



**MUSKEGON HEIGHTS PUBLIC SCHOOL ACADEMY SYSTEM
MUSKEGON COUNTY, MICHIGAN**

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Muskegon Heights Public School Academy System
Muskegon Heights, Michigan

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 the Muskegon Heights Public School Academy System (the "Academy") as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

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

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.

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, budgetary comparison information, and the schedules of proportionate share of net pension and OPEB liabilities and contributions, 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 schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2023, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of 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.



Gabridge & Company, PLC
Grand Rapids, MI
October 31, 2023

Management's Discussion and Analysis

**Muskegon Heights Public School Academy System
Management's Discussion and Analysis
June 30, 2023**

This section of the Muskegon Heights Public School Academy System (the "Academy"), Muskegon County, Michigan's annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2023. It is to be read in conjunction with the Academy's financial statements, which immediately follow. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and is intended to provide the financial results for the fiscal year ending June 30, 2023.

Financial Highlights

- The assets and deferred outflows of the Academy exceeded the liabilities and deferred inflows at the close of this fiscal year by \$426,728 (shown as *net position*). The Academy had a deficit *unrestricted net position* of \$(822,696).
- Expenses of \$10,578,351 exceeded revenues of \$9,670,085 leading to a decrease in net position of \$908,266 during the year.
- During the year, the Academy's fund balances decreased by \$565,045, for an ending fund balance of \$963,742.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$574,313, or 6.2% of the general fund's total expenditures. Fund balance of the general fund *decreased* by \$230,902 during the year.

Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and supplemental 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 *district-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 district-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 the notes to the financial statements that explain the information in the basic financial statements and provide more detailed data. Supplementary information follows and includes budgetary comparison schedules for the general and food service funds as well as schedules showing the Academy's funding status of its pension and OPEB retirement plans.

District-wide Financial Statements

The district-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, liabilities, and deferred inflows. 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 district-wide statements report the Academy's net position, and how they have changed. Net position – the difference between the Academy's assets, deferred outflows and inflows, and liabilities - is one way to measure the Academy's financial health or position. Over time, increases or decreases in the Academy's net position are 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 changes in the Academy's student counts and the condition of school buildings and other facilities.

In the district-wide financial statements, the Academy's activities are presented as governmental activities. *Governmental activities* include the Academy's basic services, such as regular and special education, instructional support, transportation, administration, community services, food service, and athletics. State and federal aid revenues finance most of these activities.

Financial Analysis of the Academy as a Whole

The schedule on the following page summarizes the Academy's net position for each of the past two fiscal years.

MHPSAS's Net Position

ASSETS	2023	2022
<i>Current Assets</i>		
Cash and deposits	\$ 589,750	\$ 235,767
Accounts receivable	-	142,125
Due from other governments	2,846,850	2,160,576
Total Current Assets	3,436,600	2,538,468
<i>Noncurrent Assets</i>		
Capital assets, net	859,995	889,691
Total Assets	4,296,595	3,428,159
DEFERRED OUTFLOWS OF RESOURCES		
Pension related	632,171	588,598
OPEB related	216,856	360,435
Total Deferred Outflows of Resources	849,027	949,033
LIABILITIES		
<i>Current Liabilities</i>		
Accounts payable	2,416,688	630,387
Short-term notes payable	-	179,622
Unearned revenue	56,170	35,014
Current portion of long-term debt	-	9,424
Total Current Liabilities	2,472,858	854,447
<i>Noncurrent Liabilities</i>		
Net pension liability	1,626,675	1,218,019
Net OPEB liability	67,897	88,816
Long-term debt	-	813
Total Liabilities	4,167,430	2,162,095
DEFERRED INFLOWS OF RESOURCES		
Pension related	230,197	464,844
OPEB related	321,267	415,259
Total Deferred Inflows of Resources	551,464	880,103
NET POSITION		
Net investment in capital assets	859,995	879,454
Restricted	389,429	723,572
Unrestricted	(822,696)	(268,032)
Total Net Position	\$ 426,728	\$ 1,334,994

Reasons for significant changes in assets and liabilities can be summarized as follows:

- Cash and deposits increased by \$353,983 compared to the prior year. This was a result of the increase in accounts payable, net of the increase in grants receivable and the decrease in net position.

- Due from other governments increased by \$686,274 as the School had an ESSER grant receivable of \$969,238 at year end, which was collected in July 2023.
- Accounts payable increased by \$1,786,301 compared to the prior. This increase was caused by a transition in business managers at year-end causing more invoices than usual to be paid in July and August, rather than by June 30.

The results of the fiscal year's operations for the Academy as a whole are presented in the statement of activities, which shows the change in total net position for the year:

MHPSAS's Changes in Net Position

Revenues	2023	2022
Program Revenues		
Charges for services	\$ 102,841	\$ 99,455
Operating grants and contributions	4,275,871	5,330,432
<i>Total Program Revenues</i>	<u>4,378,712</u>	<u>5,429,887</u>
General Revenues		
Unrestricted state sources	5,291,266	5,481,781
Interest and investment earnings	107	108
<i>Total General Revenues</i>	<u>5,291,373</u>	<u>5,481,889</u>
<i>Total Revenues</i>	<u>9,670,085</u>	<u>10,911,776</u>
Expenses		
Instruction	3,827,866	3,906,385
Support services	5,641,602	6,228,309
Food service	1,009,295	1,096,119
Community services	98,387	135,167
Interest on long-term debt	1,201	959
<i>Total Expenses</i>	<u>10,578,351</u>	<u>11,366,939</u>
<i>Change in Net Position</i>	<u>(908,266)</u>	<u>(455,163)</u>
<i>Net Position at Beginning of Period</i>	<u>1,334,994</u>	<u>1,790,157</u>
<i>Net Position at End of Period</i>	<u>\$ 426,728</u>	<u>\$ 1,334,994</u>

Reasons for significant changes in revenues and expenses are summarized as follows:

- The student count decreased at the School, from 660 during FYE 2022 to 585 during FYE 2023. This led to the decrease in operating grants and contributions and unrestricted state sources. Overall, revenues were down \$1.24 million compared to 2022.
- The decreased student counts led to a decrease in operating expenses of approximately \$790,000.

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.

The Academy utilizes *governmental funds* within this report. 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 you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Since the district-wide financial statements and the fund financial statements use different methods of accounting to report the Academy's financial condition, a reconciliation is included in the financial statements showing the differences between the two types of statements.

Financial Analysis of the Academy's Funds

The Academy uses funds to record and analyze financial information. The Academy has three major funds.

The ***general fund*** is the chief operating fund of the Academy. At the end of the current fiscal year, unassigned fund balance of the general fund was \$574,313. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total general fund expenditures. Unassigned fund balance represents approximately 6.2% of total general fund expenditures.

The fund balance of the Academy's general fund decreased by \$230,902 during the year. The decrease was primarily caused by reduced pupil counts, leading to a decline in revenues for the Academy.

The ***food service fund***, a major fund, had a decrease of \$348,716 in fund balance and had an ending balance of \$107,771.

The ***technology services fund***, a nonmajor fund, had an increase of \$14,573 in fund balance during the year and had an ending fund balance of \$281,658.

General Fund Budgetary Highlights

During the year the Academy revised its budget to attempt to match changes in the school funding environment and current needs of students and faculty. State law requires that budgets be amended during the year so actual expenditures do not exceed appropriations.

Original budget compared to final budget. There were numerous significant changes to the original budget during the year as management and the Board became more informed about actual results.

Final budget compared to actual results. The Academy had the following minor expenditure in excess of the amount appropriated during the year ended June 30, 2023:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Basic programs	\$ 2,199,690	\$ 2,253,600	\$ (53,910)
Added needs	1,250,000	1,685,970	(435,970)
School administration	450,000	729,141	(279,141)
Operations and maintenance	1,500,000	1,524,529	(24,529)
Central support services	250,000	434,532	(184,532)
Other support services	3,000	5,602	(2,602)
Athletic activities	125,000	126,246	(1,246)
Community services	65,000	98,387	(33,387)

Capital Asset and Debt Administration

Capital Assets

At June 30, 2023, the Academy had \$859,995 invested in capital assets, a 3.3% decrease in the amount reported from the prior year. This net decrease of \$29,696 consisted of depreciation expense of \$205,934 net of capital outlay additions of \$176,238.

The Academy's current year major purchases consisted of new furniture and kitchen equipment upgrades.

More detailed information about the Academy's capital assets can be found in the notes to the financial statements section of this document.

Long-term Debt

The Academy had \$10,237 outstanding on a lease obligation at the beginning of the year, all of which was paid during the year.

More detailed information about the Academy's long-term debt can be found in the notes to the financial statements section of this document.

Economic Factors and Next Year's Budget and Rates

The Academy estimates that approximately \$9.5 million of revenues will be available for appropriation in the general fund in the upcoming budget. The Academy continues to review all budget line items for opportunities to reduce expenditures when possible while providing an excellent education to the community that it serves. The budget will be monitored during the year to identify any necessary amendments.

