a whole. Some funds are required to be established by state law and by bond covenants. However, the Academy establishes many other funds to show that it is meeting legal responsibilities for using certain grants and other money. The governmental funds of the Academy use the following accounting approach:

Governmental funds - All of the Academy's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Academy and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in a reconciliation.

# Macomb Academy

## Management's Discussion and Analysis (Continued)

### The Academy as a Whole

Recall that the statement of net position provides the perspective of the Academy as a whole. Table I provides a summary of the Academy's net position as of June 30, 2016 and 2015:

TABLE I	Governmental Activities	
	June 30	
	2016	2015
	(in thousands)	
<b>Assets</b>		
Current and other assets	\$ 990.1	\$ 1,081.2
Capital assets	1,487.2	1,536.5
Total assets	2,477.3	2,617.7
<b>Deferred Outflows of Resources</b>	514.2	162.7
Total assets and deferred outflows of resources	2,991.5	2,780.4
<b>Liabilities</b>		
Current liabilities	199.5	199.1
Long-term liabilities	1,560.0	1,595.0
Net pension liability	2,680.0	2,146.0
Total liabilities	4,439.5	3,940.1
<b>Deferred Inflows of Resources</b>	82.8	158.1
Total liabilities and deferred inflows of resources	4,522.3	4,098.2
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	(72.8)	(58.5)
Restricted	196.9	197.6
Unrestricted	(1,654.9)	(1,456.9)
Total net position	<u>\$ (1,530.8)</u>	<u>\$ (1,317.8)</u>

The above analysis focuses on the net position (see Table I). The change in net position (see Table 2) of the Academy's governmental activities is discussed below. The Academy's net deficit was \$1,530,797 at June 30, 2016.

Capital assets, net of related debt totaling (\$72,790), compares the original cost, less depreciation of the Academy's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from state aid payments received in the General Fund. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Academy's ability to use that net position for day-to-day operations. The remaining balance of net position (\$1,654,991) was unrestricted.

# Macomb Academy

## Management's Discussion and Analysis (Continued)

The (\$1,654,991) in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The unrestricted net position enables the Academy to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the Academy as a whole are reported in the statement of activities (Table 2), which shows the changes in net position for fiscal years 2016 and 2015.

TABLE 2

	Governmental Activities	
	2016	2015
	(in thousands)	
<b>Revenue</b>		
Program revenue - Grants	\$ 294.6	\$ 370.5
General revenue:		
State foundation allowance	1,339.4	1,431.0
Interest and investment earnings	0.1	0.1
Other	73.3	67.7
Total revenue	1,707.4	1,869.3
<b>Functions/Program Expenses</b>		
Instruction	1,225.2	1,137.7
Support services	531.3	571.0
Community services	7.4	-
Interest on long-term debt	107.2	109.4
Depreciaton (unallocated)	49.3	49.8
Total functions/program expenses	1,920.4	1,867.9
<b>(Decrease) Increase in Net Position</b>	(213.0)	1.4
<b>Net Position - Beginning of year</b>	(1,317.8)	(1,319.2)
<b>Net Position - End of year</b>	<u>\$ (1,530.8)</u>	<u>\$ (1,317.8)</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$1,920,517. Certain activities were partially funded by other governments and organizations that subsidized certain programs with grants (\$294,602). We paid for the remaining "public benefit" portion of our governmental activities with \$1,339,441 in state foundation allowance, \$73,340 in other revenue, and \$112 of interest and investment earnings.

The Academy experienced a decrease in net position of \$213,022. The key reason for the change in net position was the decrease in the state revenue and grant revenue. The board of directors and administration must annually evaluate the needs of the Academy and balance those needs with state-prescribed available unrestricted resources.

# Macomb Academy

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## Management's Discussion and Analysis (Continued)

### The Academy's Funds

As we noted earlier, the Academy uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Academy is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Academy's overall financial health.

As the Academy completed this year, the governmental funds reported a combined fund balance of \$808,154, which is a decrease of \$91,930 from last year. The primary reasons for the decrease are as follows:

In the General Fund, our principal operating fund, the fund balance decreased \$91,860 to \$445,279. The change is mainly due to escalating health and retirement costs for employees. General Fund fund balance is available to fund costs related to allowable school operating purposes.

The debt service funds showed a fund balance of \$214,534, which is a decrease of \$1,076 from the previous year. The debt service funds fund balance is restricted as the trust indenture requires the resources be used to pay debt service obligations.

