

MULTICULTURAL ACADEMY

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

YEAR ENDED JUNE 30, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Multicultural Academy

Opinions

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Multicultural Academy, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Multicultural Academy's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Multicultural Academy, as of June 30, 2022, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Multicultural Academy and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As discussed in Note 17 to the financial statements, in 2022 the Academy adopted new accounting guidance, GASB Statement No. 87, *Leases*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2022 on our consideration of Multicultural 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 Multicultural 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 Multicultural Academy's internal control over financial reporting and compliance.

Manes Costeiran PC

October 21, 2022

MULTICULTURAL ACADEMY MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Multicultural Academy's (Academy) annual financial report presents our discussion and analysis of the public school Academy's financial performance during the fiscal year that ended on June 30, 2022. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

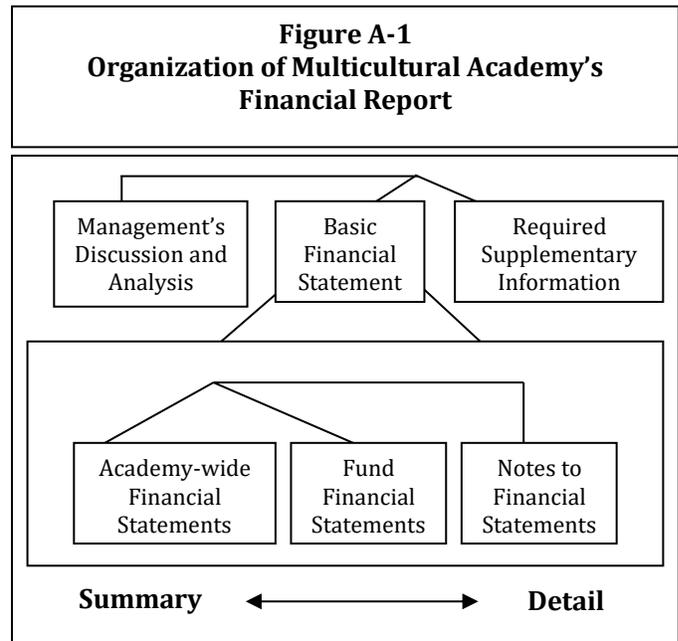
Financial Highlights

- The Academy had a decrease in the fund balance in the general fund of \$106,939 compared to a budgeted decrease of \$70,946. This gives the Academy a fund balance in the general fund of \$234,020.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy:

- The first two statements are Academy-wide *financial statements* that provide both short-term and long-term information about the Academy's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Academy, reporting the Academy's operations in more detail than the Academy-wide statements.
- The *governmental funds* statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy's budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

**MULTICULTURAL ACADEMY
MANAGEMENT’S DISCUSSION AND ANALYSIS**

Figure A-2 summarizes the major features of the Academy’s financial statements, including the portion of the Academy’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2: Major Features of the Academy-wide and Fund Financial Statements

	Academy-wide Statements	Governmental Funds
Scope	Entire Academy (except fiduciary funds)	All activities of the Academy that are not fiduciary
Required financial	* Statement of net position * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable

Academy-wide Statements

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the Academy’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the Academy’s net position and how they have changed. Net position - the difference between the Academy’s assets and liabilities, is one way to measure the Academy’s financial health or position.

- Over time, increases or decreases in the Academy’s net position is an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy’s enrollment, the condition of school buildings and other facilities, and the Academy’s ability to be competitive with other public school academies and area school districts.

Governmental activities - The Academy’s basic services are included here, such as regular and special education and administration. State foundation aid finances most of these activities.

MULTICULTURAL ACADEMY MANAGEMENT'S DISCUSSION AND ANALYSIS

Fund Financial Statements

The fund financial statements provide more detailed information about the Academy's funds, focusing on its more significant or "major" funds - not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs. The Academy has a general fund and special revenue fund.

- Some funds are required by state law and by debt agreements.
- The Academy establishes other funds to show that it is properly using certain revenues (like food services).

All of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that 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. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

Financial Analysis of the Academy as a Whole

Net position - the Academy's combined net position of \$510,824 decreased by \$112,220 during the year. See Figures A-3 and A-4.