Requests for Information

This financial report is designed to provide our 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 information, contact:

Business Department
Muskegon Heights Public School Academy System
2441 Sanford Street
Muskegon Heights, MI 49444

Basic Financial Statements

Muskegon Heights Public School Academy System
Statement of Net Position
June 30, 2023

ASSETS

Current Assets

Cash and deposits	\$	589,750
Due from other governments		2,846,850
<i>Total Current Assets</i>		3,436,600

Noncurrent Assets

Capital assets being depreciated, net		859,995
<i>Total Assets</i>		4,296,595

DEFERRED OUTFLOWS OF RESOURCES

Pension related deferred outflows		632,171
OPEB related deferred outflows		216,856
<i>Total Deferred Outflows of Resources</i>		849,027

LIABILITIES

Current Liabilities

Accounts payable		2,416,688
Unearned revenue		56,170
<i>Total Current Liabilities</i>		2,472,858

Noncurrent Liabilities

Net pension liability		1,626,675
Net OPEB liability		67,897
<i>Total Liabilities</i>		4,167,430

DEFERRED INFLOWS OF RESOURCES

Pension related deferred inflows		230,197
OPEB related deferred inflows		321,267
<i>Total Deferred Inflows of Resources</i>		551,464

NET POSITION

Net investment in capital assets		859,995
<i>Restricted for:</i>		
Food service		107,771
Technology		281,658
<i>Unrestricted</i>		(822,696)
<i>Total Net Position</i>	\$	426,728

Muskegon Heights Public School Academy System
Statement of Activities
For the Year Ended June 30, 2023

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Instruction	\$ 3,827,866	\$ --	\$ 3,338,287	\$ --	\$ (489,579)
Support services	5,641,602	31,853	253,844	--	(5,355,905)
Community services	98,387	68,351	--	--	(30,036)
Food service	1,009,295	2,637	683,740	--	(322,918)
Interest on long-term debt	1,201	--	--	--	(1,201)
Total	\$ 10,578,351	\$ 102,841	\$ 4,275,871	\$ --	(6,199,639)
General Purpose Revenues:					
					5,291,266
					107
					<u>5,291,373</u>
					(908,266)
					<u>1,334,994</u>
					\$ 426,728

The Notes to the Financial Statements are an integral part of these Financial Statements

Muskegon Heights Public School Academy System
Balance Sheet
Governmental Funds
June 30, 2023

	<u>Special Revenue</u>			<u>Total Governmental Funds</u>
	<u>General</u>	<u>Food Service</u>	<u>Technology Services (nonmajor)</u>	
ASSETS				
Cash and deposits	\$ 311,984	\$ --	\$ 277,766	\$ 589,750
Due from other governments	2,809,651	33,307	3,892	2,846,850
Due from other funds	--	206,600	--	206,600
<i>Total Assets</i>	<u>\$ 3,121,635</u>	<u>\$ 239,907</u>	<u>\$ 281,658</u>	<u>\$ 3,643,200</u>
LIABILITIES				
Accounts payable	\$ 2,284,552	\$ 132,136	\$ --	\$ 2,416,688
Unearned revenue	56,170	--	--	56,170
Due to other funds	206,600	--	--	206,600
<i>Total Liabilities</i>	<u>2,547,322</u>	<u>132,136</u>	<u>--</u>	<u>2,679,458</u>
FUND BALANCE				
Restricted	--	107,771	281,658	389,429
Unassigned	574,313	--	--	574,313
<i>Total Fund Balance</i>	<u>574,313</u>	<u>107,771</u>	<u>281,658</u>	<u>963,742</u>
<i>Total Liabilities and Fund Balance</i>	<u>\$ 3,121,635</u>	<u>\$ 239,907</u>	<u>\$ 281,658</u>	<u>\$ 3,643,200</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Muskegon Heights Public School Academy System
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2023

Total Fund Balance - Governmental Funds	\$	963,742
Capital assets used in governmental activities are not financial resources, and therefore are not reported in the fund statement. This amount represents capital assets of \$2,509,825 less accumulated depreciation of \$1,649,830.		859,995
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the funds.		(1,224,701)
The net OPEB liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the funds.		(172,308)
Total Net Position - Governmental Activities	\$	<u>426,728</u>

Muskegon Heights Public School Academy System
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2023

	<u>Special Revenue</u>			<u>Total Governmental Funds</u>
	<u>General</u>	<u>Food Service</u>	<u>Technology Services (nonmajor)</u>	
Revenues				
Local sources	\$ 394,695	\$ 33,105	\$ 130,088	\$ 557,888
State sources	6,625,629	15,855	--	6,641,484
Federal sources	1,997,954	637,417	--	2,635,371
<i>Total Revenues</i>	<u>9,018,278</u>	<u>686,377</u>	<u>130,088</u>	<u>9,834,743</u>
Expenditures				
Instruction	3,939,570	--	--	3,939,570
Support services	5,199,785	--	115,515	5,315,300
Community services	98,387	--	--	98,387
Food service	--	1,035,093	--	1,035,093
Debt service, principal	10,237	--	--	10,237
Debt service, interest	1,201	--	--	1,201
<i>Total Expenditures</i>	<u>9,249,180</u>	<u>1,035,093</u>	<u>115,515</u>	<u>10,399,788</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(230,902)</u>	<u>(348,716)</u>	<u>14,573</u>	<u>(565,045)</u>
<i>Net Change in Fund Balance</i>	<u>(230,902)</u>	<u>(348,716)</u>	<u>14,573</u>	<u>(565,045)</u>
<i>Fund Balance at Beginning of Period</i>	805,215	456,487	267,085	1,528,787
<i>Fund Balance at End of Period</i>	<u>\$ 574,313</u>	<u>\$ 107,771</u>	<u>\$ 281,658</u>	<u>\$ 963,742</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Muskegon Heights Public School Academy System
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the Year Ended June 30, 2023

Total Net Change in Fund Balances - Governmental Funds	\$	(565,045)
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. This amount represents depreciation expense of \$205,934 less capital outlay additions of \$176,238.</p>		
		(29,696)
<p>The statement of net position reports the net OPEB liability and OPEB related deferrals related to the net OPEB liability as OPEB expense. However, the expenditures recorded on the governmental funds equals actual OPEB contributions.</p>		
		(28,668)
<p>The statement of net position reports the net pension liability and pension related deferrals related to the net pension liability as pension expense. However, the expenditures recorded on the governmental funds equals actual pension contributions.</p>		
		(130,436)
<p>Repayments of principal on long-term debt are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net position.</p>		
		10,237
<p>Some receivables are long-term in nature and are collectible beyond 60 days after the close of the fiscal year. However, the current receipts are reflected as revenues on the fund statements.</p>		
		(164,658)
Changes in Net Position - Governmental Activities	\$	<u>(908,266)</u>

Notes to the Financial Statements

Muskegon Heights Public School Academy System

Notes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Muskegon Heights Public School Academy System, Muskegon Heights, Michigan (the “Academy”) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies:

Reporting Entity

The Academy (located in the City of Muskegon Heights, Muskegon County, Michigan) was formed as a charter school pursuant to the Michigan School Code. The Academy’s authorizer is the School District of the City of Muskegon Heights (the “Authorizer”) who is paid 3% of state-aid payments received by the Academy. As such, the Academy provides education and related services to approximately 600 students in grades pre-kindergarten through 12th grade and provides all special education needs to children of Muskegon Heights from birth to five-years-old and eighteen to twenty-six. The Academy is governed by a Board of Directors nominated by the Academy and subject to the Authorizer’s appointment. The Academy is administered by the Superintendent appointed by the Board of Directors. Staffing, other than the Superintendent, Assistant Superintendent, Chief Financial Officer, and the Special Education Director, is provided through contractual arrangements with unrelated third parties.

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of Muskegon Heights Public School Academy System. There are no component units to be included. The criteria for including a component unit include significant operational or financial relationships with the Academy.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the special purpose government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by intergovernmental revenues are reported in total. The Academy has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include; 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Muskegon Heights Public School Academy System

Notes to the Financial Statements

Major governmental funds are reported as separate columns in the fund financial statements.

The Academy reports the following major governmental 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.

The **food service fund** is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for the food service program.

Additionally, the Academy reports the following fund type:

The **special revenue fund** (technology services) is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the *modified accrual basis of accounting*. Their revenues are recognized when they become measurable and available. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. Exceptions to this general rule include principal and interest on long-term debt, claims and judgments, and compensated absences which are recognized when due.

All governmental funds are accounted for on a spending or “flow of current financial resources” measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance is considered a measure of “available, spendable resources”.

Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available, spendable resources” during a period.

Muskegon Heights Public School Academy System

Notes to the Financial Statements

Budgets and Budgetary Accounting

Comparisons to budget are presented for each major fund. The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of a resolution.
4. Budgets for the general and special revenue funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).
5. The budgets are legally adopted at the activity level. Any revisions that alter the total expenditures at the activity level (legal level of budgetary control) must be approved by the Board of Directors.
6. Formal budgetary integration is employed as a management control device during the year for the General and special revenue funds.
7. Adoption and amendments of all budgets used by the Academy are governed by Michigan Law. The appropriation ordinances are based on the projected expenditures budget of the various activities of the Academy. Any amendment to the original budget must meet the requirements of Michigan Law. The Academy amended its budget for the current fiscal year.

Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Fund Equity

Cash and Cash Equivalents

Michigan law and Academy policy authorizes the Academy to invest in:

- a. 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. In a primary or fourth class school academy, the bonds, bills or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- b. Certificates of deposit issued by a state or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.

Muskegon Heights Public School Academy System

Notes to the Financial Statements

- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d. Securities issued or guaranteed by agencies or instrumentalities of the United States, United States or federal agency obligation repurchase agreements, and bankers' acceptances issued by a bank that is a member of the federal deposit insurance corporation.
- e. Mutual funds that are composed entirely of investment vehicles that are legal for direct investment by a school academy.
- f. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school academy.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year and all other outstanding balances between funds are referred to as "due to/from other funds" (i.e., the current portion of interfund loans).

All receivables are shown net of an allowance for uncollectibles, as applicable. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. No amounts have been deemed uncollectible during the current year.

Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements.

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist.

Donated capital assets are valued at acquisition value (the price that would be paid to acquire an asset with an equivalent service potential in an orderly market transaction) on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Muskegon Heights Public School Academy System

Notes to the Financial Statements

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Site improvements	10 - 20
Furniture and equipment	5 - 12
Equipment under lease agreements	5

Unearned Revenue

Governmental funds and the statement of net position report unearned revenue at year-end in connection with grants received in advance of related expenditures being incurred. The balance of unearned revenues will be recorded as revenue in future years when related expenditures are incurred.

Pension

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

Postemployment Benefits Other Than Pensions (OPEB)

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

Long-term Obligations

In the government-wide financial statements, the long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position.

State Aid Revenue

The Academy reports State of Michigan school aid in the fiscal year in which the Academy is entitled to the revenue as provided by the State of Michigan School Aid Appropriation Act. State funding accounted for 67.5% of the general fund revenue for the year. A certain portion of State

Muskegon Heights Public School Academy System

Notes to the Financial Statements

aid received by the Academy is restricted to cover specified expenses of the Academy, including special education costs. The unrestricted portion is for the use in the general operations of the Academy.

Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters and medical benefits to employees. The Academy carries commercial insurance for various risks of loss and employee benefits. The Academy has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

Net Position and Fund Balance Reporting

Governmental funds report fund balance in the following five categories:

Non-spendable – the related asset’s form does not allow expenditure of the balance. The assets are either; a) not in a spendable form or b) legally or contractually required to be maintained intact. Nonspendable fund balance would be equal to inventory, prepaid items, noncurrent financial assets, and the nonspendable portion of endowments.

Restricted - the related assets can only be spent for the specific purposes stipulated by constitution, external resource providers, or as identified in enabling legislation.

Committed - the related assets can only be spent for a specific purpose identified by formal resolution of the Academy’s governing board.

Assigned - the related assets can only be spent for a specific purpose identified by formal resolution of the Academy’s governing board. The Board has not delegated authority for the ability to assign fund balance.

Unassigned - is the residual classification and includes all spendable amounts not contained in the other classifications.

Muskegon Heights Public School Academy System

Notes to the Financial Statements

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Academy has one item that qualifies for reporting in this category; pension and other postemployment benefits related items reporting in the government-wide statement of net position.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Academy has two items that qualify for reporting in this category. These items are future resources yet to be recognized in relation to the pension and other postemployment benefit actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension and other postemployment benefit liability and the actual results. The amounts are amortized over a period determined by the actuary.

Net Position Flow Assumption

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

It is the Academy's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance Flow Assumptions

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

Muskegon Heights Public School Academy System

Notes to the Financial Statements

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

State law provides that the Academy shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Academy's actual expenditures and budgeted expenditures for the budgeted funds have been shown at the activity level. The approved budgets of the Academy for these budgetary funds were adopted at the activity level. During the year ended June 30, 2023, the Academy incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Basic programs	\$ 2,199,690	\$ 2,253,600	\$ (53,910)
Added needs	1,250,000	1,685,970	(435,970)
School administration	450,000	729,141	(279,141)
Operations and maintenance	1,500,000	1,524,529	(24,529)
Central support services	250,000	434,352	(184,352)
Other support services	3,000	5,602	(2,602)
Athletic activities	125,000	126,246	(1,246)
Community services	65,000	98,387	(33,387)

Government-wide Deficit

The Academy has an unrestricted net position deficit for government-wide activities in the amount of \$(822,696) as of June 30, 2023. The primary cause for the unrestricted net position deficit is the Academy's net pension liability and net OPEB liability.

Note 3 - Cash and Investments

The book balance on the financial statements for cash is \$589,750. The deposits are in financial institutions located in Michigan. All accounts are in the name of the Academy and a specific fund or common account. They are recorded in Academy records at fair value.

Muskegon Heights Public School Academy System

Notes to the Financial Statements

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned. As of year-end, \$483,208 of the Academy's bank balance of \$733,208 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Note 4 - Interfund Receivables, Payables, and Transfers

Interfund balances as of June 30, 2023 consisted of fund receivables and payables listed below:

Receivable Fund	Payable Fund	Amount
Food Service Fund	General Fund	\$ 206,600

Interfund balances resulted primarily from the time lag between the dates that: 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

Note 5 - Unearned Revenue

Governmental funds report unavailable revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of unearned revenue include charges for services payments received prior to meeting all eligibility requirements in the amount of \$56,170.

Note 6 - Capital Assets

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

<i>Governmental Activities</i>	Beginning Balance	Additions	Reductions	Ending Balance
Capital Assets Being Depreciated:				
Site improvements	\$ 1,054,785	\$ -	\$ -	\$ 1,054,785
Furniture and equipment	1,236,906	176,238	-	1,413,144
Intangible right to use assets	41,896	-	-	41,896
<i>Subtotal</i>	2,333,587	176,238	-	2,509,825
Less Accumulated Depreciation:				
Site improvements	699,797	55,827	-	755,624
Furniture and equipment	710,583	141,727	-	852,310
Intangible right to use assets	33,516	8,380	-	41,896
<i>Subtotal</i>	1,443,896	205,934	-	1,649,830
Capital Assets Being Depreciated, Net	889,691	(29,696)	-	859,995
<i>Capital Assets, Net</i>	\$ 889,691	\$ (29,696)	\$ -	\$ 859,995

Muskegon Heights Public School Academy System

Notes to the Financial Statements

Depreciation expense for the fiscal year amounted to \$205,934 and was allocated as follows:

Governmental Activities	
Support services	\$ 167,198
Food service	38,736
<i>Total Governmental Activities Depreciation</i>	\$ 205,934

Note 7 - Debt

Short-term Debt

The following is a summary of short-term debt transactions of the Academy for the year ended June 30, 2023:

Governmental Activities	Beginning Balance	Additions	Deletions	Ending Balance
Short-term Debt				
\$1,000,000 State aid anticipation notes due in monthly installments of \$92,552 including interest at 3.3% with final payment due in August 2022.	\$ 179,622	\$ -	\$ 179,622	\$ -

Long-term Debt

The following is a summary of the long-term debt transactions of the Academy for the year ended June 30, 2023:

Governmental Activities	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Long-term Debt					
July 2018 lease agreement with 60 monthly installments of \$817 including interest of 6.36% for copiers and office equipment. Mature in 2023.	\$ 10,237	\$ -	\$ 10,237	\$ -	\$ -

Note 8 - Pension Plan

Plan Description

The Michigan Public School Employees' Retirement System ("System" or "MPSERS") is a cost-sharing, multiple-employer, state-wide, defined benefit public employee retirement plan and a fiduciary component unit of 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.

Muskegon Heights Public School Academy System

Notes to the Financial Statements

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 & 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 Michigan.gov/ORSSchools.

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.

Contributions

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 Sept. 30, 2021, valuation will be amortized over a 17-year period beginning Oct. 1, 2021 and ending Sept. 30, 2038.

Muskegon Heights Public School Academy System

Notes to the Financial Statements

The schedule below summarizes pension contribution rates in effect for fiscal year ended Sept. 30, 2022:

Benefit Structure	Member	Non-Universities
Basic	0.0 - 4.0%	20.14%
Member investment plan	3.0 - 7.0%	20.14%
Pension plus	3.0 - 6.4%	17.22%
Pension plus 2	6.2%	19.93%
Defined contribution	0.0%	13.73%

Required contributions to the pension plan from the Academy were \$147,214 for the year ended Sept. 30, 2022.

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

At June 30, 2023, the Academy reported a liability of \$1,626,675 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of Sept. 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2021. The Academy'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 pension contributions required from all applicable employers during the measurement period. At Sept. 30, 2022, the Academy's proportion was 0.00433 percent, which was decrease of 0.00082 percent from its proportion measured as of Sept. 30, 2021.

For the year ending June 30, 2023, the Academy recognized pension expense of \$277,648. At June 30, 2023, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ 16,272	\$ 3,637
Changes of assumptions	279,521	-
Net difference between projected and actual earnings on pension plan investments	3,815	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	221,215	226,560
Employer contributions subsequent to the measurement date	111,348	-
Total	\$ 632,171	\$ 230,197

Contributions subsequent to the measurement date reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2024. Other

Muskegon Heights Public School Academy System

Notes to the Financial Statements

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

Plan Year Ended		
September 30	Amount:	
2023	\$	100,687
2024		81,650
2025		36,495
2026		71,794

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:

Valuation Date:	September 30, 2021
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return:	
- MIP and Basic Plans:	6.00%, net of investment expenses
- Pension Plus Plan:	6.00%, net of investment expenses
- Pension Plus 2 Plan:	6.00%, net of investment expenses
Projected Salary Increases:	2.75 - 11.55%, including wage inflation at 2.75%
Cost-of-Living Pension 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.

Muskegon Heights Public School Academy System

Notes to the Financial Statements

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 Sept. 30, 2018 valuation. The total pension liability as of Sept. 30, 2022, is based on the results of an actuarial valuation date of Sept. 30, 2021, 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: 4.3922 for non-university employers.

Recognition period for assets in years is 5.0000.

Full actuarial assumptions are available in the 2022 MPSERS Annual Comprehensive Financial Report found on the ORS website at Michigan.gov/ORSSchools.

Long-term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a buildingblock 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 Sept. 30, 2022, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return*
Domestic equity pools	25.0%	5.1%
Private equity pools	16.0	8.7
International equity pools	15.0	6.7
Fixed income pools	13.0	(0.2)
Real estate and infrastructure pools	10.0	5.3
Absolute return pools	9.0	2.7
Real return/opportunistic pools	10.0	5.8
Short-term investment pools	2.0	(0.5)
Total	100.0%	

*Long-term rates of return are net of administrative expenses and 2.2% inflation.

Muskegon Heights Public School Academy System

Notes to the Financial Statements

Rate of Return

For the fiscal year ended Sept. 30, 2022, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was (4.18)%. 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 6.00% was used to measure the total pension liability (6.00% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan, 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 6.00% (6.00% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan). 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 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 Academy's proportionate share of the net pension liability to changes in the discount rate

The following presents the Academy's proportionate share of the net pension liability calculated using the discount rate of 6.00% (6.00% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan), as well as what the Academy'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	Current Discount	1% Increase
(5.0%)	Rate (6.0%)	(7.0%)
\$2,146,607	\$1,626,675	\$1,198,228

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

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS ACFR, available on the ORS website at Michigan.gov/ORSSchools.

Note 9 - Postemployment Benefits Other Than Pensions (OPEB)

Plan Description

The Michigan Public School Employees' Retirement System ("System" or "MPERS") is a cost-sharing, multiple-employer, state-wide, defined benefit public employee retirement plan and a

Muskegon Heights Public School Academy System

Notes to the Financial Statements

fiduciary component unit of 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 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 Jan. 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.

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 Sept 3, 2012 or were on an approved professional services or military leave of absence on Sept. 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 Feb. 1, 2013.

Muskegon Heights Public School Academy System

Notes to the Financial Statements

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

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 Sept. 30, 2021, valuation will be amortized over a 17-year period beginning Oct. 1, 2021 and ending Sept. 30, 2038.

The schedule below summarizes OPEB contribution rates in effect for fiscal year ended Sept. 30, 2022:

Benefit Structure	Member	Non-Universities
Premium subsidy	3.00%	8.09%
Personal healthcare fund (PHF)	0.00%	7.23%

Required contributions to the OPEB plan from the Academy were \$24,418 for the year ended Sept. 30, 2022.