The capital projects funds fund balance increased \$1,006 from the previous year.

### General Fund Budgetary Highlights

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

# Macomb Academy

## Management's Discussion and Analysis (Continued)

### Capital Assets and Debt Administration

#### *Capital Assets*

As of June 30, 2016, the Academy had \$1,487,210 invested in a broad range of capital assets, including buildings, vehicles, furniture, and equipment. The decrease in capital assets from last year relates to current year depreciation.

	2016	2015
Buildings and building improvements	\$ 1,455.6	\$ 1,499.9
Furniture and equipment	19.5	22.0
Vehicles	12.1	14.6
Total capital assets	<u>\$ 1,487.2</u>	<u>\$ 1,536.5</u>

#### *Debt*

At the end of this year, the Academy had \$1,560,000 in bonds outstanding versus \$1,595,000 in the previous year - a change of 2.2 percent. The outstanding debt is the result of the 2007 revenue bond issuance of \$1,800,000 used to finance the building purchase and renovation (see Note 7 for further explanation).

### Economic Factors and Next Year's Budgets and Rates

Our board of directors and administration considered many factors when setting the Academy's 2016-2017 fiscal year budget. 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 2016 fiscal year is 90 percent and 10 percent of the October 2016 and February 2016 student counts, respectively. The fiscal year 2017 budget was adopted in June 2016, based on an estimate of students that will be enrolled in October 2016. Approximately 75 percent of total General Fund revenue is from the foundation allowance. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2016-2017 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2016-2017 budget. Once the final student count and related per-pupil funding are validated, state law requires the Academy to amend the budget if actual district resources are not sufficient to fund original appropriations.

The Academy is impacted by the passage of the School Aid Act which can affect the foundation allowance received. For 2016-2017, the amount was equal to the 2016 foundation allowance plus an increase of \$120 per pupil, making the total anticipated per pupil funding of \$7,511 for fiscal year 2017.

# Macomb Academy

## Statement of Net Position June 30, 2016

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and investments (Note 3)	\$ 341,984
Receivables:	
Accounts receivable	5,656
Due from other governmental units	448,404
Prepaid costs	9,193
Restricted assets (Note 3)	184,874
Capital assets - Net (Note 5)	<u>1,487,210</u>
Total assets	2,477,321
<b>Deferred Outflows of Resources -</b>	
Deferred outflows related to pensions (Note 9)	<u>514,234</u>
Total assets and deferred outflows of resources	2,991,555
<b>Liabilities</b>	
Accounts payable	9,350
Accrued payroll-related liabilities	136,539
Other accrued liabilities	17,550
Due to other governmental units	24,642
Unearned revenue (Note 4)	11,426
Noncurrent liabilities (Note 7):	
Due within one year	35,000
Due in more than one year	1,525,000
Net pension liability (Note 9)	<u>2,679,968</u>
Total liabilities	4,439,475
<b>Deferred Inflows of Resources</b>	
Revenue in support of pension contributions made subsequent to measurement date (Note 1)	74,000
Deferred inflows related to pensions (Notes 1 and 9)	<u>8,877</u>
Total deferred inflows of resources	<u>82,877</u>
Total liabilities and deferred inflows of resources	<u>4,522,352</u>
<b>Net Position</b>	
Net investment in capital assets	(72,790)
Restricted - Debt service	196,984
Unrestricted	<u>(1,654,991)</u>
Total net position	<u><b>\$ (1,530,797)</b></u>

The Notes to Financial Statements are an  
Integral Part of this Statement.

# Macomb Academy

## Statement of Activities Year Ended June 30, 2016

	Expenses	Program Revenue Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Governmental Activities
<b>Functions/Programs</b>			
Primary government - Governmental activities:			
Instruction	\$ 1,225,193	\$ 222,480	\$ (1,002,713)
Support services	531,330	72,122	(459,208)
Community services	7,460	-	(7,460)
Interest on long term debt	107,269	-	(107,269)
Depreciation expense (unallocated)	49,265	-	(49,265)
Total primary government	<u>\$ 1,920,517</u>	<u>\$ 294,602</u>	(1,625,915)
General revenue:			
State aid not restricted to specific purposes			1,339,441
Interest and investment earnings			112
Other			73,340
Total general revenue			<u>1,412,893</u>
			<b>Change in Net Position</b> (213,022)
			<b>Net Position - Beginning of year</b> (1,317,775)
			<b>Net Position - End of year</b> <u>\$ (1,530,797)</u>

