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MACDOWELL PREPARATORY ACADEMY

**FINANCIAL REPORT
WITH
SUPPLEMENTAL INFORMATION**

JUNE 30, 2025

MACDOWELL PREPARATORY ACADEMY

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Alan C. Young & Associates, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

7310 Woodward Ave, Suite 740
Detroit, MI 48202

(313) 873-7500 (Tel.)
(313) 873-7502 (Fax)
www.alancyoung.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
MacDowell Preparatory Academy
Detroit, Michigan

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and the major fund of MacDowell Preparatory Academy (the Academy) as of and for the year ended June 30, 2025, 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 and the major fund of the Academy, as of June 30, 2025, 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.

Independent Auditor's Report (Continued)

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.

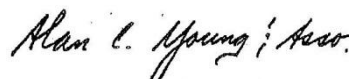
Independent Auditor's Report (Continued)

Required Supplemental Information

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 29, 2025 on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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.



Detroit Michigan
October 29, 2025

MACDOWELL PREPARATORY ACADEMY

Management's Discussion and Analysis (MD&A) June 30, 2025

As management of MacDowell Preparatory Academy (the "Academy"), we offer readers of the Academy's basic financial statements this narrative overview and analysis of the financial activities of the Academy for the years ended June 30, 2025 and 2024.

Management's discussion and analysis is included at the beginning of the Academy's basic financial statements to provide, in layman's terms, the current position of the Academy's financial condition. This summary should not be taken as a replacement for the audit, which consists of the basic financial statements and other supplementary information.

FINANCIAL HIGHLIGHTS

Our basic financial statements provide these insights into the results of this year's operations.

- As of June 30, 2025, the Academy's fund balance for the governmental funds was \$2,282,914 as compared to \$3,250,878 at June 30, 2024.
- As of June 30, 2025, the Academy had a net position of \$3,249,679 as compared to \$4,027,711 at June 30, 2024.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Academy's basic financial statements. The Academy's basic financial statements are comprised of three components: 1) academy-wide basic financial statements, 2) fund basic financial statements, and 3) notes to the basic financial statements.

Academy-Wide Financial Statements

The academy-wide financial statements are designed to provide readers with a broad overview of the Academy's finances, in a manner similar to a private sector business.

The statement of net position presents information on all of the Academy's assets, liabilities, and deferred inflows/outflows of resources, with the difference between these items reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Academy is improving or deteriorating.

The statement of activities presents information showing how the Academy's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected revenues and services rendered but unpaid).

The academy-wide financial statements include all governmental activities that are principally supported by grants and entitlements from the state for full-time equivalent funding. The Academy does not have any business-type activities. The governmental activities of the Academy primarily include instruction and instructional support services.

The academy-wide basic financial statements can be found on pages 1 and 2 of this report.

MACDOWELL PREPARATORY ACADEMY

Management's Discussion and Analysis (MD&A) (Continued) June 30, 2025

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Academy, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the academy-wide financial statements. However, unlike the academy-wide basic financial statements, governmental fund basic financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Academy's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the academy-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the academy-wide financial statements. By doing so, readers may better understand the long-term impact of the Academy's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and change in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

All of the Academy's services are reported in governmental funds. Information is presented in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and change in fund balance. The general fund is the Academy's only fund.

The Academy adopts an annual budget for its governmental funds. Budgets are revised in an attempt to deal with unexpected changes in revenue and expenditure. State law requires that the budget be amended to ensure that expenditures do not exceed appropriation. A schedule showing the Academy's original and final budget amounts compared with actual revenues and expenditures is provided as required supplemental information of these financial statements.

The governmental fund financial statements can be found on pages 3 and 5 of this report.

Notes to Basic Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the academy-wide and fund financial statements. The notes to the basic financial statements can be found on pages 7 through 14 of this report.

MACDOWELL PREPARATORY ACADEMY

Management's Discussion and Analysis (MD&A) (Continued) June 30, 2025

ACADEMY-WIDE FINANCIAL ANALYSIS

The Academy's net position was \$3,249,679 at June 30, 2025. This amount represents net investment in capital assets of \$966,765, and unrestricted net position of \$2,282,914. The Academy's net position was \$4,027,711 at June 30, 2024 and of this amount \$776,833 represented net investment in capital assets and \$3,250,878 represented unrestricted net position.