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

At June 30, 2023, the Academy reported a liability of \$67,897 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of Sept. 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2021. The Academy'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

Muskegon Heights Public School Academy System

Notes to the Financial Statements

applicable employers during the measurement period. At Sept. 30, 2022, the Academy's proportion was 0.00321 percent, which was a decrease of 0.00261 percent from its proportion measured as of Oct. 1, 2021.

For the year ending June 30, 2023, the Academy recognized OPEB expense of \$3,970. At June 30, 2023, the Academy 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
Differences between actual and expected experience	\$ -	\$ 132,984
Changes of assumptions	60,519	4,928
Net difference between projected and actual earnings on pension plan investments	5,307	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	148,082	183,355
Employer contributions subsequent to the measurement date	2,948	-
<i>Total</i>	\$ 216,856	\$ 321,267

Contributions subsequent to the measurement date reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Plan Year Ended September 30	Amount:
2023	\$ (17,374)
2024	(39,238)
2025	(15,498)
2026	(6,122)
2027	(23,524)
Thereafter	(5,603)

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.

Muskegon Heights Public School Academy System

Notes to the Financial Statements

Additional information as of the latest actuarial valuation follows:

Valuation Date:	September 30, 2021
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return:	6.00%, net of investment expenses
Projected Salary Increases:	2.75 - 11.55%, including wage inflation at 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 3.5% 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.
Other Assumptions:	
Opt-Out Assumption	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 1 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 pension valuations beginning with the Sept. 30, 2018 valuation. The total OPEB liability as of Sept. 30, 2022, is based on the results of an actuarial valuation date of Sept. 30, 2021, 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: 6.2250 for non-university employers.

Recognition period for assets in years is 5.0000.

Muskegon Heights Public School Academy System

Notes to the Financial Statements

Full actuarial assumptions are available in the 2022 MPSERS Annual Comprehensive Financial Report found on the ORS website at Michigan.gov/ORSSchools.

Long-term Expected Return on Plan Assets

The long-term expected rate of return on OPEB plan investments was determined using a buildingblock 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 Sept. 30, 2022, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return*
Domestic equity pools	25.0%	5.1%
Private equity pools	16.0	8.7
International equity pools	15.0	6.7
Fixed income pools	13.0	(0.2)
Real estate and infrastructure pools	10.0	5.3
Absolute return pools	9.0	2.7
Real return/opportunistic pools	10.0	5.8
Short-term investment pools	2.0	(0.5)
Total	100.0%	

*Long-term rates of return are net of administrative expenses and 2.2% inflation.

Rate of Return

For the fiscal year ended Sept. 30, 2022, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was (4.99)%. 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 6.00% 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 6.00%. 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

Muskegon Heights Public School Academy System

Notes to the Financial Statements

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 Academy's proportionate share of the net OPEB liability to changes in the discount rate

The following presents the Academy's proportionate share of the net OPEB liability calculated using the discount rate of 6.95%, as well as what [the employer]'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 higher:

1% Decrease	Current Discount	1% Increase
5.00%	Rate - 6.00%	7.00%
\$113,890	\$67,897	\$29,165

Sensitivity of the Academy's proportionate share of the net OPEB liability to Healthcare Cost Trend Rate

The following presents the Academy's proportionate share of the net OPEB liability calculated using assumed trend rates, as well as what the Academy's proportionate share of 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	1% Increase
	Cost Trend Rate	
\$28,432	\$67,897	\$112,197

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2022 MPSERS ACFR, available on the ORS website at Michigan.gov/ORSSchools.

Note 10 - Related Party Transactions

The Academy paid the School District of the City of Muskegon Heights authorizer fees in the amount of \$158,738 for the year ended June 30, 2023. The Academy also leases all buildings and personal property from the Authorizer for an annual payment of \$4. The lease commenced July 9, 2012 and expires upon the extinguishment of all debt owed by the Authorizer.

Muskegon Heights Public School Academy System

Notes to the Financial Statements

Note 11 - Contingent Liabilities

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement to the grantor or regulatory agencies. However, management believes such disallowances, if any, will not be material to the financial position of the Academy.

Note 12 - Subsequent Events and Commitments

Management is not aware of any subsequent events or commitments that would have a significant impact on the financial condition of the Academy

Required Supplementary Information

Muskegon Heights Public School Academy System
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended June 30, 2023

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
				<u>Final to Actual</u>
Revenues				
Local sources	\$ 182,589	\$ 400,000	\$ 394,695	\$ (5,305)
State sources	7,995,755	6,620,519	6,625,629	5,110
Federal sources	1,263,178	2,553,434	1,997,954	(555,480)
Total Revenues	<u>9,441,522</u>	<u>9,573,953</u>	<u>9,018,278</u>	<u>(555,675)</u>
Expenditures				
Instruction				
Basic programs	2,199,690	2,199,690	2,253,600	(53,910)
Added needs	833,144	1,250,000	1,685,970	(435,970)
Total Instruction	<u>3,032,834</u>	<u>3,449,690</u>	<u>3,939,570</u>	<u>(489,880)</u>
Support Services				
Pupil support services	922,302	650,000	580,522	69,478
Instructional staff support services	1,380,564	1,031,901	336,494	695,407
General administration	580,662	1,375,000	977,403	397,597
School administration	449,146	450,000	729,141	(279,141)
Business support services	322,696	315,000	92,629	222,371
Operations and maintenance	1,689,961	1,500,000	1,524,529	(24,529)
Pupil transportation services	450,586	485,000	392,867	92,133
Central support services	146,628	250,000	434,352	(184,352)
Other support services	212,830	3,000	5,602	(2,602)
Athletic activities	--	125,000	126,246	(1,246)
Total Support Services	<u>6,155,375</u>	<u>6,184,901</u>	<u>5,199,785</u>	<u>985,116</u>
Community services	<u>118,437</u>	<u>65,000</u>	<u>98,387</u>	<u>(33,387)</u>
Debt service	<u>8,173</u>	<u>13,000</u>	<u>11,438</u>	<u>1,562</u>
Total Expenditures	<u>9,314,819</u>	<u>9,712,591</u>	<u>9,249,180</u>	<u>463,411</u>
Excess (Deficiency) of Revenues				
Over Expenditures	<u>126,703</u>	<u>(138,638)</u>	<u>(230,902)</u>	<u>(92,264)</u>
Net Change in Fund Balance	<u>126,703</u>	<u>(138,638)</u>	<u>(230,902)</u>	<u>(92,264)</u>
Fund Balance at Beginning of Period	805,215	805,215	805,215	--
Fund Balance at End of Period	<u>\$ 931,918</u>	<u>\$ 666,577</u>	<u>\$ 574,313</u>	<u>\$ (92,264)</u>

Muskegon Heights Public School Academy System
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Food Service
For the Year Ended June 30, 2023

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
				<u>Final to Actual</u>
Revenues				
Local sources	\$ --	\$ 26,343	\$ 33,105	\$ 6,762
State sources	899,973	13,488	15,855	2,367
Federal sources	9,595	571,146	637,417	66,271
Total Revenues	<u>909,568</u>	<u>610,977</u>	<u>686,377</u>	<u>75,400</u>
Expenditures				
Food service	896,845	1,067,464	1,035,093	32,371
Total Expenditures	<u>896,845</u>	<u>1,067,464</u>	<u>1,035,093</u>	<u>32,371</u>
Excess (Deficiency) of Revenues				
Over Expenditures	<u>12,723</u>	<u>(456,487)</u>	<u>(348,716)</u>	<u>107,771</u>
Net Change in Fund Balance	12,723	(456,487)	(348,716)	107,771
<i>Fund Balance at Beginning of Period</i>	456,487	456,487	456,487	--
Fund Balance at End of Period	<u>\$ 469,210</u>	<u>\$ --</u>	<u>\$ 107,771</u>	<u>\$ 107,771</u>

Muskegon Heights Public School Academy
Schedule of Academy's Proportionate Share of Net Pension Liability
Michigan Public School Employee Retirement Plan
Last Nine Fiscal Years (Amounts were determined as of September 30 of each fiscal year)

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Academy's Portion of Net Pension Liability (%)	0.00433%	0.00514%	0.00386%	0.00427%	0.00390%	0.00201%	0.00174%	0.00168%	0.00037%
Academy's Proportionate Share of Net Pension Liability	\$ 1,626,675	\$ 1,218,019	\$ 1,326,917	\$ 1,412,637	\$ 1,172,693	\$ 521,094	\$ 432,946	\$ 411,071	\$ 81,033
Academy's Covered Payroll	\$ 311,784	\$ 522,958	\$ 368,574	\$ 302,276	\$ 460,632	\$ 177,920	\$ 147,292	\$ 139,050	\$ 144,837
Academy's Proportionate Share of Net Pension Liability as a Percentage of its Covered Payroll	521.73%	232.91%	360.01%	467.33%	254.58%	292.88%	293.94%	295.63%	55.95%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	60.77%	72.60%	59.72%	60.31%	62.36%	64.21%	63.27%	63.17%	66.20%

Muskegon Heights Public School Academy System
Schedule of Academy's Pension Contributions
Michigan Public School Employee Retirement Plan
Last Nine School District Fiscal Years (Amounts determined as of June 30 of each year)

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily Required Contributions	\$ 147,214	\$ 154,475	\$ 106,155	\$ 113,318	\$ 106,223	\$ 47,165	\$ 49,170	\$ 32,467	\$ 31,144
Contributions in Relation to Statutorily Required Contributions	147,214	154,475	106,155	113,318	106,223	47,165	49,170	32,467	31,144
Contribution Deficiency (Excess)	<u>\$ -</u>								
Academy's Covered Payroll	\$ 36,441	\$ 433,336	\$ 495,072	\$ 320,781	\$ 303,885	\$ 449,967	\$ 147,292	\$ 139,050	\$ 144,837
Contributions as a Percentage of Covered Payroll	403.98%	35.65%	21.44%	35.33%	34.95%	10.48%	33.38%	23.35%	21.50%

Muskegon Heights Public School Academy System
Schedule of Academy's Proportionate Share of Net OPEB Liability
Michigan Public School Employee Retirement Plan
Last Six Fiscal Years (Amounts were determined as of September 30 of each fiscal year)