# Macomb Academy

## Governmental Funds Balance Sheet June 30, 2016

	General Fund	Debt Service Fund	Nonmajor Funds	Total Governmental Funds
<b>Assets</b>				
Cash and investments (Note 3)	\$ 330,504	\$ -	\$ 11,480	\$ 341,984
Receivables:				
Accounts receivable	5,656	-	-	5,656
Due from other governmental units	448,404	-	-	448,404
Due from other funds (Note 6)	-	29,660	137,661	167,321
Prepaid costs	9,193	-	-	9,193
Restricted assets (Note 3)	-	184,874	-	184,874
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<b>\$ 793,757</b>	<b>\$ 214,534</b>	<b>\$ 149,141</b>	<b>\$ 1,157,432</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 9,350	\$ -	\$ -	\$ 9,350
Accrued payroll-related liabilities	136,539	-	-	136,539
Due to other governmental units	24,642	-	-	24,642
Due to other funds (Note 6)	166,521	-	800	167,321
Unearned revenue (Note 4)	11,426	-	-	11,426
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	348,478	-	800	349,278
<b>Fund Balances</b>				
Nonspendable - Prepaid assets	9,193	-	-	9,193
Restricted - Debt service	-	214,534	-	214,534
Committed - Capital improvement project	250,000	-	-	250,000
Assigned - Capital projects	-	-	148,341	148,341
Unassigned	186,086	-	-	186,086
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balances	445,279	214,534	148,341	808,154
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities and fund balances	<b>\$ 793,757</b>	<b>\$ 214,534</b>	<b>\$ 149,141</b>	<b>\$ 1,157,432</b>

# Macomb Academy

## Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position Year Ended June 30, 2016

**Fund Balance Reported in Governmental Funds** \$ 808,154

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 are not reported in the funds:

Cost of capital assets	\$ 1,882,201	
Accumulated depreciation	<u>(394,991)</u>	1,487,210

Deferred outflows related to pension investment returns and changes in assumptions are not reported in the governmental funds 308,750

Deferred outflows related to pension payments made subsequent to the measurement date 205,484

Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds - Bonds payable (1,560,000)

Accrued interest payable is not included as a liability in governmental funds (17,550)

Deferred inflows related to revenue in support of pension contributions made subsequent to measurement date are not reported in the governmental funds (74,000)

Net pension obligations do not present a claim on current financial resources and are not reported as fund liabilities (2,679,968)

Deferred inflows related to pension investment returns and changes in assumptions are not reported in the governmental funds (8,877)

**Net Position of Governmental Activities** **\$ (1,530,797)**

# Macomb Academy

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2016

	General Fund	Debt Service Fund	Nonmajor Funds	Total Governmental Funds
<b>Revenue</b>				
Local sources	\$ 73,340	\$ 106	\$ 6	\$ 73,452
State sources	1,485,563	-	-	1,485,563
Federal sources	194,514	-	-	194,514
Interdistrict sources	27,966	-	-	27,966
Total revenue	1,781,383	106	6	1,781,495
<b>Expenditures</b>				
Current:				
Instruction	1,196,087	-	-	1,196,087
Support services	522,576	-	-	522,576
Community services	7,460	-	-	7,460
Debt service:				
Principal (Note 7)	-	35,000	-	35,000
Interest	-	107,663	-	107,663
Capital outlay	1,639	-	3,000	4,639
Total expenditures	1,727,762	142,663	3,000	1,873,425
<b>Excess of Revenue Over (Under)</b>				
<b>Expenditures</b>	53,621	(142,557)	(2,994)	(91,930)
<b>Other Financing Sources (Uses)</b>				
Transfers in (Note 6)	-	145,481	4,000	149,481
Transfers out (Note 6)	(145,481)	(4,000)	-	(149,481)
<b>Net Change in Fund Balances</b>	(91,860)	(1,076)	1,006	(91,930)
<b>Fund Balances - Beginning of year</b>	537,139	215,610	147,335	900,084
<b>Fund Balances - End of year</b>	<u>\$ 445,279</u>	<u>\$ 214,534</u>	<u>\$ 148,341</u>	<u>\$ 808,154</u>