The total revenues decreased approximately 9.18% to \$1,958,411. This is mainly due to a decrease in enrollment for the year ended June 30, 2022. State aid foundation allowance included in revenue from state sources accounts for 66.1% of the Academy's revenue.

The total cost of instruction increased approximately 11.24% to \$707,593 mainly due to hiring additional staff. Total support services decreased by approximately 21.69% to \$881,922 mainly due to lower than expected instructional staff and operation and maintenance expenditures.

**MULTICULTURAL ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Academy Governmental Activities

Figure A-3 Multicultural Academy Net Position		
	<u>2022</u>	<u>2021*</u>
Current and other assets	\$ 501,053	\$ 587,262
Capital assets	<u>939,525</u>	<u>264,421</u>
Total assets	<u>1,440,578</u>	<u>851,683</u>
Other liabilities	264,633	228,639
Noncurrent liabilities	<u>665,121</u>	<u>-</u>
Total liabilities	<u>929,754</u>	<u>228,639</u>
Net position		
Net investment in capital assets	274,404	264,421
Restricted for special revenue (food service)	2,400	17,664
Unrestricted	<u>234,020</u>	<u>340,959</u>
Total net position	<u>\$ 510,824</u>	<u>\$ 623,044</u>

*The 2021 figures have not been updated for the adoption of GASB 87.

**MULTICULTURAL ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Figure A-4 Changes in Multicultural Academy's Net Position		
	2022	2021*
Revenues		
Program revenues		
Operating grants	\$ 656,435	\$ 730,029
General sources		
State sources - unrestricted	1,294,591	1,374,857
Other local sources	7,385	23,040
ISD sources	-	28,390
Total general revenues	1,301,976	1,426,287
Total revenues	1,958,411	2,156,316
Expenses		
Instruction	707,593	636,107
Support services	881,922	1,126,169
Community services	143	712
Food service	131,126	145,857
Interest and fees	14,891	-
Unallocated depreciation/amortization	334,956	49,716
Total expenses	2,070,631	1,958,561
Change in net position	\$ (112,220)	\$ 197,755

*The 2021 figures have not been updated for the adoption of GASB 87.

Financial Analysis of the Academy's Funds

The Academy's general fund balance decreased by \$106,939 to \$234,020. Instruction expenses increased by \$71,486 and support services expenses decreased by \$75,060.

General Fund Budgetary Highlights

Over the course of the year, the Academy revised the general fund annual operating budget when necessary. Changes were made in both the revenue and expenditures which reflected anticipated increases in state aid and actual salary figures for staff.

While the Academy's final budget for the general fund anticipated expenditures and other financing uses would exceed revenues and other financing sources by \$70,946, the actual results for the year showed expenditures and other financing uses exceeded revenues and other financing sources by \$106,939. Actual revenues were \$348,687 less than budgeted mainly due to less than expected state and federal funding.

**MULTICULTURAL ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The actual total expenditures were \$151,669 under budget. The primary cause of the variance was due to the Academy experiencing less than expected basic programs, added needs, instructional staff, and central support expenditures.

Capital Assets

As of the year ended June 30, 2022, the Academy had invested \$939,525 in capital assets net of accumulated depreciation/amortization as summarized in Figure A-5. This amount represents a net increase of \$675,104 from the beginning of the year. Total depreciation/amortization expense for the year was \$334,956. More detailed information about capital assets can be found in Note 3 to the financial statements.

The Academy's capital assets are as follows:

Figure A-5 Multicultural Academy's Capital Assets				
	2022			2021*
	Cost	Accumulated Depreciation/ Amortization	Net Book Value	Net Book Value
Technology	\$ 50,518	\$ 15,155	\$ 35,363	\$ 45,466
Buses and other vehicles	230,480	18,770	211,710	14,210
Furniture and fixtures	170,065	167,973	2,092	-
Leasehold improvements	474,181	311,141	163,040	204,745
Right to use - building	790,980	263,660	527,320	-
Total	\$ 1,716,224	\$ 776,699	\$ 939,525	\$ 264,421

*2021 figures have not been updated for the adoption of GASB 87.

Long-term Obligations

The Academy implemented GASB Statement No. 87, *Leases* which created a long-term obligation for the Academy's building lease. Additionally, the Academy entered into a four-year financing agreement during the year for the use of buses. At year end, the Academy had total long-term obligations of \$665,121. See Note 6 for more information.