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Academy's Portion of Net OPEB Liability (%)	0.00321%	0.58200%	0.41400%	0.34400%	0.00540%	0.00199%
Academy's Proportionate Share of Net OPEB Liability	\$ 67,897	\$ 88,816	\$ 221,957	\$ 247,174	\$ 428,985	\$ 175,940
Academy's Covered Payroll	\$ 311,784	\$ 522,958	\$ 368,574	\$ 302,276	\$ 460,632	\$ 177,920
Academy's Proportionate Share of Net OPEB Liability as a Percentage of its Covered Payroll	21.78%	16.98%	60.22%	81.77%	93.13%	98.89%
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	83.09%	87.33%	59.44%	48.46%	42.95%	36.39%

Muskegon Heights Public School Academy System
Schedule of Academy's OPEB Contributions
Michigan Public School Employee Retirement Plan
Last Six Academy Fiscal Years (Amounts determined as of June 30 of each year)

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily Required Contributions	\$ 24,418	\$ 43,195	\$ 29,272	\$ 23,644	\$ 35,030	\$ 15,468
Contributions in Relation to Statutorily Required Contributions	24,418	43,195	29,272	23,644	35,030	15,468
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Academy's Covered Payroll	\$ 36,441	\$ 433,336	\$ 495,072	\$ 320,781	\$ 303,885	\$ 449,967
Contributions as a Percentage of Covered Payroll	67.01%	9.97%	5.91%	7.37%	11.53%	3.44%



**MUSKEGON HEIGHTS PUBLIC SCHOOL ACADEMY SYSTEM
MUSKEGON COUNTY, MICHIGAN**

SINGLE AUDIT ACT COMPLIANCE

YEAR ENDED JUNE 30, 2023

Muskegon Heights Public School Academy System
Schedule of Expenditures of Federal Awards
June 30, 2023

<i>Federal Grantor / Pass-through Grantor / Program / Project Number</i>	<i>Assistance Listing Number</i>	<i>Program or Award Amount</i>	<i>Accrued Revenue at July 1, 2022</i>	<i>Grant Auditor Report Timing</i>	<i>Current Year Receipts *</i>	<i>Current Year Expenditures</i>	<i>Accrued Revenue at June 30, 2023</i>
U.S. Department of Agriculture:							
<i>Passed Through Michigan Department of Education:</i>							
Child Nutrition Cluster:							
221961 Supply Chain Assistance (2021-22)	10.555	\$ 401,966	\$ 61,398	\$ 44,047	\$ 17,351	\$ -	\$ -
221960 National School Lunch Program (2021-22)	10.555	52,358	-	443	51,915	52,358	-
231960 National School Lunch Program (2022-23)	10.555	273,494	-	-	254,472	273,494	19,022
221971 School Breakfast Program (2021-22)	10.553	153,591	25,808	18,431	7,377	-	-
221970 School Breakfast Program (2021-22)	10.553	26,740	-	-	26,740	26,740	-
231970 School Breakfast Program (2022-23)	10.553	139,040	-	-	129,380	139,040	9,660
220900 SFSP Operating (2021-22)	10.559	-	-	-	9,548	9,548	-
220904 National School Lunch Program-Extended SFSP (2021-22)	10.559	4,013	4,013	-	4,013	-	-
220910 Supply Chain Assistance (2021-22)	10.555	-	-	-	18,924	18,924	-
230910 Supply Chain Assistance (2022-23)	10.555	-	-	-	11,289	11,289	-
Bonus Commodities - 2023	10.555	11,512	-	-	11,512	11,512	-
Entitlement Commodities - 2023	10.555	44,089	-	-	44,089	44,089	-
Total Child Nutrition Cluster		1,106,803	91,219	62,921	586,610	586,994	28,682
221920 Child and Adult Care Food Program (2021-22)	10.558	80,805	15,457	14,535	4,379	3,457	-
231920 Child and Adult Care Food Program (2022-23)	10.558	-	-	-	41,264	44,007	2,743
222010 Child and Adult Care Food Program (2021-22)	10.558	3,999	736	685	198	147	-
232010 Child and Adult Care Food Program (2022-23)	10.558	-	-	-	2,041	2,184	143
COVID-19 220980 Pandemic EBT Local Level Costs	10.649	-	-	-	628	628	-
Total U.S. Department of Agriculture		1,191,607	107,412	78,141	635,120	637,417	31,568
U.S. Department of Education:							
Title I, Part A - Educationally Deprived							
221530 2122	84.010	523,261	(861)	-	116,671	117,532	-
231530 2223	84.010	413,996	-	-	-	127,587	127,587
<i>Passed through Muskegon Area ISD:</i>							
6010 - RAG Funds	84.010	123,121	1,905	-	83,976	82,071	-
Total Title I, Part A		\$ 1,060,378	\$ 1,044	\$ -	\$ 200,647	\$ 327,190	\$ 127,587

Muskegon Heights Public School Academy System
Schedule of Expenditures of Federal Awards
June 30, 2023

<i>Federal Grantor / Pass-through Grantor / Program / Project Number</i>	<i>Assistance Listing Number</i>	<i>Program or Award Amount</i>	<i>Accrued Revenue at July 1, 2022</i>	<i>Grant Auditor Report Timing</i>	<i>Current Year Receipts *</i>	<i>Current Year Expenditures</i>	<i>Accrued Revenue at June 30, 2023</i>
U.S. Department of Education (continued):							
Title II, Part A - Improving Teacher Quality State Grants							
220520 2122	84.367	\$ 82,155	\$ 23,374	\$ -	\$ 79,544	\$ -	\$ (56,170)
Total Title II, Part A		82,155	23,374	-	79,544	-	(56,170)
MICLSD							
210210 Subgrantees	84.371	608,000	(14,403)	-	-	14,403	-
220210 Subgrantees	84.371C	576,444	372,671	-	337,649	203,773	238,795
Total MICLSD		1,184,444	358,268	-	337,649	218,176	238,795
Title IV, Part A							
220750-2122	84.424	64,652	1,368	-	1,528	160	-
230750-2223	84.424	45,053	-	-	-	45,053	45,053
Total Title IV, Part A		109,705	1,368	-	1,528	45,213	45,053
GEER / ESSER - COVID-19 FUNDS							
COVID-19 - 203720 1920 - ESSER I Formula	84.425D	373,622	68,617	68,617	-	-	-
COVID-19 - 211202 2122 - GEER II Teacher & Support Staff Payme	84.425C	26,250	(19,750)	-	(19,750)	-	-
COVID-19 - 213712 2021 - ESSER II Formula	84.425D	1,101,307	58,717	58,717	-	912,212	912,212
COVID-19 - 213713 2122 - ARP/ESSER III Formula	84.425U	2,475,138	282,316	6,481	275,835	57,026	57,026
Total GEER / ESSER		3,976,317	389,900	133,815	256,085	969,238	969,238
Total Passed Through Michigan Department of Education		7,481,485	879,461	211,956	1,426,597	2,115,163	1,356,071
Total U.S. Department of Education (Passed through Michigan Department of Ed)		\$ 6,412,999	\$ 773,954	\$ 133,815	\$ 875,453	\$ 1,559,817	\$ 1,324,503

Muskegon Heights Public School Academy System
Schedule of Expenditures of Federal Awards
June 30, 2023

<i>Federal Grantor / Pass-through Grantor / Program / Project Number</i>	<i>Assistance Listing Number</i>	<i>Program or Award Amount</i>	<i>Accrued Revenue at July 1, 2022</i>	<i>Grant Auditor Report Timing</i>	<i>Current Year Receipts *</i>	<i>Current Year Expenditures</i>	<i>Accrued Revenue at June 30, 2023</i>
U.S. Department of Education (continued):							
Individuals with Disabilities Education ACT (IDEA) - Special Education Cluster							
8013 - IDEA Grants to States (2021-22)	84.027	\$ 220,711	\$ 57,005	\$ -	\$ 57,005	\$ -	\$ -
8013 - IDEA Grants to States (2022-23)	84.027	340,930	-	-	283,925	340,930	57,005
8053 - IDEA Preschool (2022-23)	84.173	17,239	-	-	17,239	17,239	-
Total IDEA / Special Education Cluster		578,880	57,005	-	358,169	358,169	57,005
Total U.S. Department of Education (Passed through MAISD)		578,880	57,005	-	358,169	358,169	57,005
U.S. Department of Health and Human Services:							
<i>Passed through Muskegon Area ISD:</i>							
Medical Assistance Program							
22-23 Medicaid Outreach / Medicaid Cluster	93.778	-	-	-	199	199	-
Total U.S. Department of Health and Human Services		-	-	-	199	199	-
Total Federal Financial Assistance		\$ 8,183,486	\$ 938,371	\$ 211,956	\$ 1,868,941	\$ 2,555,602	\$ 1,413,076

* Reconciles with Michigan Department of Education's grant auditor report, however, some grant receipts were reported as received in FY 2022 when actually received in FY 20223 due to the timing difference of the grant payments from the Michigan Department of Education (June) and the subsequent receipt of the grant funds by the Academy (July). See grant auditor report timing column for the reconciliation.

Muskegon Heights Public School Academy System

Notes to the Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Muskegon Heights Public School Academy System (the "Academy") under programs of the federal government for the year ended June 30, 2023. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Academy.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting, which is described in Note 1 to the Academy's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where applicable and have been identified in the Schedule.

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been included and all grant requirements have been met.

The Schedule has been arranged to provide information on both the actual cash received and the revenue recognized. Accordingly, the effects of accruals of accounts receivable, unearned revenue, and accounts payable items at both the beginning and the end of the fiscal year have been reported.

Expenditures are in agreement with amounts reported in the financial statements and the grant financial reports. The amounts on the Grant Auditor Report reconcile with this Schedule.

The Academy has elected not to use the 10-percent de minimus indirect cost rate to recover indirect costs as allowed under the Uniform Guidance.

Note 3 - Noncash Assistance

The value of the noncash assistance received was determined in accordance with the provisions of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The grantee received no noncash assistance during the year ended June 30, 2023 that is not included on the schedule of expenditures of federal awards.