# Macomb Academy

## Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2016

**Net Change in Fund Balances - Total Governmental Funds** \$ (91,930)

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

Governmental funds do not report depreciation expense; however, in the statement of activities, these costs are allocated over the estimated useful lives of the associated assets -

Depreciation expense	<u>\$ (49,265)</u>	(49,265)
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	35,000
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Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	394
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Revenue in support of pension contributions made subsequent to measurement date	(74,000)
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Change in pension expense related to deferred items	<u>(33,221)</u>
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**Change in Net Position of Governmental Activities** \$ (213,022)

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of Macomb Academy (the "Academy") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy:

#### **Reporting Entity**

The 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 July 28, 1995.

Macomb Academy operates under a contract with Central Michigan University (CMU) to charter a public school academy. 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. CMU is a limited fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy's contract expired on June 30, 2016. The Academy was successfully reauthorized by Central Michigan University in July 2016. The Academy's contract with CMU expires on June 30, 2021.

The Academy pays CMU 3 percent of its state aid revenue as administrative fees. The total administrative fee expense for the year ended June 30, 2016 paid to CMU was \$39,878.

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

#### **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 nonfiduciary activities of the Academy. Governmental activities, which normally are supported by intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy's government-wide activities are considered governmental activities.

### **Note I - Summary of Significant Accounting Policies (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. 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 revenue are reported instead as general revenue.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported individually in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

**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 of 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.

As a general rule, the effect of interfund activity has been eliminated from the Academy-wide financial statements.

When an expense is incurred for purposes for which both restricted and unrestricted net position 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.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all unrestricted state and federal aid.

### Note I - Summary of Significant Accounting Policies (Continued)

**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. Revenue not meeting this definition is classified as a deferred inflow of resources. For this purpose, the Academy considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Unrestricted state aid, intergovernmental grants, and interest 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.

The Academy reports the following major governmental funds:

**General Fund** - The General Fund is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

**Debt Service Fund** - The Debt Service Fund is used to record revenue and other financing sources and expenditures for the payment of interest, principal, and other expenditures for the 2007 bond issue.

The Academy reports the following nonmajor governmental funds:

**Capital Projects Fund** - The Capital Projects Fund is used to record revenue and other financing sources and the disbursement of invoices specifically designated for acquiring new school sites, buildings, equipment and for remodeling. The fund operates until the purpose for which it was created is accomplished.

**Building Reserve Fund** - The Building Reserve Fund is a capital projects fund that is used to record revenue and the disbursement of invoices specifically designated for maintaining buildings and equipment. The fund operates until the purpose for which it was created is accomplished.

#### **Assets, Liabilities, and Net Position or Equity**

**Cash and Investments** - Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

### Note I - Summary of Significant Accounting Policies (Continued)

**Receivables** - Accounts receivable are shown net of an allowance for uncollectible amounts. The Academy considers all accounts receivable to be fully collectible. Accordingly, no allowance for uncollectible amounts is recorded.

**Restricted Assets** - Restricted assets exist when their use is constrained for a particular purpose. At June 30, 2016, this includes amounts segregated for the payment of debt based on bond covenant requirements.

**Capital Assets** - Capital assets, which include a building, building improvements, furniture, equipment, and vehicles, 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 \$1,000 and an estimated useful life in excess of 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. Costs 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.

Buildings and improvements, furniture, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings	50 years
Building improvements	20 years
Furniture and equipment	5-20 years
Vehicles	7 years

**Long-term Obligations** - In the Academy-wide financial statements, long-term debt is reported as liabilities in the statement of net position. In the fund financial statements, the face amount of debt issued is reported as an other financing source.

**Deferred Outflows/Inflows of Resources** - In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position or fund balance that applies to a future period and so will not be recognized as an outflow of resources (expenditure) until then. The Academy only has one item that qualifies for reporting in this category. It is the deferred charge for the unfunded pension benefit obligation reported in the government-wide statement of net position.

### Note I - Summary of Significant Accounting Policies (Continued)

In addition to liabilities, the statement of net position 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 and so will not be recognized as an inflow of resources (revenue) until that time. The Academy has two items that qualify for reporting in this category. These items include amounts for funding received through state appropriations for contributions to the MPSERS pension plan after the measurement date of \$74,000 and amounts related to the pension plan of \$8,877 (Note 9).

