THREE LAKES ACADEMY
Mackinac County, Michigan

Annual Financial Report

For the year ended June 30, 2022

Hungerford Nichols CPAs + Advisors
Where good ideas add up

THREE LAKES ACADEMY
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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

October 31, 2022

The Board of Education
Three Lakes Academy

Report on the Audit of the Financial Statements

Opinions

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

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

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

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Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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 listed 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Academy's basic financial statements. The accompanying nonmajor fund financial statements and schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the nonmajor fund financial statements and schedule are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Emphasis of Matter

Changes in Accounting Principle

As discussed in Note J to the financial statements, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 87, Leases for the fiscal year ended June 30, 2022. Our opinion is not modified in respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2022, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of 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 the Academy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

Hungerford Nichols

Certified Public Accountants
Grand Rapids, Michigan

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Three Lakes Academy (the "Academy"), we offer readers of the Academy's financial statements this narrative overview and analysis of the financial activities of the Academy for the fiscal year ended June 30, 2022. We encourage readers to consider the information presented here in conjunction with the Academy's financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of four parts: Management's Discussion and Analysis (this section), the Basic Financial Statements, Required Supplementary Information, and Supplementary Information. The Basic Financial Statements include two kinds of statements that present different views of the Academy:

- The first two statements, the Statement of Net Position, and the Statement of Activities, 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.

    - *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.

The Basic Financial Statements also include Notes to Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data; Required Supplementary Information includes pension and OPEB information schedules; Other Supplementary Information follows and includes combining and individual fund statements and schedules.

Academy-wide Statements

The Academy-wide financial 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, deferred outflows of resources, liabilities, and deferred inflows of resources. 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 it has changed. Net position - the difference between the Academy's assets, deferred outflows of resources, liabilities, and deferred inflows of resources - 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 Academy's overall health, one should consider additional non-financial factors such as economic factors that might influence state aid revenue, and the condition of school buildings and other facilities.

In the academy-wide financial statements, the Academy's activities are presented as follows:

- *Governmental activities*: The Academy's basic services are included here, such as regular and special education, instructional support, transportation, administration, community services, food service and athletics. State aid and property taxes finance most of these activities.

New Accounting Pronouncement Implemented

The District implemented Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases* during the fiscal year ended June 30, 2022. This Statement enhances the relevance and consistency of information about governments' leasing activities. See Note J for additional information.

Condensed Academy-wide Financial Information

The Statement of Net Position provides financial information on the Academy as a whole.

	2022	2021
Assets		
Current assets	$ 452,901	$ 392,517
Net capital assets	84,832	107,719
Total Assets	**537,733**	**500,236**
Deferred Outflows of Resources	**661,356**	**1,012,284**
Liabilities		
Current liabilities	136,371	136,230
Long-term liabilities	-	3,112
Net pension liability	1,680,710	2,462,228
Net OPEB liability	107,953	381,902
Total Liabilities	**1,925,034**	**2,983,472**
Deferred Inflows of Resources	**990,473**	**311,044**
Net Position		
Net investment in capital assets	84,832	107,719
Restricted	77,940	52,465
Unrestricted (deficit)	(1,879,190)	(1,942,180)
Total Net Position	**$ (1,716,418)**	**$ (1,781,996)**

The Statement of Activities presents changes in net position from operating results:

	2022	2021
Program Revenues		
Charges for services	$ 7,933	$ 5,627
Operating grants	785,831	554,917
General Revenues		
State school aid, unrestricted	800,551	845,917
Interest and investment earnings	125	174
Other	49,837	62,381
Total Revenues	1,644,277	1,469,016
Expenses		
Instruction	909,532	899,140
Supporting services	542,160	600,036
Community services	10,436	502
Food service	93,393	105,721
Depreciation – unallocated	22,887	21,570
Other	291	-
Total Expenses	1,578,699	1,626,969
Increase (Decrease) in net position	65,578	(157,953)
Net Position - Beginning of Year, as restated	(1,781,996)	(1,624,043)
Net Position - End of Year	**$ (1,716,418)**	**$ (1,781,996)**

Financial Analysis of the Academy as a Whole

Total revenues exceeded expenses by $65,578, increasing total net position from a deficit of $1,781,996 to a deficit of $1,716,418. Unrestricted net position increased by $62,990 to a deficit of $1,879,190 at June 30, 2022. The Academy's net pension liability, including deferred outflows and inflows of resources, increased by $59,800. The net OPEB liability, including deferred outflows and inflows of resources, decreased by $84,910.

The Academy's financial position is the product of many factors.

The Academy's total revenues were $1.64 million. Unrestricted state aid accounted for most of the Academy's revenues, contributing 49% of the total. The remainder came from State and federal aid for specific programs (48%), fees charged for services, interest earnings and other local sources.

The total cost of all programs was $1.58 million. The Academy's expenses are predominantly related to instructing, caring for (pupil services), and transporting students (70%). The Academy's administrative and business services accounted for 7.8% of total costs, and operation and maintenance services accounted for 8.4% of total costs.

The current position of the Academy's finances can be credited to careful monitoring of economic changes and appropriate cost-cutting measures to maintain programs during these challenging economic times. Despite the ongoing uncertainty of funding revenue from the State of Michigan, the Academy has endeavored to maintain a positive fund balance.

- The Academy has conducted a thorough budget analysis and has broken the budget down into specific components and their related expenses. This has allowed the Academy to prioritize expenses, and also to identify where cuts could occur if necessary.

- Regular updates were provided to the Board of Directors during the school year. This information is also presented to the community via the Academy's website, staff meetings and presentations.

Fund Financial Statements

The fund financial statements provide more detailed information about the Academy's funds, focusing on its most 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. As a general rule, fund balances from one fund are prohibited from being expended on expenditures of another fund.

The Academy utilizes one kind of fund:

- *Governmental funds*: Most 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 the reader 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, additional information following the governmental funds' statements explain the relationship (or differences) between them.

Financial Analysis of the Academy's Funds

The Academy uses funds to record and analyze financial information. Three Lakes Academy's funds are described as follows:

Major Funds

- The General Fund is our primary operating fund. The General Fund had total revenues of $1,514,749, and total expenditures of $1,495,769. The General Fund ended the fiscal year with a fund balance of $241,702, up from $222,722 at June 30, 2021.

- The Academy operates a Food Service Special Revenue Fund. The Food Service Fund had total revenues of $119,263 and total expenditures of $95,047. The Food Service Fund ending the fiscal year with a fund balance of $56,156, up from $31,940 at June 30, 2021.

Nonmajor Fund

The Academy's only nonmajor fund during fiscal year 2022 was the Student/School Activity Special Revenue Fund. Revenues totaled $10,265, expenditures totaled $9,006 in 2021-22, and fund balance for the Student/School Activity Fund as of June 30, 2022 was $21,784.

General Fund Budgetary Highlights

During the course of the year, the Academy continuously reviews the annual operating budget after the June adoption. Changes in the budget are due to the following:

- Changes made in the fall to account for the final student enrollment, which determines how much state foundation grant will be received during the fiscal year.

- Great Start Readiness Program Budget.

- 31A At Risk Funding allowed for continued teacher/student contact time and social worker contact time.

- ESSER II and ESSER III funding continues to all the Academy to maintain a high standard of readiness in its response to the Covid pandemic; increased programming included after school tutoring and plans to begin summer school during the 2022 summer months. Increased social worker/student contact time. Staff were trained in preventative measures to help keep Three Lakes Academy students and staff safe and healthy. Virtual online learning was not offered during the 2021-2022 school year.

Capital Asset and Debt Administration

Capital Assets

By the end of 2022, the Academy had a $202,000 investment in a broad range of capital assets, including school buildings and improvements, furniture and equipment, and vehicles. (More detailed information about capital assets can be found in Note E in the Notes to Basic Financial Statements.)

At June 30, 2022, the Academy's investment in capital assets (net of accumulated depreciation), was $84,832. There were no capital asset additions for the fiscal year and net accumulated depreciation decreased by $5,289, leaving a net decrease in the book value of capital assets of $22,887.