**MULTICULTURAL ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Factors Bearing on the Academy's Future

At the time these financial statements were prepared and audited, the Academy was not aware of existing circumstances that could significantly affect its financial health in the future.

- The Academy adopted a general fund budget for 2022-2023 in which expenditures exceed revenue by \$73,737. Adjustments to the original budget will be made based on actual enrollment during the 2022-2023 school year.
- In September of 2022, the Academy borrowed \$400,000 under a state aid anticipation note at 5.40% to be repaid in full by August of 2023.

Contacting the Academy's Financial Management

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact Terry Farha at Universal Management Company, 5550 Platt Road, Ann Arbor, Michigan, 48108.

BASIC FINANCIAL STATEMENTS

**MULTICULTURAL ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2022**

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 677
Receivables	
Intergovernmental receivable	349,276
Prepays and deposits	151,100
Capital assets, net of accumulated depreciation/amortization	939,525
TOTAL ASSETS	1,440,578
LIABILITIES	
Accounts payable	40,499
Accrued oversight	8,257
Other accrued expenses	12,499
Accrued salaries and related items	107,076
Unearned revenue	22,261
State aid anticipation note payable	71,849
Accrued interest	2,192
Noncurrent liabilities:	
Due within one year	306,092
Due in more than one year	359,029
TOTAL LIABILITIES	929,754
NET POSITION	
Net investment in capital assets	274,404
Restricted for special revenue (food service)	2,400
Unrestricted	234,020
TOTAL NET POSITION	\$ 510,824

See notes to financial statements.

**MULTICULTURAL ACADEMY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022**

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Position
Governmental activities				
Instruction	\$ 707,593	\$ -	\$ 320,816	\$ (386,777)
Support services	881,922	-	206,180	(675,742)
Community services	143	-	-	(143)
Food service	131,126	-	129,439	(1,687)
Interest and fees	14,891	-	-	(14,891)
Unallocated depreciation/amortization	334,956	-	-	(334,956)
Total governmental activities	<u>\$ 2,070,631</u>	<u>\$ -</u>	<u>\$ 656,435</u>	<u>(1,414,196)</u>
General revenues				
State sources - unrestricted				1,294,591
Local sources				<u>7,385</u>
Total general revenues				<u>1,301,976</u>
CHANGE IN NET POSITION				(112,220)
Net position, beginning of year				<u>623,044</u>
Net position, end of year				<u>\$ 510,824</u>

See notes to financial statements.

**MULTICULTURAL ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2022**

	General Fund	Nonmajor Governmental (Special Revenue) Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 677	\$ -	\$ 677
Receivables			
Intergovernmental	349,276	-	349,276
Due from other funds	-	2,400	2,400
Prepaid expenditures and deposits	151,100	-	151,100
TOTAL ASSETS	\$ 501,053	\$ 2,400	\$ 503,453
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 40,499	\$ -	\$ 40,499
Accrued oversight	8,257	-	8,257
Other accrued expenses	12,499	-	12,499
Accrued salaries and related items	107,076	-	107,076
Unearned revenue	22,261	-	22,261
State aid anticipation note payable	71,849	-	71,849
Accrued interest	2,192	-	2,192
Due to other funds	2,400	-	2,400
TOTAL LIABILITIES	267,033	-	267,033
FUND BALANCES			
Nonspendable			
Prepaid expenditures and deposits	151,100	-	151,100
Restricted			
Food service	-	2,400	2,400
Assigned for:			
Subsequent years expenditures	73,737	-	73,737
Unassigned	9,183	-	9,183
TOTAL FUND BALANCES	234,020	2,400	236,420
TOTAL LIABILITIES AND FUND BALANCES	\$ 501,053	\$ 2,400	\$ 503,453

See notes to financial statements.