**Fund Balance** - Fund balance classifications comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications are comprised of the following - nonspendable, restricted, committed, assigned, and unassigned.

In the fund financial statements, governmental funds report the following components of fund balance:

- Nonspendable: Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- Restricted: Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- Committed: Amounts that have been formally set aside by the board of directors for use for specific purposes. Commitments are made and can be rescinded only via resolution of the board of directors. The board of directors committed \$250,000 of the General Fund balance towards capital improvements in June 2015.
- Assigned: Intent to spend resources on specific purposes expressed by the board of directors or superintendent, who is authorized by policy approved by the board of directors to make assignments
- Unassigned: Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

**Comparative Data** - Comparative data are not included in the Academy's financial statements.

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Pensions** - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. MPERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the benefit terms. Related plan investments are reported at fair value.

### Note 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, except that capital outlay is budgeted in other expenditure categories. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function, which is a summarization of the Academy's line-item adopted budget. The legal level of budgetary control adopted by the board of directors (the level at which expenditures may not legally exceed appropriations) is the function level. Capital outlay expenditures are included in the functional categories to which they relate in accordance with the adopted budget of the Academy. Capital outlay is presented separately on the statement of revenue, expenditures, and changes in fund balances. 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 academies to amend their budgets during the year. The Academy amended budgeted amounts during the year in response to changes in funding sources, changes from anticipated pupil counts, and unanticipated expenditures.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - The Academy had significant variances of expenditures over appropriations as follows:

	Budget	Actual
Instruction	\$ 1,087,461	\$ 1,196,087
Support services - General administration	325,688	362,442
Support services - Operations and Maintenance	91,884	113,318
Community services	-	7,460

### Note 3 - Deposits and Investments

State statutes and the Academy's investment policy 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 statutory authority.

The Academy has designated two banks for the deposit of its funds.

The Academy's cash and investments are subject to risk as discussed in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy does not have a deposit policy for custodial credit risk. At year end, the Academy's deposit balance of \$555,463 had \$109,108 of bank deposits (checking accounts) that were uninsured and uncollateralized. The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Academy evaluates each financial institution; only those institutions with an acceptable estimated risk level are used as depositories.

### Note 4 - Unavailable/Unearned Revenue

Governmental funds report unavailable revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of unearned and unavailable revenue are as follows:

	Governmental Funds
	<u>Liability - Unearned</u>
Grant and categorical aid payment received prior to meeting all eligibility requirements	<u>\$ 11,426</u>

# Macomb Academy

## Notes to Financial Statements June 30, 2016

### Note 5 - Capital Assets

Capital asset activity of the Academy was as follows:

	Balance July 1, 2015	Additions	Disposals and Reclassifications	Balance June 30, 2016
Capital assets:				
Buildings and improvements	\$ 1,782,519	\$ -	\$ -	\$ 1,782,519
Furniture and equipment	58,320	-	-	58,320
Vehicles	41,362	-	-	41,362
Total capital assets	1,882,201	-	-	1,882,201
Accumulated depreciation:				
Buildings and improvements	282,630	44,277	-	326,907
Furniture and equipment	36,305	2,559	-	38,864
Vehicles	26,791	2,429	-	29,220
Total accumulated depreciation	345,726	49,265	-	394,991
Net capital assets	\$ 1,536,475	\$ (49,265)	\$ -	\$ 1,487,210

Depreciation expense totaling \$49,265 was not charged to activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Fund Due From		Total
	General Fund	Nonmajor Governmental Funds	
Debt Service Fund	\$ 28,860	\$ 800	\$ 29,660
Nonmajor governmental funds	137,661	-	137,661
Total	\$ 166,521	\$ 800	\$ 167,321

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Transfers of \$145,481 from the General Fund to the Debt Service Fund were made to finance debt service commitments. Transfers of \$4,000 from the Debt Service Fund to the Capital Projects Fund were made to fund construction costs.

# Macomb Academy

## Notes to Financial Statements June 30, 2016

### Note 7 - Long-term Debt

The Academy issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. Revenue bonds are full faith and credit obligations of the Academy payable solely from the Academy's state school aid payments.