The Academy's net investment in capital assets, including buildings and improvements, furniture and equipment, and vehicles is detailed as follows:

Buildings and improvements	$	54,531
Furniture and equipment		2,968
Vehicles		27,333
Net Capital Assets	$	84,832

Long-term Obligations

The Academy's only long-term obligations include termination benefits and accumulated sick leave totaling $3,112 at June 30, 2022. We present more detailed information about our long-term liabilities in Note F in the Notes to Basic Financial Statements.

Factors Bearing on the Academy's Future

At the time these financial statements were prepared and audited, the Academy was aware of the following circumstances that could significantly affect its financial health in the future:

- The State of Michigan continues to increase its focus on student achievement. Results of standardized test scores (Michigan Educational Assessment Program and the Michigan Merit Exam) are compared from year to year, with the results being tabulated by school building and by academy. With the changes to the federal Title I legislation resulting from the No Child Left Behind Act, adequate yearly progress of students will be more important as certain portions of funding are tied to it.

- Cost increases exceeding the general rate of inflation continue to be expected for the Academy relative to health care and pension contribution obligations in 2021-2022 and beyond. These costs represent a significant portion of the Academy's budget.

- The Academy offers its employees single subscriber health, dental and vision insurance. During the 2021-2022 school year, the Academy contributed $450 monthly, per employee, toward staff insurance premiums; any cost beyond the Academy paid contribution was paid by the employee. Employees who declined health care coverage were eligible for cash in lieu of benefits in the amount $3,500 for the 2021-022 school year. Beginning in 2016, the Academy also began offering $20,000 Life and AD&D insurance as no cost to the employee.

- Maintaining teachers and substitute teaching staff has become a yearly challenge. The substitute teacher shortage is felt throughout the District. The Board, recognizing that Three Lakes Academy's wages are not competitive with neighbors, has begun to address this concern by enhancing the salary schedule of the teaching staff to come more in line with others.

- As the Academy continues to face the budget challenges of the current and upcoming school years, operating efficiencies and balanced budgets will be necessary. The ability to continue to operate an adequate educational system with continued less revenue and increasing expenditures is the challenge of the future. The Board of Directors goals include fiscal oversight, fiscal responsibility, and financial planning.

Contacting the Academy's Financial Management

This financial report is designed to provide the Academy's citizens, taxpayers, customers, and investors 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 financial information, contact the Business Office, Three Lakes Academy, W17540 Main St., Curtis, Michigan 49820.

BASIC FINANCIAL STATEMENTS

THREE LAKES ACADEMY
Statement of Net Position
June 30, 2022

	Governmental Activities
Assets	
Cash equivalents (Note B)	$ 149,666
Accounts receivable	418
Due from other governmental units (Note C)	280,109
Inventory	656
Prepaid expenses	22,052
Capital assets being depreciated, net (Note E)	84,832
Total Assets	537,733
Deferred Outflows of Resources	
Deferred pension amounts	460,137
Deferred OPEB amounts	201,219
Total Deferred Outflows of Resources	661,356
Liabilities	
Due to other governmental units	72,765
Payroll witholdings payable	3,085
Salaries payable	56,712
Unearned revenue	697
Long-term liabilities (Note F):	
Due within one year	3,112
Net pension liability	1,680,710
Net OPEB liability	107,953
Total Liabilities	1,925,034
Deferred Inflows of Resources	
Deferred pension amounts	568,061
Deferred OPEB amounts	422,412
Total Deferred Inflows of Resources	990,473
Net Position	
Net investment in capital assets	84,832
Restricted:	
Food service	56,156
Student/school activity	21,784
Unrestricted (deficit)	(1,879,190)
Total Net Position	$ (1,716,418)

See accompanying notes to basic financial statements.

THREE LAKES ACADEMY
Statement of Activities
For the year ended June 30, 2022

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants	Net (Expense) Revenue and Changes In Net Position
Governmental Activities				
Instruction	$ 909,532	$ -	$ 672,043	$ (237,489)
Supporting services	542,160	-	2,478	(539,682)
Community services	10,436	-	-	(10,436)
Food service	93,393	7,933	111,310	25,850
Depreciation - unallocated*	22,887	-	-	(22,887)
Other	291	-	-	(291)
Total Governmental Activities	$ 1,578,699	$ 7,933	$ 785,831	(784,935)

General Revenues	
State school aid, unrestricted	800,551
Interest and investment earnings	125
Other	49,837
Total General Revenues	850,513
Change in Net Position	65,578
Net Position - Beginning of Year, as restated	(1,781,996)
Net Position - End of Year	$ (1,716,418)

*This amount excludes direct depreciation expenses of the various programs.

See accompanying notes to basic financial statements.

THREE LAKES ACADEMY
Balance Sheet
Governmental Funds
June 30, 2022

	General Fund	Special Revenue Food Service	Nonmajor	Total
Assets				
Cash equivalents (Note B)	$ 89,063	$ 38,819	$ 21,784	$ 149,666
Accounts receivable	-	418	-	418
Due from other funds (Note D)	-	614	-	614
Due from other governmental units (Note C)	261,434	18,675	-	280,109
Inventory	-	656	-	656
Prepaid expenditures	22,052	-	-	22,052
Total Assets	$ 372,549	$ 59,182	$ 21,784	$ 453,515
Liabilities and Fund Balances				
Liabilities				
Due to other funds (Note D)	$ 614	$ -	$ -	$ 614
Due to other governmental units	70,436	2,329	-	72,765
Payroll witholdings payable	3,085	-	-	3,085
Salaries payable	56,712	-	-	56,712
Unearned revenue	-	697	-	697
Total Liabilities	130,847	3,026	-	133,873
Fund Balances (Note A)				
Nonspendable	22,052	656	-	22,708
Restricted	-	55,500	21,784	77,284
Committed for termination benefits	3,112	-	-	3,112
Committed for transportation and technology	7,486	-	-	7,486
Unassigned	209,052	-	-	209,052
Total Fund Balances	241,702	56,156	21,784	319,642
Total Liabilities and Fund Balances	$ 372,549	$ 59,182	$ 21,784	$ 453,515

See accompanying notes to basic financial statements.

THREE LAKES ACADEMY
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities
June 30, 2022

Total governmental fund balances		$ 319,642
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is $202,000 and accumulated depreciation is $117,168.		84,832
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Termination benefits	$ (1,412)	
Accumulated sick leave	(1,700)	(3,112)
Net pension liability and related outflows/inflows of resources are not included as assets/liabilities in governmental funds:		
Net pension liability	(1,680,710)	
Deferred outflows	460,137	
Deferred inflows	(568,061)	(1,788,634)
Net OPEB liability and related outflows/inflows of resources are not included as assets/liabilities in governmental funds:		
Net OPEB liability	(107,953)	
Deferred outflows	201,219	
Deferred inflows	(422,412)	(329,146)
Total net position - governmental activities		$ (1,716,418)

See accompanying notes to basic financial statements.

THREE LAKES ACADEMY
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2022

	General Fund	Special Revenue Food Service	Nonmajor	Total
Revenues				
Local sources	$ 39,677	$ 7,953	$ 10,265	$ 57,895
State sources	1,133,361	2,979	-	1,136,340
Federal sources	333,521	108,331	-	441,852
Interdistrict sources	8,190	-	-	8,190
Total Revenues	1,514,749	119,263	10,265	1,644,277
Expenditures				
Current:				
Instruction	942,496	-	-	942,496
Supporting services	542,539	-	9,006	551,545
Food service	-	95,047	-	95,047
Community services	10,443	-	-	10,443
Inter-governmental	291	-	-	291
Total Expenditures	1,495,769	95,047	9,006	1,599,822
Net Change in Fund Balances	18,980	24,216	1,259	44,455
Fund Balances, Beginning of Year, as restated	222,722	31,940	20,525	275,187
Fund Balances, End of Year	$ 241,702	$ 56,156	$ 21,784	$ 319,642

See accompanying notes to basic financial statements.