Our analysis in the table below focuses on the net position of the Academy's governmental activities:

	<u>June 30, 2025</u>	<u>June 30, 2024</u>
Assets		
Current Assets	\$ 2,790,823	\$ 3,819,897
Capital Assets, Net of Depreciation	1,711,582	1,644,695
Total Assets	<u>4,502,405</u>	<u>5,464,592</u>
Liabilities		
Current Liabilities	507,909	569,019
Long-term Liabilities	744,817	867,862
Total Liabilities	<u>1,252,726</u>	<u>1,436,881</u>
Net Position		
Net Investment in Capital Assets	966,765	776,833
Unrestricted	2,282,914	3,250,878
Total Net Position	<u>\$ 3,249,679</u>	<u>\$ 4,027,711</u>

MACDOWELL PREPARATORY ACADEMY

Management's Discussion and Analysis (MD&A) (Continued) June 30, 2025

ACADEMY-WIDE FINANCIAL ANALYSIS (Continued)

Governmental Activities

The results of the operations for the Academy as a whole are reported in the statement of activities on page 2. The table below provides a condensed presentation of the Academy's revenues and expenses for the years ended June 30, 2025 and 2024:

	2025	2024
Revenue		
General Revenues	\$ 3,704,646	\$ 3,586,661
Program Revenues	1,224,308	1,966,785
Total Revenues	4,928,954	5,553,446
Functions/Program Expenses		
Instruction	2,591,664	2,394,240
Instruction Support Services	3,115,322	2,301,418
Total Expenses	5,706,986	4,695,658
Change in Net Position	(778,032)	857,788
Net Position - Beginning of Year	4,027,711	3,169,923
Net Position - End of the Year	\$ 3,249,679	\$ 4,027,711

GOVERNMENTAL FUND EXPENDITURES

In the table below, we have presented the cost of the largest functions/programs as a percentage of total governmental expenditures:

Functions/Programs	2025		2024	
	Expenditure	Percent	Expenditure	Percent
Governmental Expenditures				
Instructional Expenditures	\$ 2,591,664	44%	\$ 2,394,240	45%
Support Services	3,305,254	56%	2,883,779	55%
Total Governmental Expenditures	\$ 5,896,918	100%	\$ 5,278,019	100%

Comments on Budget Comparisons

- General fund budgeted revenue compared to actual revenue varied from line item to line item with the ending actual revenues being \$70,158 more than budget or approximately 1%.
- The total budgeted expenses compared to actual expenses varied from line item to line item with the ending actual expenses being \$146,266 less than the final budget or approximately 2%.

MACDOWELL PREPARATORY ACADEMY

Management's Discussion and Analysis (MD&A) (Continued) June 30, 2025

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2025, the Academy had capital assets, including leased right to use assets of \$1,711,582, net of accumulated depreciation, compared to \$1,644,695 at June 30, 2024.

Debt

At June 30, 2025, the Academy had \$719,737 in long-term debt. The debt was taken in order to purchase the building the Academy is housed in. The loan is scheduled to be paid through 2026. The Academy also has operating lease obligations of \$25,080.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The financial report is only one measure of our school district's viability. Our goal is to focus on scholar achievement and to close the equity gap by providing appropriate 21st century educational services to students. Consideration should also be given to key components of our vision and mission that highlight non-financial factors:

- A. MPA scholars were assessed using both formative and summative tests. These tests were administered regularly throughout the entire school year using online, research-based tools, such as NWEA/Measuring Academic Progress and iReady. As a result of this, MPA scholars have continued to show growth and academic progress placing them in the national norms range. This baseline data is an improvement from the previous 2024 Fall data.
- B. MPA offers full day kindergarten programs.
- C. MPA provides additional after-school enrichment opportunities. Through our trained staff and Community Partners we provide after-school enrichment opportunities including tutoring, choir, band, debate team, chess, boys & girls basketball, soccer, mentoring, and more. Some of our community partners include Raquet Up, The Rhonda Walker Foundation, Detroit Parent Network, Detroit Food Warriors, Mt. Sinai Baptist Church, Project Healthy Communities, and more.
- D. MPA updated all technology. This includes new laptops for scholars and staff, mobile BenQ Smart Boards and LCD Projectors in classrooms.
- E. MPA provided free meals. Free Breakfast and Lunch to all scholars and an evening snack for those scholars participating in our After-School Programs.
- F. MPA addresses chronic absenteeism. Over the last three years, MPA has established and implemented a robust attendance policy designed to improve scholar engagement and reduce chronic absenteeism. This policy includes the use of Scholar Engagement Specialists who provide targeted support to address barriers affecting attendance, punctuality, academic performance, and overall well-being. Within two years of implementation, MPA experienced a 33% increase in scholar attendance—rising from an average daily rate of 77% to 93%. During the 2024–2025 academic year, MPA continued this positive trend, achieving a further increase to an average daily attendance rate of 93.88%.

MACDOWELL PREPARATORY ACADEMY

Management's Discussion and Analysis (MD&A) (Continued) **June 30, 2025**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET (Continued)

G. MPA provides numerous professional development opportunities for staff. This includes:

- National Charter School Conference, June 2025, Orlando, FL
- PowerSchool University, July 2025, San Diego, CA
- State of Black Learning Conference, August 2025, Pittsburgh, PA
- Curriculum Training including Houghton Mifflin, Imagine Learning, Studies Weekly, and more. Monthly professional development for staff including social and emotional learning, curriculum, conscious discipline, team building, and more.

The Academy considers many factors when setting the Academy's 2025-2026 fiscal year budgets. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2024-25 fiscal year is 90 percent of the current school year October count and 10 percent of the prior February count. The all-inclusive budget was adopted in June 2025 based on an enrollment estimate of 350 students in the Fall of 2025-26.

Under State law, the Academy cannot assess property taxes for additional revenue for general operations. As a result, the Academy is heavily dependent on the State's ability to fund school operations.

Once the final student count and related pupil funding are validated, State law requires the Academy to amend the budget if actual Academy resources are not sufficient to fund original appropriations. Since the Academy's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenue to fund its appropriations to public schools and public school academies. The State periodically holds a revenue estimating conference to estimate revenues.

Since the Academy's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its revenues. Based on the results of the most recent conference, the State estimates funds will be sufficient to fund the appropriation.

REQUESTS FOR INFORMATION

If you have questions about this report or need additional information, please contact the Academy's Business Office at 4201 W. Outer Drive, Detroit, Michigan 48221.

MACDOWELL PREPARATORY ACADEMY

Statement of Net Position June 30, 2025

	Governmental Activities
ASSETS	
Cash and Cash Equivalents (Note 3)	\$ 1,791,059
Due From Other Governmental Units (Note 4)	968,788
Inventory	20,843
Deposits	112
Prepaid Expense	10,021
Capital Assets, Net of Accumulated Depreciation (Note 5)	<u>1,711,582</u>
Total Assets	<u>4,502,405</u>
LIABILITIES	
Accounts Payable	4,501
Accrued Liabilities	503,408
Long-Term Debt, Current Portion (Note 7)	719,737
Lease Obligation, Current Portion (Note 8)	<u>25,080</u>
Total Liabilities	<u>1,252,726</u>
NET POSITION	
Net Investment in Capital Assets	966,765
Unrestricted	<u>2,282,914</u>
Total Net Position	<u><u>\$ 3,249,679</u></u>