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
2007 revenue bond issue	\$ 1,595,000	\$ -	\$ 35,000	\$ 1,560,000	\$ 35,000

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
2017	\$ 35,000	\$ 105,300	\$ 140,300
2018	40,000	102,937	142,937
2019	40,000	100,238	140,238
2020	45,000	97,538	142,538
2021	45,000	94,500	139,500
2022-2026	280,000	422,212	702,212
2027-2031	400,000	312,188	712,188
2032-2036	545,000	159,300	704,300
2037	130,000	8,775	138,775
Total	\$ 1,560,000	\$ 1,402,988	\$ 2,962,988

Revenue bonds consist of \$1,800,000 2007 serial bonds due in annual installments of \$35,000 to \$130,000 through May 1, 2037 with fixed interest at 6.75 percent.

In conjunction with the above revenue bonds, the Academy has agreed to maintain certain covenants, including a debt service coverage ratio and a minimum fund balance covenant. At June 30, 2016, the Academy has complied with all required covenants.

### Note 8 - Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since inception.

### Note 9 - Michigan Public School Employees Retirement System

**Plan Description** - The Academy participates in the Michigan Public School Employees Retirement System (MPSERS or the "System"), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the Academy. The System provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The System also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

The Michigan Public School Employees Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the pension and postemployment healthcare plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System (ORS) at 7150 Harris Drive, P.O. Box 30171, Lansing MI 48909.

**Contributions** - Public Act 300 of 1980, as amended, required the Academy to contribute amounts necessary to finance the coverage of pension benefits of active and retired members. Contribution provisions are specified by state statute and may be amended only by action of the State Legislature. Under these provisions, each school district's contribution is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance a portion of the unfunded accrued liability.

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

The range of rates are as follows:

#### School District

October 1, 2014 - September 30, 2015	18.76% - 23.07%
October 1, 2015 - June 30, 2016	14.56% - 18.95%

Depending on the plan selected, plan member contributions range from 0 percent up to 7.0 percent of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

The Academy's required and actual contribution to the plan for the year ended June 30, 2016 was \$249,611. The Academy's required and actual contributions include an allocation of \$74,000 of revenue received from the State of Michigan, and remitted to the System, to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate for the year ended June 30, 2016.

### **Note 9 - Michigan Public School Employees Retirement System (Continued)**

**Benefits Provided** - Benefit provisions of the defined benefit pension plan are established by state statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan.

Depending on the plan option selected, member retirement benefits are calculated as final average compensation times years of service times a pension factor ranging from 1.25 percent to 1.50 percent. The requirements to retire range from attaining the age of 46 to 60 with years of service ranging from 5 to 30 years, depending on when the employee became a member. Early retirement is computed in the same manner as a regular pension, but is permanently reduced 0.50 percent for each full and partial month between the pension effective date and the date the member will attain age 60. There is no mandatory retirement age.

Members are eligible for non-duty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. The disability benefits plus authorized outside earnings are limited to 100 percent of the participant's final average compensation with an increase of 2 percent each year thereafter.

Benefits may transfer to a beneficiary upon death and are determined in the same manner as retirement benefits, but with an actuarial reduction.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustment, if applicable, is 3 percent. For some members who do not receive an annual increase, they are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions.

**Net Pension Liability, Deferrals, and Pension Expense** - At June 30, 2016, the Academy reported a liability of \$2,679,968 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014, which used update procedures to roll forward the estimated liability to September 30, 2015. The Academy's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2015 the Academy's proportion was 0.010972 percent.

# Macomb Academy

## Notes to Financial Statements June 30, 2016

### Note 9 - Michigan Public School Employees Retirement System (Continued)

For the year ended June 30, 2016, the Academy recognized pension expense of \$288,166, exclusive of payments to fund the MPSERS UAAL Stabilization Rate. At June 30, 2016, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ (8,877)
Changes of assumptions	65,986	-
Net difference between projected and actual earnings on pension plan assets	13,679	-
Changes in proportion and differences between the Academy's contributions and proportionate share of contributions	229,085	-
The Academy's contributions subsequent to the measurement date	205,484	-
Total	<u>\$ 514,234</u>	<u>\$ (8,877)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30	Amount
2017	\$ 69,171
2018	69,171
2019	65,593
2020	95,938
Total	<u>\$ 299,873</u>

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year.