THREE LAKES ACADEMY
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the year ended June 30, 2022

Net change in fund balances - total governmental funds			$ 44,455
Amounts reported for governmental activities in the Statement of Activities are different because:			
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is capitalized and allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period:			
	Capital outlays	$ -	
	Depreciation expense	(22,887)	(22,887)
In the Statement of Net Position, termination benefits and accumulated sick leave are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amounts retired ($18,900) exceeded the amounts earned ($0).			18,900
The changes in net pension liability and related deferred outflows/inflows of resources are not included as revenues/expenditures in governmental funds.			(59,800)
The changes in net OPEB liability and related deferred outflows/inflows of resources are not included as revenues/expenditures in governmental funds.			84,910
Total changes in net position - governmental activities			$ 65,578

See accompanying notes to basic financial statements.

THREE LAKES ACADEMY
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2022

	Budgeted Amounts			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Local sources	$ 15,346	$ 38,210	$ 39,677	$ 1,467
State sources	1,158,439	1,154,141	1,133,361	(20,780)
Federal sources	547,538	475,510	333,521	(141,989)
Interdistrict sources	10,674	11,232	8,190	(3,042)
Total Revenues	1,731,997	1,679,093	1,514,749	(164,344)
Expenditures				
Current:				
Instruction:				
Basic programs	681,858	823,867	745,028	78,839
Added needs	187,487	215,587	197,468	18,119
Supporting services:				
Pupil services	16,161	17,327	17,327	-
Instructional staff services	17,795	29,876	22,154	7,722
General administrative services	128,016	127,864	127,083	781
School administrative services	48,985	54,455	54,094	361
Business services	66,630	64,468	63,224	1,244
Operation and maintenance services	116,919	126,667	125,808	859
Pupil transportation services	85,830	88,951	88,240	711
Central services	32,100	51,649	44,609	7,040
Community services	1,600	42,784	10,443	32,341
Capital outlay	-	55,000	291	54,709
Total Expenditures	1,383,381	1,698,495	1,495,769	202,726
Excess (Deficiency) of Revenues Over Expenditures	348,616	(19,402)	18,980	38,382
Other Financing Uses				
Transfers out	-	(9,955)	-	9,955
Net Change in Fund Balances	348,616	(29,357)	18,980	48,337
Fund Balances, Beginning of Year	222,722	222,722	222,722	-
Fund Balances, End of Year	$ 571,338	$ 193,365	$ 241,702	$ 48,337

See accompanying notes to basic financial statements.

THREE LAKES ACADEMY
Food Service Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2022

	Budget	Actual	Variance
Revenues			
Local sources	$ 4,103	$ 7,953	$ 3,850
State sources	2,219	2,979	760
Federal sources	104,318	108,331	4,013
Total Revenues	110,640	119,263	8,623
Expenditures			
Current:			
Food service	95,384	95,047	337
Net Change in Fund Balances	15,256	24,216	8,960
Fund Balances, Beginning of Year	31,940	31,940	-
Fund Balances, End of Year	$ 47,196	$ 56,156	$ 8,960

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

Note A – Summary of Significant Accounting Policies

Three Lakes Academy (the "Academy") received its charter under Public Act 416 of 1994 from Bay Mills Community College. As part of the chartering process, the Academy filed Articles of Incorporation with the Michigan Department of Commerce. According to the contract with Bay Mills Community College, the Academy is to act exclusively as a governmental agency, for the purposes of operating as a public school academy and is not to undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. Under this contract, Bay Mills Community College provides certain services to the Academy including approval of the Academy's operating plan, monitoring compliance with provisions of the charter contract and the selection of members for the Board of Directors. Bay Mills Community College is paid 3% of State Aid payments received by the Academy for such services.

The Academy is governed by a Board of Directors consisting of seven members approved by Bay Mills Community College and administered by a Principal who is appointed by the aforementioned Board. The Academy provides educational services for approximately 92 full-time students as specified by State statute and Board of Directors policy.

The financial statements of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to public school academies. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Academy's significant accounting policies are described below.

1. Reporting Entity

The financial reporting entity consists of a primary government and its component units. The Academy is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the Academy for financial statement presentation purposes, and the Academy is not included in any other governmental reporting entity. Consequently, the Academy's financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

2. Academy-wide and Fund Financial Statements

Academy-wide Financial Statements - The academy-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) present financial information about the Academy as a whole. The reported information includes all of the nonfiduciary activities of the Academy. The Academy does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the Academy. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The Academy does not have any *business-type activities*.

The Statement of Net Position is reported on the full accrual, economic resources basis, which recognizes all long-term assets as well as all long-term debt and obligations. The Academy's net position is reported in three parts: net investment in capital assets, restricted net position, and unrestricted net position.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *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 and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The General Fund and the Food Service Special Revenue Fund are the Academy's major funds. The nonmajor fund is presented in a separate column.

Fund Financial Statements – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities, and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the academy-wide level. Reconciliations between the two sets of statements are provided in separate schedules.

Revenues are recognized when susceptible to accrual, i.e., 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 collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are state aid, federal and interacademy revenues and investment income. Other revenues are recognized when received. Unearned revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Unearned revenue also arises when resources are received by the Academy before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Academy-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 grantor or provider have been met.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a State-wide formula. The foundation allowance is funded from a combination of State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation allowance is provided from the State's School Aid Fund and is recognized as revenues in accordance with State law and accounting principles generally accepted in the United States of America.

Governmental Funds

Governmental funds are those funds through which most school academy functions typically are financed. The acquisition, use and balances of a school academy's expendable financial resources and the related current liabilities are accounted for through governmental funds.

Major Funds:

The *General Fund* is the general operating fund of the Academy. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

Special Revenue Funds—Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

School Service Funds—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. A school academy maintains full control of these funds. The major School Service Fund maintained by the Academy is the Food Service Special Revenue Fund.

Nonmajor Fund:

Special Revenue Funds—Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

School Service Funds—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. A school academy maintains full control of these funds. The nonmajor School Service Funds maintained by the Academy is the Student/School Activity Fund.

When both restricted and unrestricted resources are available for use, it is the Academy’s policy to use restricted resources first, then unrestricted as they are needed.

4. Budgets and Budgetary Accounting

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of an academy be under budgetary control and that both budgeted and actual financial results do not incur a deficit. Three Lakes Academy has also adopted budgets for its Food Service Revenue Fund and Student/School Activity Special Revenue Fund. An academy's General Appropriations Resolution (the “budget”) must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from an academy's budget may occur without a corresponding amendment to the budget. An academy has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year end. An academy may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Directors. Expenditures may not legally exceed budgeted appropriations at the function level. All appropriations lapse at the end of the fiscal year.

Three Lakes Academy utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- In the spring, administrative personnel propose the operating budgets for the ensuing fiscal year.

- The preliminary operating budgets are submitted to the Board of Directors. These budgets include proposed expenditures and the means of financing them.

- After the budgets are finalized, the Board of Directors adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.

- The original General Fund and Special Revenue Funds budgets were amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).

- The budgets were adopted on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

5. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

6. Investments

Investments are recorded at fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

7. Inventories/Prepaid Items

Inventories are valued at cost (first-in, first-out), and are accounted for using the consumption method. Inventories of the Food Service Fund consist of food, and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the academy-wide and fund financial statements. The cost of prepaid items is recorded as expenses/expenditures when consumed rather than when purchased.

8. Capital Assets

Capital assets, which include buildings and improvements, furniture and equipment, and vehicles, are reported in the academy-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed $5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at fair value at the date of donation.

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

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

Buildings and improvements	10 - 50 years
Furniture and equipment	5 - 10 years
Vehicles	5 - 10 years

9. Termination Benefits/Accumulated Sick Leave

Termination benefits and accumulated sick leave at June 30, 2022 have been computed and recorded in the basic financial statements of the Academy. Eligible Academy employees who select termination benefits are entitled to a termination leave payment based on their hire date. Employees who leave the Academy are also entitled to reimbursement for a portion of their unused sick days. At June 30, 2022, the accumulated liabilities, including salary related payments, (expected to be financed by General Fund revenues) for termination benefits and accumulated sick leave amounted to $1,412 and $1,700, respectively.