**MULTICULTURAL ACADEMY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2022**

Total governmental fund balance		\$ 236,420
Capital assets used in governmental activities are not financial resources and are not reported in the funds:		
The cost of the capital assets is	\$ 1,716,224	
Accumulated depreciation/amortization is	<u>(776,699)</u>	939,525
Long-term liabilities are not due and payable in the current period and are not reported in the funds:		
Direct borrowings and direct placements		<u>(665,121)</u>
Net position of governmental activities		<u><u>\$ 510,824</u></u>

**MULTICULTURAL ACADEMY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2022**

	General Fund	Nonmajor Governmental (Special Revenue) Fund	Total Governmental Funds
REVENUES			
Local sources	\$ 10,385	\$ -	\$ 10,385
State sources	1,502,835	6,184	1,509,019
Federal sources	318,752	123,255	442,007
TOTAL REVENUES	1,831,972	129,439	1,961,411
EXPENDITURES			
Instruction			
Basic programs	383,703	-	383,703
Added needs	323,890	-	323,890
Total instruction	707,593	-	707,593
Support services			
Pupil	49,608	-	49,608
Instructional staff	36,227	-	36,227
General administration	286,541	-	286,541
School administration	56,422	-	56,422
Business	7,989	-	7,989
Operation and maintenance	151,778	-	151,778
Transportation	415,380	-	415,380
Central	97,682	-	97,682
Total support services	1,101,627	-	1,101,627

See notes to financial statements.

	General Fund	Nonmajor Governmental (Special Revenue) Fund	Total Governmental Funds
EXPENDITURES (continued)			
Food service	\$ -	\$ 133,501	\$ 133,501
Community services	143	-	143
Debt service			
Principal retirement	275,863	27,976	303,839
Interest and fiscal charges	13,583	1,308	14,891
	<u>2,098,809</u>	<u>162,785</u>	<u>2,261,594</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(266,837)</u>	<u>(33,346)</u>	<u>(300,183)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	18,082	18,082
Transfers out	(18,082)	-	(18,082)
Proceeds from long-term debt	177,980	-	177,980
	<u>159,898</u>	<u>18,082</u>	<u>177,980</u>
NET CHANGE IN FUND BALANCES	(106,939)	(15,264)	(122,203)
FUND BALANCES			
Beginning of year	<u>340,959</u>	<u>17,664</u>	<u>358,623</u>
End of year	<u>\$ 234,020</u>	<u>\$ 2,400</u>	<u>\$ 236,420</u>

See notes to financial statements.

**MULTICULTURAL ACADEMY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022**

Net change in fund balances total governmental funds \$ (122,203)

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

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

Depreciation/amortization expense	(334,956)
Capital outlay	232,855
Proceeds on sale of capital assets	(3,000)
Gain (loss) on disposal of capital assets, net	(10,775)

Proceeds and repayments of principal on long-term debt are other financing sources and expenditures in the governmental funds, but not in the statement of activities (where they are additions and reductions of liabilities).

Proceeds from issuance of long-term debt	(177,980)
Principal repayment on long-term obligations	303,839

Change in net position of governmental activities \$ (112,220)

**MULTICULTURAL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of 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 nonfiduciary activities of the Academy. The Academy currently does not have fiduciary activities. Governmental activities normally are supported by intergovernmental revenues.

Reporting Entity

Multicultural Academy (the "Academy") is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Bay Mills Community College is the authorizing governing body for the Academy and has contracted with the Academy to charter the public school academy through June 2024. Board members are approved by the authorizing governing body and have decision making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. The Academy receives funding from local, state, and federal sources and must comply with all of the requirements of these funding source entities. However, the Academy is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. In addition, the Academy's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board (GASB) Statements.

Basis of Presentation - Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds.

As a general rule, the effect of interfund activity (if any) has been eliminated from the government-wide financial statements.

Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the Academy's funds. Separate statements for each fund category are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Academy reports the following *Major Governmental 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.

The Academy reports the following *Nonmajor Governmental Fund*:

The *Special Revenue Fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The Academy accounts for its food service activity in a special revenue fund.

During the course of operations the Academy has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

**MULTICULTURAL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation - Fund Financial Statements (continued)

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. 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 generally 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 compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under leases are reported as other financing sources.

State and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end).

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a state-wide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to public school academies based on information supplied by the academies.

The state portion of the Foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The state revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as an intergovernmental receivable.

**MULTICULTURAL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting (continued)

The Academy also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received and accrued, which are not expended by the close of the fiscal year are recorded as unearned revenue.

All other revenue items are generally considered to be measurable and available only when cash is received by the Academy.