Muskegon Heights Public School Academy System

Notes to the Schedule of Expenditures of Federal Awards

Note 4 - Reconciliation to the Schedule of Expenditures of Federal Awards

The following schedule reconciles federal revenues reported in the fund financial statements to the federal expenditures reported in the Schedule:

Federal revenue reported in the financial statements	
Governmental funds	\$ 2,635,371
Subtract	
Prior year unavailable federal revenues recognized during the current year	<u>(79,769)</u>
<i>Total expenditures of federal awards</i>	<u><u>\$ 2,555,602</u></u>

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

To the Board of Directors
Muskegon Heights Public School Academy System
Muskegon Heights, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Muskegon Heights Public School Academy System (the "Academy"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated October 31, 2023.

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 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.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2023-001 through 2023-005 and 2023-008 to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2023-006 and 2023-007 to be significant deficiencies.

Report on Compliance and Other Matters

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

The Academy's Response to Findings

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

Purpose of This Report

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



Gabridge & Company, PLC
Grand Rapids, MI
October 31, 2023

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE
UNIFORM GUIDANCE

To the Board of Directors
Muskegon Heights Public School Academy System
Muskegon Heights, Michigan

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Muskegon Heights Public School Academy System's (the "Academy") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Academy's major federal programs for the year ended June 30, 2023. The Academy's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Academy complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Academy and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Academy's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the

requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Academy's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Academy's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Academy's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Academy's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Academy's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2023-009, 2023-010, and 2023-011. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2023-009, 2023-010, and 2023-011 to be material weaknesses.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Gabridge & Company

Gabridge & Company, PLC
Grand Rapids, MI
October 31, 2023

**Muskegon Heights Public School Academy System
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued	Unmodified
Internal controls over financial reporting	
Material weaknesses identified?	Yes
Significant deficiencies identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	Yes

Federal Awards

Internal control over major programs	
Material weaknesses identified?	Yes
Significant deficiencies identified not considered to be material weaknesses?	No
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516?	Yes

Identification of Major Programs

Name of Federal Program or Cluster	Assistance Listing Number
Education Stabilization Fund	84.425
Child Nutrition Cluster	10.553, 10.555, and 10.559
Dollar threshold used to distinguish between Type A and B programs?	\$750,000
Auditee qualified as a low-risk auditee?	No

Muskegon Heights Public School Academy System

SECTION II – FINANCIAL STATEMENT FINDINGS

2023-001 - Material Audit Adjustments

Finding Type. Material weakness in Internal Controls over Financial Reporting

Criteria. Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition. During our audit, we identified and proposed material adjustments (which were approved and posted by management) to adjust the Academy's general ledger to the appropriate balances.

Cause. The Academy transitioned to a new business manager and accounting software system during the audit engagement. During this timeframe it was discovered that material audit adjustments were required because the former contracted business manager made no attempt to prepare an auditable trial balance.

Effect. As a result of this condition, the Academy's accounting records were initially materially misstated.

Recommendation. For the current year, no further action is required as the adjustments have been posted. In future periods, we recommend that management implement procedures to ensure that all general ledger accounts are appropriately reconciled and adjusted at year end.

View of Responsible Officials. Management concurs.

Responsible Official. Reedell Holmes, Superintendent

Estimated Completion Date. June 30, 2024

Muskegon Heights Public School Academy System

SECTION II – FINANCIAL STATEMENT FINDINGS

2023-002 - Preparation of Financial Statements in Accordance with GAAP

Finding Type. Material Weakness in Internal Control over Financial Reporting

Criteria. The preparation of financial statements in accordance with GAAP is the responsibility of the Academy's management and requires internal controls over both: 1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and 2) reporting financial statements including the related footnotes (i.e., external financial reporting).

Condition. The Academy's ability to prepare financial statements in accordance with GAAP was based, in part, on its reliance and collaboration with its external auditors, who cannot by definition be considered a part of the Academy's internal controls.

Cause. This condition was caused by a transition from a contracted business manager to the current management team, not allowing the appropriate time required for the Academy to perform this task internally.

Effect. As a result of this condition, the Academy was unable to complete the preparation of financial statements in accordance with GAAP, and instead relied, in part, on its external auditors for assistance with this task.

View of Responsible Officials. Management concurs.

Responsible Official. Reedell Holmes, Superintendent

Estimated Completion Date. June 30, 2024

Muskegon Heights Public School Academy System

SECTION II – FINANCIAL STATEMENT FINDINGS

2023-003 - Preparation of the Schedule of Expenditures of Federal Awards

Finding Type. Material Weakness in Internal Control over Financial Reporting

Criteria. The Uniform Guidance requires that the Academy “identify, in its accounts, all federal awards received and expended and the federal programs under which they were received. Federal program and award identification shall include, as applicable, the assistance listing title and number, award number and year, name of the federal agency, and name of the pass-through entity.” In addition, the Academy is required to “prepare appropriate financial statements, including the schedule of expenditures of federal awards (SEFA) in accordance with the Uniform Guidance.”

Condition. Management required significant external assistance to complete the SEFA. These adjustments included, correcting program years, changing expenditure amounts to match the Academy's accounting records, adjusting the revenue recorded, and properly recording amounts received during the year.

Cause. This condition was caused by a transition from a contracted business manager to the current management team, not allowing the appropriate time required for the Academy to perform this task internally.

Effect. As a result of this condition, the Academy was unable to accurately complete the SEFA, and instead relied, in part, on its external auditors for assistance with this task.. This resulted in several revisions to the SEFA during the audit process.

Recommendation. The Academy should evaluate its processes to ensure that the SEFA is prepared in accordance with the Uniform Guidance and reconciled to its accounting records.

View of Responsible Officials. Management concurs.

Responsible Official. Reedell Holmes, Superintendent

Estimated Completion Date. June 30, 2024

Muskegon Heights Public School Academy System

SECTION II – FINANCIAL STATEMENT FINDINGS

2023-004 - Segregation of Duties (repeat)

Finding Type. Material Weakness in Internal Controls over Financial Reporting

Criteria. Management is responsible for establishing and maintaining effective internal controls in order to safeguard the assets of the Academy. A key element of internal control is the segregation of incompatible duties within the accounting function.

Condition. During our audit, we noted the following areas in which the Academy should improve segregation of duties:

- The Academy is not documenting that the individual that was receiving cash, posting the transactions to the accounting records, and taking the cash deposits to the bank and reconciling the accounts, were independent of each other.
- The Academy does not have procedures in place to allow for an independent review of payroll registers when payroll disbursements are made and recorded in the accounting records.
- The Academy is not following its procedure requiring an independent review of the monthly bank account reconciliation to verify that they are; being performed timely, free of invalid outstanding transactions, and properly reconciled the bank to general ledger.
- The Academy currently does not have procedures in place to allow for an independent review of manual journal entries, including entries that record electronic vendor payments and cash receipts.
- The Academy is not following its credit card procedures which require receipts and other appropriate documentation to be retained to support its purchases using Academy credit cards. Additionally, the Academy should implement a policy which requires expense reports to be submitted and approved when purchases are made using Academy credit cards.

Cause. This condition appears to be the result of the Academy not adhering to established internal control policies and procedures.

Effect. As a result of this condition, the Academy is exposed to increased risk that misstatements, whether caused by error or fraud, could occur and not be detect by management on a timely basis.

Recommendation. The Academy should evaluate its processes and procedures to ensure that a sufficient segregation of incompatible duties exists.

View of Responsible Officials. Management concurs.

Responsible Official. Reedell Holmes, Superintendent

Estimated Completion Date. June 30, 2024

Muskegon Heights Public School Academy System

SECTION II – FINANCIAL STATEMENT FINDINGS

2023-005 - Lack of Monitoring

Finding Type. Material Weakness in Internal Controls over Financial Reporting

Criteria. The Standards for Internal Control for the Federal Government (which is a good general standard for all types of organizations) defines internal control as “an integral part of an organization’s management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting; and
- Compliance with applicable laws and regulations.”

It further defines the monitoring of internal control as assessing the quality of performance over time and ensuring that the findings of audits and other reviews are promptly resolved. Internal control should generally be designed to ensure that ongoing monitoring occurs during normal operations. It is performed continually and is ingrained in the agency’s operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other related tasks.

Condition. Bank statements, bank reconciliations, budget to actual reports, check and payroll registers, and balance sheets were not provided to the Board of Directors or management. Further, it was unclear who was responsible for maintaining accounting documents for journal entries, accounts payable, and payroll. This lack of clarity created inefficiencies and delay with the audit process as new management was required to perform exhaustive searches for suitable accounting records.

Cause. The Board of Directors engaged with a full-service management company with the expectation that all accounting functions would be provided. These expectations were not met and the Board of Education and management were not provided with the resources required to effectively manage the financial condition and compliance of the Academy.

Effect. Management and the Board of Directors were unable to determine the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Consequently, the Board of Directors terminated the management company in February 2023.

Recommendation. We recommend that the Academy implement procedures to ensure that appropriate and timely monitoring is occurring over its financial reporting, compliance, and recordkeeping. We applaud the changes implemented since February.

Muskegon Heights Public School Academy System

SECTION II – FINANCIAL STATEMENT FINDINGS

View of Responsible Officials. Management concurs.

Responsible Official. Reedell Holmes, Superintendent

Estimated Completion Date. June 30, 2024

Muskegon Heights Public School Academy System

SECTION II – FINANCIAL STATEMENT FINDINGS

2023-006 - Accounting for Capital Assets

Finding Type. Significant Deficiency in Internal Controls over Financial Reporting

Criteria. The Academy should maintain complete and accurate capital asset records. The records should be updated and reviewed by the Academy for completeness and conformity to generally accepted accounting principles (GAAP).

Condition. Internal controls are not in place to identify and record necessary capital additions. In addition, policies and procedures are not in place to require that regular capital asset inventories are completed and to determine that assets written off that are no longer in service.

Cause. Policies and procedures are not in place to require a capital asset inventory be performed and assets written off that are no longer in service.

Effect. The Academy has not maintained or reconciled accurate reports for capital assets in recent years. The Academy also exposes itself to potential misstatements due to fraud or error when not properly monitoring capital asset inventory.

Recommendation. We recommend that the Academy implement procedures to verify that all capital asset additions and disposals are properly included and depreciated. We also recommend that the Academy implement policies and procedures to ensure that capital asset records are accurate, which should include periodic inventories and other procedures to verify the existence of assets.