10. Retirement Plan

Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, were implemented by the Academy during the fiscal year ended June 30, 2015. These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, the Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Cost sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans – pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

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 (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

11. Postemployment Benefits Other Than Pensions

Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was implemented by the Academy during the fiscal year ended June 30, 2018. This Statement establishes standards for recognizing and measuring (OPEB) liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB plans, the Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about OPEB are also addressed. Distinctions are made regarding the particular requirements depending upon whether the OPEB plans, through which the benefits provided are administered through trusts that meet specific criteria. Cost-sharing employers are those whose employees are provided with defined benefit OPEB through cost-sharing multiple-employer OPEB plans—OPEB plans in which the OPEB obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides OPEB through the OPEB plan.

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

12. 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 future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Academy has two such items that qualify for reporting in this category: the deferred outflows of resources relating to the recognition of net pension liability on the financial statements and the deferred outflows of resources relating to the recognition of net OPEB liability on the financial statements.

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 future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Academy has two such items that qualify for reporting in this category: the deferred inflows of resources relating to the recognition of net pension liability on the financial statements and the deferred inflows of resources relating to the recognition of net OPEB liability on the financial statements.

13. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition or construction of those assets. Net position is reported as restricted when there are limitations imposed on their use either through legislation or through external restrictions imposed by creditors, grantors, laws, or regulations from other governments.

14. Fund Balance

The Academy had adopted Governmental Accounting Standards Board (GASB) Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. The stated objective of GASB Statement No. 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds, detailed as follows:

- Nonspendable – resources that cannot be spent because they are either (a) not in spendable form (inventories and prepaid amounts) or (b) legally or contractually required to be maintained intact (the principal of a permanent fund).

- Restricted – resources that cannot be spent because of (a) constraints externally imposed by creditors (debt covenants), grantors, contributors, or laws or regulations or (b) imposed by law through constitutional provisions or enabling legislation and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

- Committed – resources that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority (Board of Directors). Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified uses by taking the same type of action it employed to previously commit those amounts. Committed fund balance does not lapse at year end.

- Assigned – resources that are constrained by the government's *intent* to be used for specific purposes but are neither restricted nor committed. Intent should be expressed by (a) the governing body itself or (b) a body or official to which the governing body has designated the authority to assign amounts to be used for specific purposes.

- Unassigned – unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

As of June 30, 2022, Three Lakes Academy had not established a policy for its use of unrestricted fund balance amounts; it considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used, but reserves the right to selectively spend unassigned resources first to defer the use of other classified funds.

15. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

16. Estimates

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

Note B – Cash Equivalents and Investments

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.

- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this State under the laws of this State or the United States.

- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.

- Securities issued or guaranteed by agencies or instrumentalities of the United States government.

- United States government or Federal agency obligation repurchase agreements.

- Banker's acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation.

- Mutual funds composed entirely of investment vehicles which are legal for direct investment by a school Academy in Michigan.

- Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school academy in Michigan.

Balances at June 30, 2022 related to cash equivalents are detailed in the Basic Financial Statements as follows:

Statement of Net Position:	
Governmental activities	$ 149,666

Cash Equivalents

Depositories actively used by the Academy during the year are detailed as follows:

1. State Savings Bank

Cash equivalents consist of bank public funds checking and savings accounts.

June 30, 2022 balances are detailed as follows:

Cash equivalents	$ 149,666

Custodial Credit Risk Related to Bank Deposits
Custodial credit risk is the risk that in the event of bank failure, the Academy's bank deposits may not be returned to the Academy. Protection of Academy bank deposits is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the Academy's bank deposits was $149,666, and the bank balance was $209,220. The bank balance was completely covered by federal depository insurance.

Investments

As of June 30, 2022, the Academy had no surplus funds that were classified as investments. The Academy's policies to minimize investment risk are as follows:

Custodial Credit Risk Related to Investments
Custodial credit risk is the risk that, in the event of a failure of the counterparty, the District may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District minimizes custodial credit risk by limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors with which the District will do business. At June 30, 2022, the District had no investments that were subject to custodial credit risk.

Credit Risk
Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Academy's investment policy does not specifically address credit risk but minimizes its credit risk by limiting investments to the types allowed by the State.

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

Concentration of Credit Risk
The Academy minimizes concentration of credit risk which is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The Academy's investment policy places no restrictions on the amount or percentage that may be invested in any one type of security.

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

Note C – State School Aid/Property Taxes

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school academies.

These additional State revenues pass through to Michigan schools in the form of a per pupil "Foundation Allowance" paid on a "blended count" of Academy pupil membership in February 2021 and October 2021. The 2021-22 "Foundation Allowance" for Three Lakes Academy was $8,700 for 92 "Full Time Equivalent" students, generating $1,009,496 in state aid payments to the Academy of which $183,553 was paid to the Academy in July and August 2022 and included in "Due From Other Governmental Units" of the General Fund.

Note D – Interfund Receivables/Payables

Amounts due from (to) other funds, representing interfund receivables and payables for year-end expenditure allocations not reimbursed at June 30, 2022, are detailed as follows:

	Due From	Due To
Major Fund		
General Fund:		
Special Revenue Fund:		
Food Service Fund	$ -	$ 614
Nonmajor Fund		
Special Revenue Fund:		
Food Service Fund:		
General Fund	614	-
Total All Funds	$ 614	$ 614

Note E – Capital Assets

Capital asset activity for the year ended June 30, 2022 was as follows:

	Balances July 1, 2021	Additions	Deductions	Balances June 30, 2022
Capital assets, being depreciated:				
Buildings and improvements	$ 142,624	$ -	$ -	$ 142,624
Furniture and equipment	12,376	-	-	12,376
Vehicles	75,176	-	28,176	47,000
Total capital assets being depreciated	230,176	$ -	$ 28,176	202,000
Less accumulated depreciation for:				
Buildings and improvements	73,831	$ 14,262	$ -	88,093
Furniture and equipment	8,783	625	-	9,408
Vehicles	39,843	8,000	28,176	19,667
Total accumulated depreciation	122,457	$ 22,887	$ 28,176	117,168
Total capital assets being depreciated, net	107,719			84,832
Net Capital Assets	$ 107,719			$ 84,832

Depreciation expense for the Academy was $22,887. The Academy determined that is was impractical to allocate depreciation to various governmental activities as the assets serve multiple functions.

Note F – Long-term Obligations

Changes in long-term obligations for the year ended June 30, 2022 are summarized as follows:

	Debt Outstanding July 1, 2021	Debt Added	Debt Retired	Debt Outstanding June 30, 2022
Termination Benefits	$ 19,312	$ -	$ 17,900	$ 1,412
Accumulated sick leave	2,700	-	1,000	1,700
	$ 22,012	$ -	$ 18,900	$ 3,112

Current obligations outstanding at June 30, 2022 is comprised of the following:

	Outstanding Balance	Amount Due Within One Year
Termination benefits	$ 1,412	$ 1,412
Accumulated sick leave	1,700	1,700
	$ 3,112	$ 3,112

Note G – Retirement Plan

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) (the "System") is a cost-sharing, multiple-employer, state-wide, defined benefit public employee retirement system governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members – eleven appointed by the Governor, and the State Superintendent of Instruction, who serves as the ex-officio member.

The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management and Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

The System's financial statements are available at www.michigan.gov/orsschools.

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of pension plans offered by MPSERS are detailed as follows:

Plan Name	Plan Type	Plan Status
Basic	Defined Benefit	Closed
Member Investment Plan (MIP)	Defined Benefit	Closed
Pension Plus	Hybrid	Closed
Defined Contribution	Defined Contribution	Open
Pension Plus 2	Hybrid	Open

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 determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

A DB plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of MPSERS who became a member of MPSERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012 or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

Option 1 members voluntarily elected to increase their contributions to the pension fund as noted below and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they terminate public school employment.