Budgetary Information

Budgetary Basis of Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue fund.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods or services (i.e., purchase orders, contracts, and commitments). The Academy does not utilize encumbrance accounting.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Chief Administrative Officer submits to the Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
- b. Prior to July 1, the budget is legally adopted by Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
- c. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Directors.
- d. The budget was amended during the year with supplemental appropriations, the last one approved prior to year end June 30, 2022. The Academy does not consider these amendments to be significant.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

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 original maturities of three months or less from the date of acquisition.

**MULTICULTURAL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Investments

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. 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.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, 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 Insurance 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. District or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above

Prepays

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital Assets

Capital assets, as summarized below, are reported in the government-wide financial statements. Capital assets are defined by the Academy as assets with an initial, individual cost of more than \$1,000 and a useful life in excess of one year. Group purchases are evaluated on a case by case basis. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Land and construction in progress, if any, are not depreciated. 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. The other capital assets of the Academy are depreciated using the straight-line method over the following estimated useful lives:

<u>Capital Asset Classes</u>	<u>Lives</u>
Technology	5
Buses and other vehicles	10
Furniture and fixtures	7
Leasehold improvements	10 - 15
Right to use - building	4

**MULTICULTURAL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

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, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Academy has no items that qualify for reporting in this category.

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, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Academy has no items that qualify for reporting in this category.

Net Position Flow Assumption

Sometimes the Academy will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Academy's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

Fund Balance Flow Assumptions

Sometimes the Academy will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Academy's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Academy itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Academy's highest level of decision-making authority. The Board of Directors is the highest level of decision-making authority for the Academy that can, by adoption of a board action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the Board action remains in place until a similar action is taken (the adoption of another board action) to remove or revise the limitation.

**MULTICULTURAL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Fund Balance Policies (continued)

Amounts in the assigned fund balance classification are intended to be used by the Academy for specific purposes but do not meet the criteria to be classified as committed. Intent can be expressed by the Board of Directors or by an official or body to which the Board of Directors delegates authority. The Board of Directors may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Leases

The Academy is a lessee for a noncancelable lease of equipment. The Academy recognizes a lease liability and an intangible right-to-use lease asset in the government-wide financial statements. The Academy recognizes lease liabilities with an initial, individual value of \$5,000 or more.

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.

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.

**MULTICULTURAL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues and Expenditures/Expenses

Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment. Unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related debt. Bond issuance costs are reported as expenditures in the year in which they are incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE 2 - CASH DEPOSITS - CREDIT RISK

Cash is held in the name of the Academy. These deposits are subject to custodial credit risk. This is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy minimizes custodial credit risk on deposits by assessing the credit worthiness of the individual institutions in which it deposits funds. The amount of deposits with each institution is assessed to determine the level of risk it may pose to the Academy in relation to deposits in excess of insured amounts. As of June 30, 2022, none of the Academy's bank balance of \$17,996 was exposed to custodial credit risk because it was uninsured or uncollateralized.

**MULTICULTURAL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - CAPITAL ASSETS

A summary of changes in the Academy's capital assets follows:

	As Restated, Balance <u>July 1, 2021</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2022</u>
Governmental activities				
Capital assets, being depreciated/amortized				
Technology	\$ 50,518	\$ -	\$ -	\$ 50,518
Buses and other vehicles	17,400	230,480	17,400	230,480
Furniture and fixtures	167,690	2,375	-	170,065
Leasehold improvements	474,181	-	-	474,181
Right to use - building	790,980	-	-	790,980
	<u>1,500,769</u>	<u>232,855</u>	<u>17,400</u>	<u>1,716,224</u>
Total capital assets being depreciated/amortized	<u>1,500,769</u>	<u>232,855</u>	<u>17,400</u>	<u>1,716,224</u>
Accumulated depreciation/amortization				
Technology	5,052	10,103	-	15,155
Buses and other vehicles	3,190	19,205	3,625	18,770
Furniture and fixtures	167,690	283	-	167,973
Leasehold improvements	269,436	41,705	-	311,141
Right to use - building	-	263,660	-	263,660
	<u>445,368</u>	<u>334,956</u>	<u>3,625</u>	<u>776,699</u>
Total accumulated depreciation/amortization	<u>445,368</u>	<u>334,956</u>	<u>3,625</u>	<u>776,699</u>
Net governmental capital assets	<u>\$ 1,055,401</u>	<u>\$ (102,101)</u>	<u>\$ 13,775</u>	<u>\$ 939,525</u>

Depreciation/amortization for the fiscal year ended June 30, 2022 amounted to \$334,956. The Academy determined that it was impractical to allocate depreciation/amortization to the various governmental activities as the assets serve multiple functions.