### Note 9 - Michigan Public School Employees Retirement System (Continued)

**Actuarial Assumptions** - The total pension liability as of September 30, 2015 is based on the results of an actuarial valuation date of September 30, 2014 and rolled forward:

Actuarial cost method	Entry age normal cost actuarial cost method
Investment rate of return	7.00 to 8.00 percent, net of investment expenses based on the groups
Salary increases	3.50 - 12.3 percent, including wage inflation of 3.5 percent
Mortality basis	RP2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB
Cost of living pension adjustments	3 percent annual noncompounded for MIP members

The actuarial assumptions used for the September 30, 2014 valuation were based on the results of an actuarial experience study for the period from October 1, 2007 to September 30, 2012. As a result of this study, the actuarial assumptions were adjusted to more closely reflect actual experience.

**Discount Rate** - The discount rate used to measure the total pension liability was 7.00-8.00 percent depending on the plan option. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

### Note 9 - Michigan Public School Employees Retirement System (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Investment Category	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	28.0 %	5.9 %
Private equity pools	18.0	9.2
International equity pools	16.0	7.2
Fixed-income pools	10.5	0.9
Real estate and infrastructure pools	10.0	4.3
Real return, opportunistic, and absolute pool	15.5	6.0
Short-term investment pools	2.0	-
Total	<u>100.0 %</u>	

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate** - The following presents the net pension liability of the Academy calculated using the discount rate of 7.00-8.00 percent, depending on the plan option. The following also reflects what the Academy's net pension liability would be if it were calculated using a discount rate that is 1.00 percentage point lower (6.0 - 7.0 percent) or 1.00 percentage point higher (8.0 - 9.0 percent) than the current rate:

1.00 Percent Decrease (6.0 - 7.0 Percent)	Current Discount Rate (7.0 - 8.0 Percent)	1.00 Percent Increase (8.0 - 9.0 Percent)
\$ 3,455,165	\$ 2,679,968	\$ 2,026,444

**Pension Plan Fiduciary Net Position** - Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS financial report.

**Payable to the Pension Plan** - At June 30, 2016, the Academy reported a payable of \$30,209 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

### **Note 9 - Michigan Public School Employees Retirement System (Continued)**

**Postemployment Benefits Other Than Pensions (OPEB)** - Under the MPSERS act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. Academy - The employer contribution rate ranged from 2.2 percent to 2.71 percent of covered payroll for the period from July 1, 2015 to September 30, 2015 and from 6.4 percent to 6.83 percent of covered payroll for the period from October 1, 2015 through June 30, 2016 dependent upon the employee's date of hire and plan election as noted above. Members can choose to contribute 3 percent of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit or they can elect not to pay the 3 percent contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date and create a 2 percent employer match into the employee's 403B account.

The Academy's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2016, 2015, and 2014 were \$52,200, \$32,814, and \$60,796, respectively. In addition, a portion ranging from 35-100 percent of the the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate is considered a contribution to the retiree healthcare plan.

### **Note 10 - Upcoming Accounting Pronouncements**

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the Academy to recognize on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in the MPSERS plan. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Academy is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Academy's financial statements for the year ending June 30, 2018.

## **Required Supplemental Information**

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# Macomb Academy

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
<b>Revenue</b>				
Local sources	\$ 59,550	\$ 55,500	\$ 73,340	\$ 17,840
State sources	1,599,197	1,494,994	1,485,563	(9,431)
Federal sources	218,455	216,874	194,514	(22,360)
Interdistrict sources	30,000	30,000	27,966	(2,034)
Total revenue	<u>1,907,202</u>	<u>1,797,368</u>	<u>1,781,383</u>	<u>(15,985)</u>
<b>Expenditures</b>				
Current:				
Instruction	1,199,444	1,087,461	1,196,087	108,626
Support services:				
Pupil	20,000	20,000	7,567	(12,433)
Instructional staff	3,500	3,500	5,175	1,675
General administration	349,870	325,688	362,442	36,754
Business	2,500	2,500	-	(2,500)
Operations and maintenance	92,884	91,884	113,318	21,434
Pupil transportation services	66,996	61,028	35,713	(25,315)
Other	9,000	9,000	-	(9,000)
Total support services	<u>544,750</u>	<u>513,600</u>	<u>524,215</u>	<u>10,615</u>
Community services	<u>-</u>	<u>-</u>	<u>7,460</u>	<u>7,460</u>
Total expenditures	<u>1,744,194</u>	<u>1,601,061</u>	<u>1,727,762</u>	<u>126,701</u>
<b>Excess of Revenue Over Expenditures</b>	163,008	196,307	53,621	(142,686)
<b>Other Financing Uses</b>	<u>(145,000)</u>	<u>(145,000)</u>	<u>(145,481)</u>	<u>(481)</u>
<b>Net Change in Fund Balance</b>	18,008	51,307	(91,860)	(143,167)
<b>Fund Balance - Beginning of year</b>	<u>537,139</u>	<u>537,139</u>	<u>537,139</u>	<u>-</u>
<b>Fund Balance - End of year</b>	<u><b>\$ 555,147</b></u>	<u><b>\$ 588,446</b></u>	<u><b>\$ 445,279</b></u>	<u><b>\$ (143,167)</b></u>