- Basic Plan members; 4% contribution
- Member Investment Plan (MIP)-Fixed, MIP-Graded, and MIP-Plus members: a flat 7% contribution

Option 2 members voluntarily elected to increase their contribution to the pension fund as stated in Option 1 and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they reach 30 years of service. If and when they reach 30 years of service, their contribution rates will return to the previous level in place as of the day before their transition date (0% for Basic Plan members, 3.9% for MIP-Fixed, up to 4.3% for MIP-Graded, or up to 6.4% for MIP-Plus). The pension formula for any service thereafter would include a 1.25% pension factor.

Option 3 members voluntarily elected not to increase their contribution to the pension fund and maintain their current level of contribution to the pension fund. The pension formula for their years of service as of the day before their transition date will include a 1.5% pension factor. The pension formula for any service thereafter will include a 1.25% pension factor.

Option 4 members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the Defined Contribution plan for future service as of their transition date. As a DC participant they receive a 4% employer contribution to a tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS to a 457 account. They vest in employer contributions and related earnings in their 401(k) account based on the following schedule: 50% at 2 years, 75% at 3 years, and 100% at 4 years of service. They are 100% vested in any personal contributions and related earnings in the 457 account. Upon retirement, if they meet age and service requirements (including their total years of service), they will also receive a pension (calculated based on years of service and Final Average Compensation as of the day before their transition date and a 1.5% pension factor).

Members who did not make an election before the deadline defaulted to Option 3 as described above. Deferred or nonvested public school employees on September 3, 2012, who return to public school employment on or after September 4, 2012, will be considered as if they had elected Option 3 above. Returning members who made the retirement plan election will retain whichever option they chose. Employees who first work on or after September 4, 2012, choose between two retirement plans: the Pension Plus plan described above and a Defined Contribution (DC) plan that provides a 50% employer match (up to 3% of salary) on employee contributions. New employees are automatically enrolled as members in the Pension Plus plan as of their date of hire. They have 75 days from the last day of their first pay period, as reported to ORS, to elect to opt out of the Pension Plus plan and become a qualified participant in the DC plan; if no election is made, they will remain in the Pension Plus plan. If they elect to opt out of the Pension Plus plan, their participation in the DC plan will be retroactive to their date of hire.

Pension Reform of 2017

On July 13, 2017, the Governor signed Public Act 92 of 2017 into law. The legislation closed the Pension Plus plan to newly hired employees as of February 1, 2018 and created a new, optional Pension Plus 2 plan with similar plan benefit calculations but containing a 50/50 contribution share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the Pension Plus 2 plan is 6%. Further, under certain adverse actuarial conditions, the Pension Plus 2 plan would close to new employees if the actuarial funded ratio falls below 85% for two consecutive years. The law includes other provisions to the retirement eligibility age, plan assumptions, and unfunded liablity payment methods.

Regular Retirement

The retirement benefit for DB and Pension Plus plan members is based on a member's years of credited service (employment) and final average compensation (FAC). The FAC is calculated based on the member's highest total wages earned during a specific period of consecutive calendar months divided by the service credit accrued during that same time period. For a Member Investment Plan (MIP) member, who became a member of MPSERS prior to July 1, 2010, the averaging period is 36 consecutive months. For a Pension Plus member, who became a member of MPSERS after June 30, 2010, the averaging period is 60 consecutive months. For a Basic Plan member, this is the 60 consecutive months yielding the highest total wages. The annual pension is paid monthly for the lifetime of a retiree. The calculation of a member's pension is determined by their pension election under PA 300 of 2012 and is shown below:

Option 1: FAC x total years of service x 1.5%
Option 2: FAC x 30 years of service x 1.5% + FAC x years of service beyond 30 x 1.25%
Option 3: FAC x years of service as of transition date x 1.5% + FAC x years of service after transition date x 1.25%
Option 4: FAC as of transition date x years of service as of transition date x 1.5%

A MIP member who became a member of MPSERS prior to July 1, 2010 may retire at:

- age 46 with 30 or more years of credited service; or
- age 60 with 10 or more years of credited service; or
- age 60 with 5 years of credited service provided the member has worked through his or her 60th birthday and has credited service in each of the five school fiscal years immediately preceding the retirement effective date.

A Pension Plus member may retire at age 60 with 10 or more years of credited service.

A Pension Plus 2 member may retire at age 60 with 10 or more years of credited service. Section 81c(5) of PA 300 as amended requires the regular retirement age to be increased in whole year increments based on the results of mortality analysis five-year actuarial experience studies performed after October 1, 2019 and the actuarial funding status of the plan. If the regular retirement age for Pension Plus 2 members is increased in accordance with this provision, members within five years of retirement from the effective date of the increase are automatically exempted and the retirement board may additionally authorize those between five and eight years of the then current retirement age to be exempted.

A Basic Plan member may retire at:

- age 55 with 30 or more years of service; or
- age 60 with 10 or more years of service.

There is no mandatory retirement age.

Early Retirement

A MIP or Basic member may retire with an early permanently reduced pension:

- after completing at least 15 but less than 30 years of credited service; and
- after attaining age 55; and
- with credited service in each of the 5 school years immediately preceding the pension effective date.

The early pension is computed in the same manner as a regular pension but is permanently reduced 0.5% for each full and partial month between the pension effective date and the date the member will attain age 60.

Deferred Retirement

If a member terminates employment before attaining the age qualification, but after accruing 10 or more years of credited service, the member becomes a deferred member and is eligible for a pension at the time the age qualification is attained.

Non-Duty Disability Benefit

A member with 10 or more years of credited service who becomes totally and permanently disabled due to any non-duty related cause and who has not met the age requirement for a regular pension is eligible for a non-duty disability pension computed in the same manner as an age and service pension, upon recommendation from the member's personal physician and the Retirement Board physician and the approval of the Retirement Board. An Annual Certification of Disability is conducted each January. Upon prior approval, total disability benefits plus authorized outside earnings are limited to 100% of final average compensation (increased by 2% for each year retired; first year 100%, next year 102%, etc.).

Duty Disability Benefit

A member who becomes totally and permanently disabled as a result of a duty-related cause, who has not met the age and service requirement for a regular pension, and who is in receipt of weekly workers' compensation is eligible for a duty disability pension computed in the same manner as an age and service pension (but based upon a minimum of 10 years of service) upon recommendation from the member's personal physician and the Retirement Board physician and the approval of the Retirement Board. An Annual Certification of Disability is conducted each January. Upon prior approval, total disability benefits plus authorized outside earnings are limited to 100% of final average compensation (increased by 2% for each year retired; first year 100%, next year 102%, etc.).

Pension Payment Options

The election of a pension option is made at the time of application. Once a member has retired, the option choice is irrevocable. The pension effective date is the first of the calendar month following the date the member has satisfied the age and service requirements, has terminated public school employment, and has the completed application forms on file with the System for a period of 15 days. A retroactive pension can be paid for no more than 12 calendar months. Thus, delay in filing the application can result in a loss of some retroactive pension benefits. An applicant may select only one of the following options.

<u>Straight Life Pension</u> – the Straight Life Pension pays the largest level pension a retiree can receive during his or her lifetime and stops with the month of the retiree's death. There are no monthly benefits for a beneficiary. The pension benefit is computed with no beneficiary rights. If the retiree made contributions while an employee and has not received the total accumulated contributions before death, a refund of the balance of the contributions is made to the beneficiary of record. If the retiree did not make any contributions, there will not be payments to any beneficiaries.