NOTE 4 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2022 consist of the following:

State sources	\$ 275,223
Federal sources	<u>74,053</u>
	<u>\$ 349,276</u>

Intergovernmental receivables include amounts due from federal and state sources for various projects and programs and are considered fully collectible by management. Because of the Academy's favorable collection experience on intergovernmental receivables, no allowance for doubtful accounts has been recorded.

**MULTICULTURAL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - NOTE PAYABLE - STATE AID ANTICIPATION NOTE

At June 30, 2022, the Academy has \$71,849 outstanding from its state aid anticipation note dated September 2021. The note, which has an interest rate of 3.30%, matures August 2022. The proceeds of the note were used to fund Academy operations. In the event of a default on the note, the state may impose a penalty interest rate at the state's discretion, accelerate the repayment terms. The note is secured by the full faith and credit of the Academy as well as future state school aid payments.

Balance July 1, 2021	Additions	Payments	Balance June 30, 2022
\$ 71,816	\$ 400,000	\$ 399,967	\$ 71,849

NOTE 6 - LONG-TERM OBLIGATIONS

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

	Notes from Direct Borrowings and Direct Placements
Balance, July 1, 2021, as restated	\$ 790,980
Additions	177,980
Repayments	(303,839)
Balance, June 30, 2022	665,121
Less due within one year	306,092
Due in more than one year	\$ 359,029

**MULTICULTURAL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM OBLIGATIONS (continued)

Long-term obligations at June 30, 2022 are comprised of the following issue:

Direct Borrowings and Direct Placements

During the 2021 fiscal year, Multicultural Academy entered into a four-year lease agreement as lessee for the use of a building and its facilities. An initial lease liability was recorded in the amount of \$790,980 during the current fiscal year. As of June 30, 2022, the value of the lease liability was \$531,685. Future minimum lease payments run through June 30, 2024 and are based off of 18% of full time equivalent (FTE) state aid per pupil. The lease liability as of June 30, 2022 is based on most recent student count. The lease has an interest rate of 2%.

\$ 531,685

During the 2022 fiscal year, Multicultural Academy entered into a four-year financing agreement for the use of buses. As of June 30, 2022, the value of the liability was \$133,436. The Academy is required to make semi-annual principal and interest payments of \$23,657. The agreement has an interest rate of 3.59%.

133,436

Total general long-term obligations

\$ 665,121

The Academy's outstanding notes from direct borrowings and direct placements related to governmental activities of \$665,121 contains provisions that in an event of default, either by (1) unable to make principal or interest payments (2) false or misrepresentation is made to the lender (3) become insolvent or make an assignment for the benefit of its creditors (4) if the lender at any time in good faith believes that the prospect of payment of any indebtedness is impaired. Upon the occurrence of any default event, the outstanding amounts, including accrued interest become immediately due and payable.

The annual requirements to amortize long-term obligations outstanding, including interest, as of June 30, 2022, are as follows:

Year Ending June 30,	Direct Borrowings and Direct Placements		Total
	Principal	Interest	
2023	\$ 306,092	\$ 12,638	\$ 318,730
2024	312,959	5,782	318,741
2025	<u>46,070</u>	<u>1,244</u>	<u>47,314</u>
	<u><u>\$ 665,121</u></u>	<u><u>\$ 19,664</u></u>	<u><u>\$ 684,785</u></u>

Interest expense (all funds) for the year ended June 30, 2022 was \$14,891.

**MULTICULTURAL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - OVERSIGHT FEES

The Academy pays an administrative oversight fee of 3% of its state school aid to the Bay Mills Community College, as set forth by contract, to reimburse the College Board for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2022, the Academy incurred expense of approximately \$45,000 for oversight fees.

NOTE 8 - MANAGEMENT AGREEMENT

The Academy has a management agreement with Universal Management Company, LLC (UMC) for operation of the Academy through June 30, 2023. Under the terms of the management agreements, total compensation paid for operation of the Academy was approximately \$238,000 to UMC for the fiscal year 2022. At June 30, 2022, approximately \$16,000 was prepaid to UMC for management fees.