View of Responsible Officials. Management concurs.

Responsible Official. Reedell Holmes, Superintendent

Estimated Completion Date. June 30, 2024

Muskegon Heights Public School Academy System

SECTION II – FINANCIAL STATEMENT FINDINGS

2023-007 - Budgetary Control

Finding Type. Significant Deficiency in Internal Controls over Financial Reporting

Criteria. The State of Michigan requires that schools adopt budgets for the general fund and all special revenue funds. Expenditures may not be incurred in any of those funds prior to formal authorization through the approval or amendment of the budget.

Condition. During our audit, we noted that the original and amended budgets weren't provided to the Board of Directors in a timely manner to ensure proper monitoring of the Academy's budget. The Academy had several budget violations between the final amended budget and the actual expenditures as a result of this condition.

Cause. The Academy did not follow the required financial policies and procedures.

Effect. As a result of the condition, the Academy is exposed to an increased risk that appropriations in excess of budgeted amounts may be incurred which is a violation of State law.

Recommendation. We recommend that the Academy implement procedures to ensure that approved budgets are entered into the financial reporting system in a timely fashion and that budget to actual reports be provided on a monthly basis to the Board of Directors and management for appropriate review and monitoring.

View of Responsible Officials. Management concurs.

Responsible Official. Reedell Holmes, Superintendent

Estimated Completion Date. June 30, 2024

Muskegon Heights Public School Academy System

SECTION II – FINANCIAL STATEMENT FINDINGS

2023-008 - Disbursement Procedures

Finding Type. Material Weakness in Internal Controls over Financial Reporting

Criteria. Schools must establish and maintain an adequate system of internal control for cash disbursements that requires suitable documentation, authorization, recordkeeping, and cancellation.

Condition. We noted the following weaknesses during the testing of the internal controls over the cash disbursement process:

- Administrative approval was missing from invoices
- Credit card statements were lacking some vendor invoices or receipts
- There was an unusually high number of voided checks, and, one outstanding check on the bank reconciliation that needed to be marked as voided (it was a duplicate payment) was identified during the audit
- There are long-outstanding (immaterial) checks that continue to need to be resolved
- Recordkeeping is inconsistent, disbursement documents were retrieved from multiple locations and sources during the audit

Cause. The Academy did not follow its policies and procedures over disbursements, nor did it maintain all required documentation.

Effect. As a result of the condition, the Academy is exposed to an increased risk of misappropriation, misstated financial statements, or noncompliance.

Recommendation. We understand that the Academy has replaced its former management company with a new management team and recommend that the Academy continue following its disbursement and recordkeeping policies going forward.

View of Responsible Officials. Management concurs.

Responsible Official. Reedell Holmes, Superintendent

Estimated Completion Date. June 30, 2024

Muskegon Heights Public School Academy System

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2023-009 - Documentation and Internal Controls over Disbursements

Finding Type. Immaterial Noncompliance; Material Weakness in Internal Control over Compliance (Allowable Costs/Cost Principles)

Federal programs

U.S. Department of Agriculture -

- Child Nutrition Cluster (ALN 10.553, 10.555, and 10.559); Passed through MDE; All project numbers

U.S. Department of Education:

- Education Stabilization Fund (ALN 84.425); Passed through MDE; All project numbers

Criteria. The Uniform Guidance requires the Academy to establish internal controls over disbursements related to the compliance requirements applicable to allowable costs/cost provisions. The Academy's policies require an independent review of expenditures.

Condition. Evidence of an independent review was not documented on our disbursements selected for testing.

Cause. This condition appears to be the result of the Academy not adhering to established internal control policies and procedures.

Effect. The Academy is at increased risk of unallowable costs being charged to federal programs without being detected by its internal controls.

Questioned Costs. No costs have been questioned as a result of this finding.

Recommendation. We recommend the Academy follow its internal control policies and procedures that require independent review of all disbursement transactions.

View of Responsible Officials. Management concurs.

Responsible Official. Reedell Holmes, Superintendent

Estimated Completion Date. June 30, 2024

Muskegon Heights Public School Academy System

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2023-010 - Procurement, Suspension, and Debarment

Finding Type. Immaterial Noncompliance; Material Weakness in Internal Control over Compliance

U.S. Department of Agriculture -

- Child Nutrition Cluster (ALN 10.553, 10.555, and 10.559); Passed through MDE; All project numbers

Criteria. The Michigan Department of Education (MDE) requires that competitive bids be obtained for the procurement of supplies, material and equipment when the total amount of purchases from a single vendor is expected to reach \$28,048. The Academy is also required to document whether a vendor is suspended or debarred from doing business with the Federal government.

Condition. During our audit procedures over the Academy's procurement process, we noted that one contract file tested had the required bid documentation. However, the Academy did not verify that the vendor selected for testing was not suspended or debarred.

Cause. The Academy does not have the proper internal controls in place to ensure that all contracts awarded have complied with MDE and federal requirements.

Effect. The Academy did not follow requirements to check whether a vendor is suspended or debarred.

Questioned Costs. No costs have been questioned as a result of this finding inasmuch as no disallowed costs were identified.

Recommendation. We recommend that the Academy verify that any vendors or contractors selected are verified as neither suspended or debarred per the SAM.gov website prior to awarding the bid, and, that the Academy retain documentation of their verification in the bid file.

View of Responsible Officials. Management concurs.

Responsible Official. Reedell Holmes, Superintendent

Estimated Completion Date. June 30, 2024

Muskegon Heights Public School Academy System

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2023-011 - Reporting

Finding Type. Immaterial Noncompliance; Material Weakness in Internal Control over Compliance

U.S. Department of Agriculture -

- Child Nutrition Cluster (ALN 10.553, 10.555, and 10.559); Passed through MDE; All project numbers

Criteria. The Michigan Department of Education (MDE) requires that monthly meal claims be submitted for reimbursement in a timely manner.

Condition. During our audit procedures over the Academy's procurement process, we noted that the Academy had not been reimbursed for its May 2023 meal claims.

Cause. The Academy was in the process of transitioning its management team when the meal counts were due to be logged into the MDE website. As a result, the food service director was left without account access to log the meal claims. Upon having an account with MDE activated, the claims were submitted for reimbursement. But, the May 2023 meal claims were deemed late and reimbursement was disallowed.

Effect. The Academy did not follow MDE's requirements to timely report the May 2023 meal claims and is in the process of appealing the forfeited reimbursement.

Questioned Costs. No costs have been questioned as a result of this finding inasmuch as no disallowed costs were identified.

Recommendation. We recommend that the Academy continue with its process of timely submitting meal claim data, and, establishing a transition and/or contingency plan should the need for new account access arise in future reporting periods.

View of Responsible Officials. Management concurs.

Responsible Official. Reedell Holmes, Superintendent

Estimated Completion Date. June 30, 2024

Muskegon Heights Public School Academy System

SECTION IV – SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

Financial Statement Findings

2022-001 Segregation of Duties

The Academy did not have appropriate segregation of duties surrounding several areas within the accounting function. This finding has been repeated as 2023-004.

Federal Award Findings and Questioned Costs

2022-002 Excess Fund Balance

7 CFR Part 210, Subpart C, Section 210.14(b) states that the food service fund is to limit its net cash resources to an amount that does not exceed three months of average expenditures. The cash and due from other funds balances in the Academy's food service fund exceeded the allowable amount as of June 30, 2022.

This finding has been resolved by the Academy as it had an overall decrease in fund balance within its food service fund during fiscal 2023.



Muskegon Heights Public School Academy System

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Mr. Reedell Holmes, Superintendent

October 31, 2023

CORRECTIVE ACTION PLAN

Pursuant to federal regulations, Uniform Administrative Requirements Section 200.511, the following are the findings, as noted in the Muskegon Heights Public School Academy System (the “Academy”) Single Audit report for the year ended June 30, 2023, and corrective actions to be completed.

2023-001 - Material Audit Adjustments

Auditor Description of Condition and Effect: During our audit, we identified and proposed material adjustments (which were approved and posted by management) to adjust the Academy's general ledger to the appropriate balances.

As a result of this condition, the Academy’s accounting records were initially materially misstated.

Auditor Recommendation: For the current year, no further action is required as the adjustments have been posted. In future periods, we recommend that management implement procedures to ensure that all general ledger accounts are appropriately reconciled and adjusted at year end.

Corrective Action: The District will use the Munis financial system to track all transaction and upload all documents related to postings. We will make sure all payments are paid timely and the correct account are used for postings and adjustments are made according

Responsible Person: Reedell Holmes, Superintendent

Anticipated Completion Date: June 30, 2024

2023-002 – Preparation of Financial Statements in Accordance with GAAP

Auditor Description of Condition and Effect: The Academy’s ability to prepare financial statements in accordance with GAAP was based, in part, on its reliance and collaboration with its external auditors, who cannot by definition be considered a part of the Academy’s internal controls.



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As a result of this condition, the Academy was unable to complete the preparation of financial statements in accordance with GAAP, and instead relied, in part, on its external auditors for assistance with this task.

Corrective Action: The District will use the Munis financial system to track all transaction and upload all documents related to postings. This will result in financial transaction being posted correctly and in accordance to GAAP.

Responsible Person: Reedell Holmes, Superintendent

Anticipated Completion Date: June 30, 2024

2023-003 - Preparation of the Schedule of Expenditures of Federal Awards

Auditor Description of Condition and Effect: Management required significant external assistance to complete the SEFA. These adjustments included, correcting program years, changing expenditure amounts to match the Academy's accounting records, adjusting the revenue recorded, and properly recording amounts received during the year.

As a result of this condition, the Academy was unable to accurately complete the SEFA, and instead relied, in part, on its external auditors for assistance with this task.. This resulted in several revisions to the SEFA during the audit process.

Auditor Recommendation: The Academy should evaluate its processes to ensure that the SEFA is prepared in accordance with the Uniform Guidance and reconciled to its accounting records.

Corrective Action: The District will use the Munis financial system to track all transaction and upload all documents related to postings. We will have multilevel review of financial transactions to provide accurate postings that will make the SEFA easier to complete. We will be adding the fiscal year to all grant codes to help determine fiscal year.