<u>Survivor Options</u> - Under the Survivor Options, 100% Survivor Pension, 100% Equated, 75% Survivor Pension, 75% Equated, 50% Survivor Pension and 50% Equated, the reduction is an actuarial determination dependent upon the combined life expectancies of a retiree and a beneficiary and varies from case to case. A beneficiary may only be a spouse, brother, sister, parent, or child (including an adopted child) of a retiring member. If the beneficiary predeceases a retiree, the pension will revert to either the Straight Life or Straight Life Equated amount ("pop-up" provision). If, however, a retiree was single at the time of retirement and subsequently married, the retiree could request to nominate a new spouse if they elected the straight life option at retirement. Also, if a retiree was married at the time of retirement and has since been widowed and remarried, the retiree can request to nominate a new spouse as a pension beneficiary as long as they elected a survivor option for the spouse at the time of retirement.

<u>100% Survivor Pension</u> – pays a reduced pension to a retiree. The month after a retiree's death, the same amount will be paid to a designated beneficiary for the remainder of his or her lifetime.

<u>75% Survivor Pension</u> – pays a reduced pension to a retiree. The month after a retiree's death, 75% of the pension amount will be paid to a designated beneficiary for the remainder of his or her lifetime.

<u>50% Survivor Pension</u> – pays a reduced pension to a retiree. The month after a retiree's death, 50% of the pension amount will be paid to a designated beneficiary for the remainder of his or her lifetime.

<u>Equated Plan</u> – For MIP and Basic members, the Equated Plan may be combined with the Straight Life, 100% Survivor, 75% Survivor, or 50% Survivor pension by any member under age 61, except a disability applicant. The Equated Plan provides a higher pension every month until age 62, at which time the monthly pension is permanently decreased to a lower amount than the Straight Life, 100%, 75%, or 50% Survivor alone would provide.

The intent of the Equated Plan is for the retiree's pension to decrease at age 62 by approximately the same amount as that person's Social Security benefit will provide. The System pension until age 62 should be about the same as the combined System pension and Social Security after age 62.

The projected Social Security pension the retiring member obtains from the Social Security Administration and furnishes to the System is used in the Equated Plan calculation. The actual Social Security pension may vary from the estimate.

NOTE: The reduction in the pension at age 62 pertains to the Equated Plan only and affects only the retiree. A beneficiary under 100% Equated, 75% Equated or 50% Equated will receive the 100%, 75%, or 50% Survivor amount the month following the retiree's death as if the Equated Plan had not been chosen. A beneficiary does not participate in the Equated Plan.

Survivor Benefit

A non-duty survivor pension is available if a Member Investment Plan (MIP) member has 10 years of credited service or, if age 60 or older, with five years of credited service; the date they became a MIP member does not matter. The Basic Plan provides a survivor pension with 15 years of credited service or, if age 60 or older, with 10 years of credited service. An active member may nominate as a survivor beneficiary a spouse, child(ren) (including adopted child(ren)), brother, sister, or parent. If other than the spouse is nominated and a spouse exists, the spouse must waive this benefit. If no beneficiary has been nominated, the beneficiary is automatically the spouse; or, if there is no spouse, unmarried children under age 18 share the benefit equally until age 18. The benefit is computed as a regular pension but reduced in accordance with an Option 2 (100% survivor pension factor). The pension begins the first of the month following the member's death. In the event of death of a deferred member, the System begins payment to the nominated beneficiary at the time the member would have attained the minimum age qualification.

A duty survivor pension is payable if weekly Workers' Compensation is being paid to the eligible beneficiary due to the member's death. A spouse receives the benefit (based on a minimum of 10 years of service credit) reduced in accordance with a 100% survivor pension factor. If there is no spouse, unmarried children under age 18 share the benefit equally until age 18; if there is no spouse or child(ren), a disabled and dependent parent is eligible.

Postemployment Adjustments

A retiree who became a Member Investment Plan (MIP) member prior to July 1, 2010, receives an annual post-retirement non-compounded increase of 3% of the initial pension in the October following twelve months of retirement. Basic Plan members do not receive an annual post-retirement increase but are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions. Pension Plus members do not receive an annual post-retirement increase.

On January 1, 1990, pre-October 1, 1981 retirees received an increase that ranged from 1% to 22% dependent upon the pension effective date. On October 1, 1990, the base pension of all retirees with an effective pension date of January 1, 1987, or earlier was increased to include all prior post-retirement adjustments.

On January 1, 1986, all recipients through calendar year 1985 received a permanent 8% increase that established the 1986 base pension. In addition, each October, retirees with a pension effective date of January 1, 1987, or earlier receive a fixed increase equal to 3% of the base pension. Both increases are deducted from the distribution of excess investment income, if any. Beginning in 1983, eligible recipients receive an annual distribution of excess investment income, if any.

Contributions and Funded Status

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2020 valuation will be amortized over a 18-year period beginning October 1, 2020 and ending September 30, 2038.

The schedule below summarizes pension contribution rates in effect for the plan fiscal year 2021.

Pension Contribution Rates:

Plan Name	Member	District
Basic	0.0 – 4.0 %	19.78%
Member Investment Plan (MIP)	3.0 – 7.0%	19.78%
Pension Plus	3.0 – 6.4 %	16.82%
Pension Plus 2	6.2%	19.59%
Defined Contribution	0.0%	13.39%

The District’s contributions to MPSERS under all pension plans for the year ended June 30, 2022, inclusive of the MSPERS UAAL Stabilization, totaled $237,981.

MPSERS Plan Net Pension Liability (in thousands)

Total Pension Liability	$ 87,569,422
Plan Fiduciary Net Position	63,332,155
Net Pension Liability	$ 24,237,267
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	72.32%
Net Pension Liability as a Percentage of Covered Employee Payroll	261.49%
Total Covered Payroll	$ 9,269,004

Proportionate Share of Reporting Unit's Net Pension Liability

At June 30, 2022, the District reported a liability of $1,680,710 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2020. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the System during the measurement period by the percent of the pension contributions required from all applicable employers during the measurement period. At September 30, 2021, the District's proportion was 0.00709897%, which was a decrease from 0.00716783% at September 30, 2020

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2022, the District recognized pension expense of $294,423. At June 30, 2022, the District 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	$ 26,035	$ 9,897
Changes of assumptions	105,946	—
Net difference between projected and actual earnings on pension plan investments	—	540,343
Changes in proportion and differences between District contributions and proportionate share of contributions	103,398	17,821
District contributions subsequent to the measurement date*	224,758	—
Total	$ 460,137	$ 568,061

* This amount, reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2023.

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

Year ended June 30	Amount
2023	$ 23,039
2024	(73,261)
2025	(134,332)
2026	(148,128)

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

Valuation Date:	September 30, 2020
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return:	
MIP and Basic Plans (Non-Hybrid):	6.80% net of investment expenses
Pension Plus Plan (Hybrid):	6.80% net of investment expenses
Pension Plus 2:	6.00% net of investment expenses
Projected Salary Increases:	2.75% - 11.55%, including wage inflation of 2.75%
Cost-of-Living Adjustments:	3% annual non-compounded for MIP members
Mortality:	
Retirees:	RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Active Members:	RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Disabled Retirees:	RP-2014 Male and Female Disabled Annuitant Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Notes:

- Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2018 valuation. The total pension liability as of September 30, 2021, is based on the results of an actuarial valuation date of September 30, 2020, and rolled forward using generally accepted actuarial procedures, including the experience study.

- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: [4.4892 for non-university employers].

- Recognition period for assets in years: 5.0000.

- Full actuarial assumptions are available in the 2021 MPSERS Annual Comprehensive Financial Report found on the ORS website at (www.michigan.gov/orsschools).

Long-Term Expected Rate of Return on Investments

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. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2021 are summarized in the following table:

Investment Category	Target Allocation	Long-term Expected Real Rate of Return*
Domestic Equity Pools	25.0%	5.4%
Private Equity Pools	16.0%	9.1%
International Equity Pools	15.0%	7.5%
Fixed Income Pools	10.5%	(0.7)%
Real Estate and Infrastructure Pools	10.0%	5.4%
Absolute Return Pools	9.0%	2.6%
Real Return/Opportunistic Pools	12.5%	6.1%
Short-term Investment Pools	2.0%	(1.3)%
Total	**100.0%**	

*Long-term rates of return are net of administrative expenses and 2.0% inflation.