The accompanying notes are an integral part of these financial statements

MACDOWELL PREPARATORY ACADEMY

Statement of Activities Year Ended June 30, 2025

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position
Governmental Activities				
Basic Instruction	\$ 2,038,105	\$ -	\$ 665,390	\$ (1,372,715)
Instruction - Added Needs	553,559	-	180,723	(372,836)
<u>Supporting Services</u>				
Pupil Support Services	481,728	-	-	(481,728)
Instructional Staff Services	490,992	-	160,297	(330,695)
General Administration Services	295,353	-	-	(295,353)
School Administration Services	667,426	-	217,898	(449,528)
Business Services	180,305	-	-	(180,305)
Operations and Maintenance	530,756	-	-	(530,756)
Central Services	115,798	-	-	(115,798)
Transportation	102,782	-	-	(102,782)
Depreciation and Amortization Expenses (Unallocated)	138,035	-	-	(138,035)
Community Services	84,011	-	-	(84,011)
Interest Expense	18,183	-	-	(18,183)
Welfare activities	9,953	-	-	(9,953)
Total Governmental Activities	<u>5,706,986</u>	<u>-</u>	<u>1,224,308</u>	<u>(4,482,678)</u>
		<u>General Revenues</u>		
		State Aid - Formula Grants		3,471,659
		Other Revenue		232,987
		Total General Revenues		<u>3,704,646</u>
		Change in Net Position		(778,032)
		Net Position - July 1, 2024		<u>4,027,711</u>
		Net Position - June 30, 2025		<u><u>\$ 3,249,679</u></u>

The accompanying notes are an integral part of these financial statements

MACDOWELL PREPARATORY ACADEMY

Governmental Funds Balance Sheet June 30, 2025

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents (Note 3)	\$ 1,791,059
Due From Other Governmental Units (Note 4)	968,788
Inventory	20,843
Deposits	112
Prepaid Expense	10,021
Total Assets	<u><u>\$ 2,790,823</u></u>
LIABILITIES AND FUND BALANCES	
Liabilities	
Accounts Payable	\$ 4,501
Accrued Liabilities	503,408
Total Liabilities	<u>507,909</u>
Fund Balance (Note 1)	
Nonspendable	30,864
Unassigned	2,252,050
Total Fund Balance	<u>2,282,914</u>
Total Liabilities and Fund Balance	<u><u>\$ 2,790,823</u></u>

The accompanying notes are an integral part of these financial statements

MACDOWELL PREPARATORY ACADEMY

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2025

Total Fund Balances - Governmental Funds \$ 2,282,914

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

Capital assets used in governmental activities are not
financial resources and therefore, not reported as assets in
governmental funds:

Cost of capital assets	2,402,062	
Accumulated depreciation and amortization	<u>(690,480)</u>	1,711,582

Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds	<u>(744,817)</u>
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Total Net Position - Governmental Activities \$ 3,249,679

The accompanying notes are an integral part of these financial statements

MACDOWELL PREPARATORY ACADEMY

Statement of Revenues, Expenditures and Changes in Fund Balance Year Ended June 30, 2025

	General Fund
REVENUE	
Federal Sources	\$ 371,799
State Sources	4,324,168
Local Sources	232,987
Total Revenue	4,928,954
EXPENDITURES	
Basic Instruction	2,038,105
Instruction - Added Needs	553,559
<u>Supporting Services:</u>	
Pupil Support Services	481,728
Instructional Staff Services	490,992
General Administration Services	295,353
School Administration Services	667,426
Business Services	180,305
Operations and Maintenance	761,790
Central Services	115,798
Transportation	102,782
Community Services	84,011
Welfare Activities	9,953
Principal Payments on Building Loan	96,933
Interest Payments on Building Loan	18,183
Total Expenditures	5,896,918
Excess (Deficiency) of Revenue Over Expenditures	(967,964)
Fund Balance - July 1, 2024	3,250,878
Fund Balance - June 30, 2025	\$ 2,282,914

The accompanying notes are an integral part of these financial statements

MACDOWELL PREPARATORY ACADEMY

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities Year Ended June 30, 2025

Net Change in Fund Balances - Total Governmental Funds \$ (967,964)

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

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

Depreciation expense	(111,923)	
Amortization expense	(26,112)	
Capitalized capital outlay expense	<u>204,922</u>	66,887

Repayment of loan principal is an expenditure governmental funds, but not in the statement of activities (where it reduces the long-term debt). 96,933

Payments on lease liability 26,112

Change in Net Position - Governmental Activities \$ (778,032)

The accompanying notes are an integral part of these financial statements

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of MacDowell Preparatory Academy (the Academy), conform to generally accepted accounting principles as applicable to schools. The following is a summary of the significant policies:

Reporting Entity

MacDowell Preparatory Academy is a charter school academy organized under the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994.