Responsible Person: Reedell Holmes, Superintendent



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Anticipated Completion Date: June 30, 2024

2023-004 - Segregation of Duties (repeat)

Auditor Description of Condition and Effect: During our audit, we noted the following areas in which the Academy should improve segregation of duties:

- The Academy is not documenting that the individual that was receiving cash, posting the transactions to the accounting records, and taking the cash deposits to the bank and reconciling the accounts, were independent of each other.
- The Academy does not have procedures in place to allow for an independent review of payroll registers when payroll disbursements are made and recorded in the accounting records.
- The Academy is not following its procedure requiring an independent review of the monthly bank account reconciliation to verify that they are; being performed timely, free of invalid outstanding transactions, and properly reconciled the bank to general ledger.
- The Academy currently does not have procedures in place to allow for an independent review of manual journal entries, including entries that record electronic vendor payments and cash receipts.
- The Academy is not following its credit card procedures which require receipts and other appropriate documentation to be retained to support its purchases using Academy credit cards. Additionally, the Academy should implement a policy which requires expense reports to be submitted and approved when purchases are made using Academy credit cards.

As a result of this condition, the Academy is exposed to increased risk that misstatements, whether caused by error or fraud, could occur and not be detected by management on a timely basis.

Auditor Recommendation: The Academy should evaluate its processes and procedures to ensure that a sufficient segregation of incompatible duties exists.

Corrective Action: The District will implement a review and approval process for payroll, credit card purchases; manual journal entries are entered by one employee and approved and posted by



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a separate employee, which allows for segregation of duties.

The Business office will continue to evaluate the cost benefits of additional segregation of duty procedures on an ongoing basis.

Responsible Person: Reedell Holmes, Superintendent

Anticipated Completion Date: June 30, 2024

2023-005 - Lack of Monitoring

Auditor Description of Condition and Effect: Bank statements, bank reconciliations, budget to actual reports, check and payroll registers, and balance sheets were not provided to the Board of Directors or management. Further, it was unclear who was responsible for maintaining accounting documents for journal entries, accounts payable, and payroll. This lack of clarity created inefficiencies and delay with the audit process as new management was required to perform exhaustive searches for suitable accounting records.

Management and the Board of Directors were unable to determine the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Consequently, the Board of Directors terminated the management company in February 2023.

Auditor Recommendation: We recommend that the Academy implement procedures to ensure that appropriate and timely monitoring is occurring over its financial reporting, compliance, and recordkeeping. We applaud the changes implemented since February.

Corrective Action: The District will implement a review and monitoring process maintaining Bank statements, bank reconciliations, budget to actual reports, check and payroll registers, and balance sheets. We plan on providing these report quarterly at the minimum.

Responsible Person: Reedell Holmes, Superintendent

Anticipated Completion Date: June 30, 2024



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2023-006 - Accounting for Capital Assets

Auditor Description of Condition and Effect: Internal controls are not in place to identify and record necessary capital additions. In addition, policies and procedures are not in place to require that regular capital asset inventories are completed and to determine that assets written off that are no longer in service.

The Academy has not maintained or reconciled accurate reports for capital assets in recent years. The Academy also exposes itself to potential misstatements due to fraud or error when not properly monitoring capital asset inventory.

Auditor Recommendation: We recommend that the Academy implement procedures to verify that all capital asset additions and disposals are properly included and depreciated. We also recommend that the Academy implement policies and procedures to ensure that capital asset records are accurate, which should include periodic inventories and other procedures to verify the existence of assets.

Corrective Action: The District will complete an inventory by May 2024 to verify that capital assets are recorded. We will verify if the assets are still in use and if not are fully depreciated and removed from the capital asset list. This will happen every May of the new calendar year.

Responsible Person: Reedell Holmes, Superintendent

Anticipated Completion Date: June 30, 2024

2023-007 - Budgetary Control

Auditor Description of Condition and Effect: During our audit, we noted that the original and amended budgets weren't provided to the Board of Directors in a timely manner to ensure proper monitoring of the Academy's budget. The Academy had several budget violations between the final amended budget and the actual expenditures as a result of this condition.



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As a result of the condition, the Academy is exposed to an increased risk that appropriations in excess of budgeted amounts may be incurred which is a violation of State law.

Auditor Recommendation: We recommend that the Academy implement procedures to ensure that approved budgets are entered into the financial reporting system in a timely fashion and that budget to actual reports be provided on a monthly basis to the Board of Directors and management for appropriate review and monitoring.

Corrective Action: The District will complete a minimum of 3 budgets during the fiscal year, the initial in July, December amendment, and June final. Additional budget amendments may be completed during the fiscal year to track budget accordingly.

Responsible Person: Reedell Holmes, Superintendent

Anticipated Completion Date: June 30, 2024

2023-008 - Disbursement Procedures

Auditor Description of Condition and Effect: We noted the following weaknesses during the testing of the internal controls over the cash disbursement process:

- Administrative approval was missing from invoices
- Credit card statements were lacking some vendor invoices or receipts
- There was an unusually high number of voided checks, and, one outstanding check on the bank reconciliation that needed to be marked as voided (it was a duplicate payment) was identified during the audit
- There are long-outstanding (immaterial) checks that continue to need to be resolved
- Recordkeeping is inconsistent, disbursement documents were retrieved from multiple locations and sources during the audit



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As a result of the condition, the Academy is exposed to an increased risk of misappropriation, misstated financial statements, or noncompliance.

Auditor Recommendation: We understand that the Academy has replaced its former management company with a new management team and recommend that the Academy continue following its disbursement and recordkeeping policies going forward.

Corrective Action: The District will conduct all recordkeeping and disbursement transactions in MUNIS and continue using our policies that are in place. Stale dated checks will be escheated to the SOM. For federal cash draws, a workbook will be completed with for each grant will back up from Munis to validate the cash draw. The business manager or designee will prepare and enter the request in Nexsys and the superintendent or designee will approve in Nexsys

Responsible Person: Reedell Holmes, Superintendent

Anticipated Completion Date: June 30, 2024

2023-009 - Documentation and Internal Controls over Disbursements

Auditor Description of Condition and Effect: Evidence of an independent review was not documented on our disbursements selected for testing.

As a result of the condition, the Academy is exposed to an increased risk of misappropriation, misstated financial statements, or noncompliance.

The Academy is at increased risk of unallowable costs being charged to federal programs without being detected by its internal controls.

Auditor Recommendation: We recommend the Academy follow its internal control policies and procedures that require independent review of all disbursement transactions.

Corrective Action: The district's business manager or designee will prepare disbursements for review. The director of compliance will confirm that all work has been completed and done to the



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accordance of the agreement. The superintendent will provide the final sign off that the work has been completed and the disbursement is accurate.

Responsible Person: Reedell Holmes, Superintendent

Anticipated Completion Date: June 30, 2024

2023-010 – Procurement, Suspension, and Debarment

Auditor Description of Condition and Effect: During our audit procedures over the Academy's procurement process, we noted that one contract file tested had the required bid documentation. However, the Academy did not verify that the vendor selected for testing was not suspended or debarred.

The Academy did not follow requirements to check whether a vendor is suspended or debarred.

Auditor Recommendation: We recommend that the Academy enhance its procurement procedures to ensure that all projects exceeding the MDE threshold have completed bids and documentation is included in the project file for sufficient audit documentation. Also, the Academy should verify that any vendors or contractors selected are verified as neither suspended or debarred per the SAM.gov website.

Corrective Action: The District has implemented a purchase procedures as of August 2023. We require that all project over \$5,000 have three quotes and anything over the competitive bid threshold will be bid out. All vendors are required to have a W-9 or provide their social security number or be verified that they are neither suspended or debarred

Responsible Person: Reedell Holmes, Superintendent

Anticipated Completion Date: June 30, 2024

2023-011 - Reporting

Auditor Description of Condition and Effect: During our audit procedures over the Academy's procurement process, we noted that the Academy had not been reimbursed for its May 2023 meal claims.



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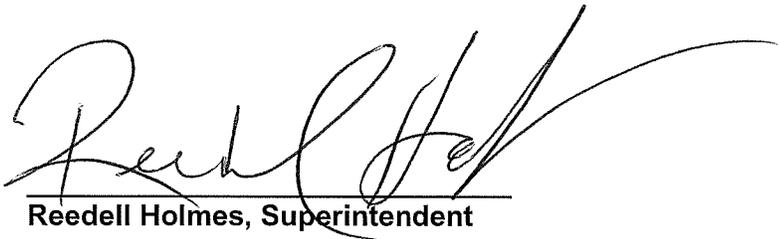
The Academy did not follow MDE's requirements to timely report the May 2023 meal claims and is in the process of appealing the forfeited reimbursement.

Auditor Recommendation: We recommend that the Academy continue with its process of timely submitting meal claim data, and, establishing a transition and/or contingency plan should the need for new account access arise in future reporting periods.

Corrective Action: The District has provide access to the proper people to make sure the meal claims are completed timely as of August 2023. The superintendent, business manager, and food service director all have access to review and submit the claims.

Responsible Person: Reedell Holmes, Superintendent

Anticipated Completion Date: June 30, 2024



Reedell Holmes, Superintendent

10/30/2023
Date

October 31, 2023

To the Board of Directors
Muskegon Heights Public School Academy System
Muskegon Heights, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Muskegon Heights Public School Academy System (the “Academy”) for the year ended June 30, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and the OMB Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 14, 2023. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Academy are described in Note 1 to the financial statements. There were no new accounting policies adopted during the fiscal year ended June 30, 2023. We noted no transactions entered into by the Academy 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 Academy’s financial statements were:

- Management’s estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management’s estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- The assumptions used in the actuarial valuations of the pension and other post-employment benefits are based on historical trends and industry standards.

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 clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is 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, 2023.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

As required by the OMB Uniform Guidance, we have also completed an audit of the federal programs administered by the Academy. The results of that audit are provided to the Board of Education in our report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with the OMB Uniform Guidance dated October 31, 2023.

Other Matters

We applied certain limited procedures to management's discussion and analysis, the pension and OPEB schedules, and the budgetary comparison schedule, 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 the schedule of expenditures of federal awards, 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.

Restriction on Use

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

Very truly yours,

A handwritten signature in cursive script that reads "Gabridge & Company".

Gabridge & Company, PLC
Grand Rapids, MI