Rate of Return

For the fiscal year ended September 30, 2021, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 27.3%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 6.80% was used to measure the total pension liability (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2, hybrid plans provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 6.80% (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan). The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. 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.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.80% (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan), as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

	1% Decrease 5.8%/5.8%/5.0%	Current Single Discount Rate Assumption 6.8%/6.8%/6.0%	1% Increase 7.8%/7.8%/7.0%
District's proportionate share of the net pension liability	$2,402,960	$1,680,710	$1,081,918

Michigan Public School Employees' Retirement System (MPSERS) Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees' Retirement System September 30, 2021 Annual Comprehensive Financial Report, available here: (www.michigan.gov/orsschools).

Payables to the Michigan Public School Employees' Retirement System (MPSERS)

Payables to the pension plan totaling $39,741 at June 30, 2022 arise from the normal legally required contributions based on the accrued salaries payable at year end, expected to be liquidated with expendable available financial resources.

Note H – Other Postemployment Benefits

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS or "System") is a cost-sharing, multiple-employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members— eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System's health plan provides all eligible retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

Benefits Provided

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree healthcare recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP Graded plan members) the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008 (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

Retiree Healthcare Reform of 2012

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees' Retirement System, who earned service credit in the 12 months ending September 3, 2012 or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

Contributions and Funded Status

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer OPEB contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2020 valuation will be amortized over a 18-year period beginning October 1, 2020 and ending September 30, 2038.

The schedule below summarizes OPEB contribution rates in effect for fiscal year 2021:

OPEB Contribution Rates:

Benefit Structure	Member	District
Premium Subsidy	3.0%	8.43%
Personal Healthcare Fund (PHF)	0.0 %	7.57%

Required contributions to the OPEB plan from the District were $51,236 for the year ended June 30, 2022.

Net OPEB Liability (in thousands)

Total OPEB Liability	$ 12,225,697
Plan Fiduciary Net Position	10,742,198
Net OPEB Liability	$ 1,483,499
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	87.87%
Net OPEB Liability as a Percentage of Covered Employee Payroll	16.00%
Total Covered Payroll	$ 9,269,004

Proportionate Share of Reporting Unit's Net OPEB Liability

At June 30, 2022, the District reported a liability of $107,953 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2020. The District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the System during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2021, the District's proportion was 0.00707248%, which was a decrease from 0.00712868% at September 30, 2020.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2022, the District recognized an OPEB credit of $31,753. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ —	$ 308,143
Changes of assumptions	90,243	13,504
Net difference between projected and actual earnings on OPEB plan investments	—	81,366
Changes in proportion and differences between District contributions and proportionate share of contributions	61,077	19,399
District contributions subsequent to the measurement date*	49,899	—
Total	$ 201,219	$ 422,412

* This amount, reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2023.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30	Amount
2023	$ (52,753)
2024	(56,499)
2025	(68,221)
2026	(68,002)
2027	(22,647)
Thereafter	(2,970)

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

Valuation Date:	September 30, 2020
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return:	6.95% net of investment expense
Projected Salary Increases:	2.75% - 11.55%, including wage inflation of 2.75%
Healthcare Cost Trend Rate:	Pre-65 - 7.75% Year 1 graded to 3.5% Year 15; 3.0% Year 120 Post-65 – 5.25% Year 1 graded to 3.50% Year 15; 3.0% Year 120
Mortality:	
Retirees:	RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Active Members:	RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Disabled Retirees:	RP-2014 Male and Female Disabled Annuitant Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Other Assumptions:

Opt Out Assumptions:	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan.
Survivor Coverage:	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death.
Coverage Election at Retirement:	75% of male and 60% of female future retirees are assumed to elect coverage for one or more dependents.

Notes:

- Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual OPEB valuations beginning with the September 30, 2018 valuation. The total OPEB liability as of September 30, 2021, is based on the results of an actuarial valuation date of September 30, 2020, and rolled forward using generally accepted actuarial procedures, including the experience study.

- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: [5.6018 for non-university employers].

- Recognition period for assets in years: 5.0000.

- Full actuarial assumptions are available in the 2021 MPSERS Annual Comprehensive Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Rate of Return on Investments

The long-term expected rate of return on OPEB 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 OPEB 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. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2021, are summarized in the following table:

Investment Category	Target Allocation	Long-term Expected Real Rate of Return*
Domestic Equity Pools	25.0%	5.4%
Private Equity Pools	16.0%	9.1%
International Equity Pools	15.0%	7.5%
Fixed Income Pools	10.5%	(0.7)%
Real Estate and Infrastructure Pools	10.0%	5.4%
Absolute Return Pools	9.0%	2.6%
Real Return/Opportunistic Pools	12.5%	6.1%
Short-term Investment Pools	2.0%	(1.3)%
Total	**100.0%**	

* Long-term rates of return are net of administrative expenses and 2.0% inflation.

Rate of Return

For the fiscal year ended September 30, 2021, the annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense, was 27.14%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 6.95% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 6.95%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of 6.95 percent, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

	1% Decrease 5.95%	Current Discount Rate 6.95%	1% Increase 7.95%
District's proportionate share of the net OPEB liability	$200,596	$107,953	$29,332

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate

The following presents the District's proportionate share of the net OPEB liability calculated using assumed trend rates, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a trend rate that is 1 percentage point lower or 1 percentage point higher:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's proportionate share of the net OPEB liability	$26,275	$107,953	$199,850

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2021 MPSERS Annual Comprehensive Financial Report, available on the ORS website at www.michigan.gov/orsschools.

Payables to the OPEB Plan

Payables to the OPEB plan totaling $8,563 at June 30, 2022 arise from the normal legally required contributions based on the accrued salaries payable at year end, expected to be liquidated with expendable available financial resources.

Note I – Stewardship, Compliance and Accountability

The Academy has an unrestricted net position deficit of $1,879,190, and a total net position deficit of $1,716,418 as of June 30, 2022. These deficit net positions result primarily from the net pension liability of $1,788,634 and the net OPEB liability of $329,146 (net of deferred outflows and inflows of resources related to the pension plan and OPEB plan).

Note J – New Accounting Pronouncement Adopted

Governmental Accounting Standards Board (GASB) Statement No. 87, Leases was adopted by the Academy during the fiscal year ending June 30, 2022. This statement enhances the relevance and consistency of information about governments' leasing activities 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. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Academy was not required to recognize a right-to-use lease asset or lease liability as of July 1, 2021.

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REQUIRED SUPPLEMENTARY INFORMATION

THREE LAKES ACADEMY
Required Supplementary Information
Schedule of the Academy's Proportionate Share of the Net Pension Liability
MPSERS Cost-sharing Multiple-employer Plan
June 30, 2022

	Year Ended June 30, 2022	Year Ended June 30, 2021	Year Ended June 30, 2020
Academy's proportion of the net pension liability	0.00709897%	0.00716783%	0.00711554%
Academy's proportionate share of the net pension liability	$ 1,680,710	$ 2,462,228	$ 2,356,428
Academy's covered-employee payroll	$ 651,278	$ 640,740	$ 655,075
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	258.06%	384.28%	359.72%
Plan fiduciary net position as a percentage of the total pension liability	72.60%	59.72%	60.31%

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

Note: GASB Statement No 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

See accompanying notes to required supplementary information.