On July 31, 2012 the Academy entered into a contract with the Detroit Public Schools Community District (DPSCD) to Charter a Public School Academy. The Academy's contract with DPSCD goes through June 30, 2027. The DPSCD Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws and other related activities for which compensation is permissible. By agreement between DPSCD and the Academy, the Academy pays the DPSCD Board of Trustees 3 percent of the Academy's State School Aid payments as an administrative fee. The total administrative fee paid for the year ended June 30, 2025 to DPSCD was approximately \$113,000.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Academy-Wide and Fund Financial Statements

The academy-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Academy. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy's activities are considered governmental activities.

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

Academy-Wide Financial Statements – The academy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing to related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

Fund Financial Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

When an expense is incurred for purposes for which both restricted and unrestricted net assets or fund balance are available, the Academy's policy is to first apply restricted resources. When an expense is incurred for purposes which amounts in any of the unrestricted fund balance classifications could be used, it is the Academy's policy to spend funds in this order: committed, assigned, and unassigned.

Unrestricted State Aid and Intergovernmental Grants, associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Academy.

General Fund - The Academy's major fund is the General Fund. This fund is used to account for all operational activities of the Academy. The General Fund includes the current operating expenditures of the Academy. Revenues are derived primarily from the State of Michigan.

Assets, Liabilities and Net Position or Equity

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Receivables – Receivables are shown net of an allowance for uncollectible amounts. The Academy considers all receivables to be fully collectible. Accordingly, no allowance for uncollectible amounts has been recorded.

Inventories – Inventories are valued at cost, on a first-in, first-out basis. Inventories are recorded as expenditures when consumed rather than when purchased.

Prepaid Costs – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both government-wide and fund financial statements.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Assets, Liabilities and Net Position or Equity (Continued)**

Capital Assets – Capital assets, which include building improvements, furniture and equipment, and computer hardware, are reported in the applicable governmental column in the academy-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$500 and a useful life greater than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Cost of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure-type assets.

All the Academy's assets are depreciated using the straight-line method over the following useful lives:

Building	25 years
Building Improvements	5 years
Furniture and Other Equipment	5 to 10 years

Deferred Outflows of Resources – In addition to assets, the financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. The Academy has no deferred outflows of resources at June 30, 2025.

Deferred Inflows of Resources – In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues, which arises only under a modified accrual basis of accounting, from grants receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The Academy had no deferred inflows of resources at June 30, 2025.

Unearned Revenue – Unearned Revenue is reported in connection with funds that have been received for services which have not been performed, and is therefore not yet earned. At June 30, 2025, the Academy had \$0 in unearned revenue.

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Assets, Liabilities and Net Position or Equity (Continued)**

Compensated Absences (Vacation) – A Liability for compensated absences would be reported in the government-wide statements and consist of earned but unused accumulated vacation benefits. A liability for these amounts would be reported in governmental funds as it comes due for payment. The Academy had no liability for compensated absences at June 30, 2025.

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

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

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

Net Position – Net position of the Academy is classified in three components. Net Investment in capital assets consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase of those assets. Restricted net position is further classified as expendable and nonexpendable. The Academy did not have any non-expendable restricted net position during the year. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

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

2) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for the General Fund. Capital outlay expenditures are budgeted within the various functions. All annual appropriations lapse at fiscal year ended.

The budget document presents information by fund, function, and object. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the object level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits schools to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner.

No expenditures line item exceeded the final amended budget at June 30, 2025.

In total, actual expenditures were \$146,266 less than the final amended budget.

Grants – Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, would become a liability of the General Fund. In the Academy's opinion, no disallowed claims are expected and would not have a material effect on the financial statements as of and for the year ended June 30, 2025.