## Macomb Academy

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### Required Supplemental Information

#### Schedule of Macomb Academy's Proportionate Share of the Net Pension Liability Michigan Public School Employees Retirement System Determined as of the Plan Year Ended September 30

	<u>2015</u>	<u>2014</u>
Academy's proportion of the net pension liability	0.01097 %	0.00974 %
Academy's proportionate share of the net pension liability	\$ 2,679,968	\$ 2,146,025
Academy's covered employee payroll	928,141	832,054
Academy's proportionate share of the net pension liability as a percentage of its covered employee payroll	288.75 %	257.92 %
Plan fiduciary net position as a percentage of the total pension liability	62.92 %	66.20 %

# Macomb Academy

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## Required Supplemental Information Schedule of Macomb Academy's Contributions Michigan Public School Employees Retirement System Determined as of the Year Ended June 30

	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 244,034	\$ 204,399
Contributions in relation to the statutorily required contribution	244,034	204,399
Contribution deficiency (excess)	-	-
Academy's covered employee payroll	876,370	940,295
Contributions as a percentage of covered employee payroll	27.85 %	21.74 %

# Macomb Academy

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## **Note to Required Supplemental Information Schedules Year Ended June 30, 2016**

**Benefit Changes** - There were no changes of benefit terms for the plan year ended September 30, 2015.

**Changes in Assumptions** - There were no changes of benefit assumptions for the plan year ended September 30, 2015.

## **Other Supplemental Information**

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# Macomb Academy

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2016

	Capital Projects Funds		
	Capital Projects Fund	Building Reserve Fund	Total Nonmajor Governmental Funds
<b>Assets</b>			
Cash and investments	\$ 11,480	\$ -	\$ 11,480
Due from other funds	37,661	100,000	137,661
Total assets	<b>\$ 49,141</b>	<b>\$ 100,000</b>	<b>\$ 149,141</b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b> - Due to other funds	\$ 800	\$ -	\$ 800
<b>Fund Balances</b> - Assigned - Capital Projects	48,341	100,000	148,341
Total liabilities and fund balances	<b>\$ 49,141</b>	<b>\$ 100,000</b>	<b>\$ 149,141</b>

# Macomb Academy

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2016

	Capital Projects Funds		Total Nonmajor Governmental Funds
	Capital Projects Fund	Building Reserve Fund	
<b>Revenue - Local sources</b>	\$ 6	\$ -	\$ 6
<b>Expenditures - Capital outlay</b>	3,000	-	3,000
<b>Excess of Revenue Under Expenditures</b>	(2,994)	-	(2,994)
<b>Other Financing Sources - Transfers in</b>	4,000	-	4,000
<b>Net Change in Fund Balances</b>	1,006	-	1,006
<b>Fund Balances - Beginning of year</b>	47,335	100,000	147,335
<b>Fund Balances - End of year</b>	<u>\$ 48,341</u>	<u>\$ 100,000</u>	<u>\$ 148,341</u>

# Macomb Academy

## Other Supplemental Information Schedule of Bonded Indebtedness Year Ended June 30, 2016

<u>Years Ending</u> <u>June 30</u>	<u>Principal</u>
2017	\$ 35,000
2018	40,000
2019	40,000
2020	45,000
2021	45,000
2022	50,000
2023	50,000
2024	55,000
2025	60,000
2026	65,000
2027	70,000
2028	75,000
2029	80,000
2030	85,000
2031	90,000
2032	95,000
2033	100,000
2034	110,000
2035	115,000
2036	125,000
2037	130,000
Total principal	<u>\$ 1,560,000</u>
Principal payments due	May 1
Interest payments due	May 1 and November 1
Interest rate	6.75%
Original issue	<u>\$ 1,800,000</u>