Year Ended June 30, 2019	Year Ended June 30, 2018	Year Ended June 30, 2017	Year Ended June 30, 2016	Year Ended June 30, 2015
0.00628867%	0.00537535%	0.00486333%	0.00500105%	0.00440336%
$ 1,890,488	$ 1,392,982	$ 1,213,361	$ 1,221,508	$ 969,906
$ 598,869	$ 476,245	$ 413,170	$ 411,887	$ 355,451
315.68%	292.49%	293.67%	296.56%	272.87%
62.36%	63.96%	63.01%	62.92%	66.15%

THREE LAKES ACADEMY
Required Supplementary Information
Schedule of the Academy's Proportionate Share of the Net OPEB Liability
MPSERS Cost-sharing Multiple-employer Plan
June 30, 2022

	Year Ended June 30, 2022	Year Ended June 30, 2021
Academy's proportion of the net OPEB liability	0.00707248%	0.00712868%
Academy's proportionate share of the net OPEB liability	$ 107,953	$ 381,902
Academy's covered-employee payroll	$ 651,278	$ 640,740
Academy's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	16.58%	59.60%
Plan fiduciary net position as a percentage of the total OPEB liability	87.33%	59.44%

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

Note: GASB Statement No 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

See accompanying notes to required supplementary information.

Year Ended June 30, 2020	Year Ended June 30, 2019	Year Ended June 30, 2018
0.00740629%	0.00699270%	0.00536082%
$ 531,605	$ 555,846	$ 474,726
$ 655,075	$ 598,869	$ 476,245
81.15%	92.82%	99.68%
48.46%	42.95%	36.53%

THREE LAKES ACADEMY
Required Supplementary Information
Schedule of Academy Pension Contributions
MPSERS Cost-sharing Multiple-employer Plan
June 30, 2022

	Year Ended June 30, 2022	Year Ended June 30, 2021	Year Ended June 30, 2020
Contractually required contribution	$ 237,981	$ 209,636	$ 204,401
Contributions in relation to the contractually required contribution	237,981	209,636	204,401
Contribution deficiency (excess)	$ -	$ -	$ -
Academy's covered-employee payroll	$ 644,019	$ 600,854	$ 652,155
Contributions as a percentage of covered employee payroll	36.95%	34.89%	31.34%

Note: GASB Statement No 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

See accompanying notes to required supplementary information.

Year Ended June 30, 2019	Year Ended June 30, 2018	Year Ended June 30, 2017	Year Ended June 30, 2016	Year Ended June 30, 2015
$ 190,551	$ 161,080	$ 127,578	$ 126,548	$ 129,878
190,551	161,080	127,578	126,548	129,878
$ -	$ -	$ -	$ -	$ -
$ 657,808	$ 589,633	$ 467,161	$ 401,777	$ 410,564
28.97%	27.32%	27.31%	31.50%	31.63%

THREE LAKES ACADEMY
Required Supplementary Information
Schedule of Academy OPEB Contributions
MPSERS Cost-sharing Multiple-employer Plan
June 30, 2022

	Year Ended June 30, 2022	Year Ended June 30, 2021
Contractually required contribution	$ 51,236	$ 51,830
Contributions in relation to the contractually required contribution	51,236	51,830
Contribution deficiency (excess)	$ -	$ -
Academy's covered-employee payroll	$ 644,019	$ 600,854
Contributions as a percentage of covered employee payroll	7.96%	8.63%

Note: GASB Statement No 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

See accompanying notes to required supplementary information.

	Year Ended June 30, 2020	Year Ended June 30, 2019	Year Ended June 30, 2018
	$ 56,236	$ 55,781	$ 46,436
	56,236	55,781	46,436
	$ -	$ -	$ -
	$ 652,155	$ 657,808	$ 589,633
	8.62%	8.48%	7.88%

Note A – Net Pension Liability and Contributions

Changes of benefit terms: There were no changes of benefit terms in 2021-22.

Changes of assumptions: There were no changes of benefit assumptions in 2021-22.

Note B – Net OPEB Liability and Contributions

Changes of benefit terms: There were no changes of benefit terms in 2021-22.

Changes of assumptions: There were no changes of benefit assumptions in 2021-22.

NONMAJOR GOVERNMENTAL FUND

THREE LAKES ACADEMY
Balance Sheet - Nonmajor Governmental Fund
June 30, 2022

	Special Revenue
	Student/School Activity
Assets	
Cash equivalents	$ 21,784
Liabilities and Fund Balances	
Liabilities	$ -
Fund balance	
Restricted	21,784
Total Liabilities and Fund Balance	$ 21,784

THREE LAKES ACADEMY
Statement of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Governmental Fund
For the year ended June 30, 2022

	Special Revenue Student/School Activity
Revenues	
Local sources:	
Revenue from student/school activities	$ 10,265
Expenditures	
Current	9,006
Net Change in Fund Balances	1,259
Fund Balance, Beginning of Year	20,525
Fund Balance, End of Year	$ 21,784

THREE LAKES ACADEMY
Student/School Activity Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2022

	Budget	Actual	Variance
Revenues			
Local sources	$ 10,386	$ 10,265	$ (121)
Expenditures			
Current:			
Other student/school activity	7,479	9,006	(1,527)
Net Change in Fund Balances	2,907	1,259	(1,648)
Fund Balances, Beginning of Year	20,525	20,525	-
Fund Balances, End of Year	$ 23,432	$ 21,784	$ (1,648)

INTERNAL CONTROL AND COMPLIANCE

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Where good ideas add up

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*

October 31, 2022

The Board of Directors
Three Lakes Academy

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Three Lakes Academy (the "Academy"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated October 31, 2022

Report on Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hungerford Nichols

Certified Public Accountants
Grand Rapids, Michigan

Hungerford Nichols CPAs + Advisors
Where good ideas add up

October 31, 2022

The Board of Education
Three Lakes Academy
Mackinac County, Michigan

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Three Lakes 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 and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letters to you dated April 14, 2020. 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. The significant accounting policies used by Three Lakes Academy are described in the notes to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2022. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

> Management's estimate of the liability of the payout for the employee compensated absences upon their retirement is based on expected payout. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.
>
> Management's estimate of the lives of capital assets. We evaluated the key factors and assumptions used 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. Certain amounts included in capital assets have been estimated by appraisers based on historical information for assets placed in service prior to implementation of GASB Statement No. 34.

Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. The most sensitive disclosures affecting the financial statements were related to the District's share of the net pension and net OPEB liabilities related to GASB Statements No. 68 and 75.

> The disclosure of the net pension liability and the net OPEB liability in the Notes to the financial statements were recorded as of June 30, 2022 based on information received from the Michigan Office of Retirement Services. We evaluated the key factors and assumptions used to develop these liabilities in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures 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. No significant adjustments were derived from the audit process.

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 31, 2022.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matter, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit'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 governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Per 7 CFR Part 210.14(b), and as detailed in the Michigan Department of Education (MDE) School Auditing Manual, the District must limit its net cash resources in the Food Service Fund to an amount that does not exceed 3 months average expenditures for its nonprofit school food service. Due to the impact of the COVID-19 pandemic on the School Nutrition Program, which resulted in increased reimbursement rates for meals served, many school districts in the State, including this one, now have an excess fund balance and must work with MDE to gain approval of a spend down plan for the subsequent school year. To assist in MDE monitoring efforts, all CPA firms performing audits of school districts in Michigan have been asked to identify districts with excess fund balance though this required communication with governance.

Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis and Schedules related to the Proportionate Share and Contributions of the District's Net Pension Liability, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on combining and individual fund statements and schedules, which accompany the financial statements but are not RSI. With respect to this 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 supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Other Comments

The District General Fund balance increased by $18,980 to $241,702 at June 30, 2022. This balance represents approximately 15.67 percent of the District's 2022-23 expenditure budget (down from 16.10 percent at June 30, 2021). Maintaining a fund balance of at least 10 to 20 percent of the ensuing year's expenditure budget is advisable for Three Lakes Academy. This gives the District more stable operating funds during the year helps avoid or reduce the necessity of borrowing for short-term cash flow purposes and acts as a buffer against the uncertainty of state aid revenues accruing to the District.

Closing

This communication is intended solely for the information and use of the Three Lakes Academy Board of Education and management and is not intended to be, and should not be, used by anyone other than these specified parties. We have furnished a copy of this letter to the Michigan Departments of Education and Treasury as an enclosure with the audited financial statements as required by the State of Michigan.

Hungerford Nichols

Certified Public Accountants