NOTE 9 - PURCHASED SERVICES

The Academy leased all employee services from Universal Management Company, LLC (UMC). Salaries, retirement, social security, health insurance, and unemployment taxes were the responsibility of UMC. The Academy has a prepaid balance of \$74,639 for purchased services at June 30, 2022.

NOTE 10 - CONCENTRATION OF EXPENDITURES - RELATED PARTY TRANSACTIONS

The Academy leases facilities and equipment as well as purchases management and food services from a group of related entities. The types of purchases and amounts for the fiscal year ended June 30, 2022 are as follows:

Entity	Transaction Type	Building	Storage	Total
Leasing transactions				
Yaser Farha for the benefit of Farha and Associates - Ann Arbor, LLC	Lease agreement	\$ 271,418	\$ 90	\$ 271,508
Other related party transactions				
Universal Management Company	Management services			\$ 238,304
Universal Management Company	Personnel costs			1,007,448
Universal Management Company	Expense reimbursements			3,691
Farha & Associates - Ann Arbor, LLC	Prepaid lease			60,577
Universal Management Company	Prepaid personnel costs and other			90,523

**MULTICULTURAL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 11 - INTERFUND RECEIVABLES AND PAYABLES

Inter-fund payable and receivable balances at June 30, 2022 are as follows:

Receivable Fund	Payable Fund
Special revenue fund	General fund
\$ 2,400	\$ 2,400

The outstanding balances between funds result mainly from the time lag between the dates that (1) inter-fund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

NOTE 12 - TRANSFERS

Transfers between the governmental funds were as follows:

Transfers Out	Transfers In
General fund	Special revenue fund
\$ 18,082	\$ 18,082

The transfer from the general fund to the special revenue fund was to pay for the subsequent year's budgeted expenditures.

NOTE 13 - RISK MANAGEMENT

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. To minimize the risk, the Academy carries commercial insurance.

NOTE 14 - CONTINGENT LIABILITIES

Amounts received or receivable form grant agencies are subject to audit and adjustments by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Academy expects such amounts, if any, to be immaterial.

NOTE 15 - SUBSEQUENT EVENT

The Academy borrowed \$400,000 under a state aid anticipation note in September 2022 at 5.40% to be repaid monthly from October 2022 through August 2023.

**MULTICULTURAL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 16 - UPCOMING ACCOUNTING PRONOUNCEMENT

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.

NOTE 17 - 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 year had no impact on net position. The change in capital assets and long-term obligations is as follows:

	Capital Assets	Long-term Obligations
Balances as of July 1, 2021, as previously stated	\$ 709,789	\$ -
Adoption of GASB Statement 87	790,980	790,980
Balances as of July 1, 2021, as restated	\$ 1,500,769	\$ 790,980

REQUIRED SUPPLEMENTARY INFORMATION

**MULTICULTURAL ACADEMY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2022**

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Local sources	\$ 20,000	\$ 10,000	\$ 10,385	\$ 385
State sources	1,459,566	1,509,300	1,502,835	(6,465)
Federal sources	140,248	661,359	318,752	(342,607)
Incoming transfers	44,316	-	-	-
TOTAL REVENUES	1,664,130	2,180,659	1,831,972	(348,687)
EXPENDITURES				
Instruction				
Basic programs	315,800	483,828	383,703	100,125
Added needs	300,322	345,203	323,890	21,313
Total instruction	616,122	829,031	707,593	121,438
Support services				
Pupil	59,820	49,058	49,608	(550)
Instructional staff	8,444	78,271	36,227	42,044
General administration	302,550	290,729	286,541	4,188
School administration	55,768	63,000	56,422	6,578
Business	8,500	7,750	7,989	(239)
Operation and maintenance	343,418	387,502	151,778	235,724
Transportation	200,300	420,772	415,380	5,392
Central	66,044	123,040	97,682	25,358
Total support services	1,044,844	1,420,122	1,101,627	318,495
Community services	1,433	1,325	143	1,182
Debt service				
Principal retirement	-	-	275,863	(275,863)
Interest and fiscal charges	-	-	13,583	(13,583)
TOTAL EXPENDITURES	1,662,399	2,250,478	2,098,809	151,669
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,731	(69,819)	(266,837)	(197,018)
OTHER FINANCING SOURCES (USES)				
Transfers out	(1,400)	(1,127)	(18,082)	(16,955)
Proceeds from long-term debt	-	-	177,980	177,980
TOTAL OTHER FINANCING SOURCES (USES)	(1,400)	(1,127)	159,898	161,025
NET CHANGE IN FUND BALANCE	\$ 331	\$ (70,946)	(106,939)	\$ (35,993)
FUND BALANCE				
Beginning of year			340,959	
End of year			<u>\$ 234,020</u>	



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

To the Board of Directors
Multicultural 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, the major fund, and the aggregate remaining fund information of Multicultural Academy, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Multicultural Academy's basic financial statements, and have issued our report thereon dated October 21, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Multicultural Academy's internal control over financial reporting (internal control) as a basis for designing 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 Multicultural Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of Multicultural Academy's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal controls, as described in the accompanying schedule of findings and responses that we consider to be a significant deficiency (2022-001).

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Multicultural 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 financial statements. 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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and responses as item 2022-001.

Academy's Response to Findings

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maney Costeiran PC

October 21, 2022

**MULTICULTURAL ACADEMY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2022**

Finding 2022-001 Significant deficiency

Criteria: Compliance with the Uniform Budgeting and Accounting Act. MCL (Michigan Compile Laws) 141.436 states, except as otherwise permitted in MCL 388.1702 the local school board shall not adopt a general appropriations act (Budget) or an amendment to that act which causes fund balance to be lower than budgeted.

Condition: The Academy's budget reflects estimated net increase in fund balance while there was an actual net decrease in fund balance.

Effect: At June 30, 2022, the Academy's final budget anticipated using up \$70,946 to the Academy's fund balance. The actual result has the Academy using up \$106,939 of fund balance. This created a negative budget to actual variance of \$35,993.

Cause: The primary reason was not properly adjusting budgeted revenues based on actual results.

Recommendation: The Academy is developing procedures to review the budget and general ledger monthly and revise the budget accordingly.

Academy's Response: The Academy concurs with the facts of this finding and is implementing procedures to prevent this in the future.



**MULTICULTURAL
ACADEMY**

Building diversity & great minds

A Tuition-Free Charter Public School

**MULTICULTURAL ACADEMY
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2022**

Multicultural Academy respectfully submits the following corrective action plan for the year ended June 30, 2022.

Auditor: Maner Costerisan
2425 E. Grand River Ave., Suite 1
Lansing, Michigan 48912

Audit Period: Year ended June 30, 2022

Academy Contact Person: Steve Scheel, Croskey Lanni Accountant

The findings from the June 30, 2022 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the number assigned in the schedule.

Finding - Financial statement audit

Finding 2022-001 – Significant deficiency

Recommendation: The Academy is developing procedures to review the budget and general ledger monthly and revise the budget accordingly.

Actions to be taken: The Academy concurs with the facts of this finding. The finding relates specifically to the availability of federal funds. Although this was an exception to our normal cash management process, in that the grant application was being amended prohibiting us from drawing the federal funds as per the Board approved budget, we will improve our procedures around the amendment and cash management process.

**MULTICULTURAL ACADEMY
SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2022**

There were no audit findings required to be reported on this schedule for the previous year.



2425 E. Grand River Ave.,
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October 21, 2022

To the Board of Education
Multicultural Academy

We have audited the financial statements of the governmental activities and each major fund, and the aggregate remaining fund information of Multicultural Academy for the year ended June 30, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Multicultural Academy are described in Note 1 to the financial statements. During fiscal year 2022, the Academy implemented Governmental Accounting Standard No. 87, *Leases*. We noted no transactions entered into by the Academy during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's determination of the estimated life span of the capital assets. We evaluated the key factors and assumptions used by management to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole. In addition, certain amounts included in capital assets have been estimated based on an outside appraisal company.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. We did not identify any sensitive disclosures.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 21, 2022.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the required supplementary information (RSI) which are required and supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the other supplementary information, which accompany the financial statements but are not RSI. With respect to this other supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the other supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

A separate management letter was not issued.

Restriction on Use

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

Very truly yours,

Maney Costeiran PC