3) DEPOSITS AND INVESTMENTS

State statutes authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Academy is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Academy's deposits are in accordance with the statutory authority. As of June 30, 2025 the Academy does not have any investments.

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

3) DEPOSITS AND INVESTMENTS (Continued)

The Academy's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of bank failure, the Academy's deposits may not be returned to it. At the year end, the Academy had a deposit balance of \$1,657,826 out of which \$1,309,270 was not covered by federal depository insurance.

The Academy evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that value of investments will decrease as a result of a rise in interest rates. The Academy does not have investments with interest rate risk.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Academy held no such investment at June 30, 2025.

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value, as a result of changes in foreign currency exchange rates. State law and Academy's policy prohibit investment in foreign currency.

4) DUE FROM OTHER GOVERNMENTAL UNITS

Receivables from other governmental units as of year-end for the Academy include \$783,227 from the State of Michigan, and \$178,740 from Federal grants, and \$6,821 from other local sources.

MACDOWELL PREPARATORY ACADEMY

Notes to Financial Statements (Continued) June 30, 2025

5) CAPITAL ASSETS

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

	Balance July 1, 2024	Additions	Balance June 30, 2025
Capital Assets Being Depreciated:			
Building	\$ 1,079,862	\$ -	\$ 1,079,862
Buildings & Improvements	471,318	98,844	570,162
IT Equipment	538,573	34,566	573,139
Leased Right of Use Asset	70,185	51,192	121,377
Furniture and Equipment	37,202	20,320	57,522
Subtotal	2,197,140	204,922	2,402,062
Accumulated Depreciation:			
Building	86,389	43,194	129,583
Buildings & Improvements	82,355	33,114	115,469
IT Equipment	328,349	33,909	362,258
Leased Right of Use	18,993	26,112	45,105
Furniture and Equipment	36,359	1,706	38,065
Subtotal	552,445	138,035	690,480
Net Governmental Capital Assets	\$ 1,644,695	\$ 66,887	\$ 1,711,582

Total depreciation and amortization expense was \$138,035 for the year ended June 30, 2025. Depreciation is unallocated in the Statement of Activities.

6) MANAGEMENT COMPANY AGREEMENT

Effective July 1, 2022, the Academy became a self-managed school where the school leader manages the operations of the school.

7) LONG-TERM DEBT

During the year 2023, the Academy signed a loan agreement with Credit Union One. According to the agreement, the Academy received \$1,000,000 to purchase the school building that it has been leasing in the past. The loan has an initial interest rate of 2.25%. The loan's original maturity was June, 2024, but was renewed through the current maturity date of June, 2026. The monthly installments will be in 25 regular payments of \$9,593 each and one final lump sum payment due in June, 2026.

Principal maturities of the long-term liability are as follows:

Year	Amount
2026	\$ 719,737
	<u>\$ 719,737</u>

MACDOWELL PREPARATORY ACADEMY

Notes to Financial Statements (Continued)
June 30, 2025

8) LEASE OBLIGATION

The Academy recorded a vehicle lease as a right to use leased asset. It is amortized on a straight-line basis over the terms of the related lease.

Right to use asset activity for the Academy for the year ended June 30, 2025 is included in the capital assets schedule at Note 5.

In November 2023, the Academy signed an operating lease for a vehicle with Hoekstra Leasing for a term of two years, with monthly payments of \$2,336.

This lease agreement qualifies as other than short-term lease under GASB 87 and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of its inception. There are no variable payment components in the lease. The liability for the lease is measured at a discount rate of 5.12%.

The future minimum lease obligation and the net present value of the minimum lease payments as of June 30, 2025, were as follows:

<u>Right to Use Asset</u>	<u>Fiscal Year</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total</u>
Vehicle	2026	\$ 25,080	\$ 616	\$ 25,696
	Total	<u>\$ 25,080</u>	<u>\$ 616</u>	<u>\$ 25,696</u>

Lease liability activity for the year ending June 30, 2025 is as follows:

<u>Right to Use Asset</u>	<u>Balance 6/30/24</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance 6/30/25</u>
Vehicle	\$ 51,192	\$ -	\$ 26,112	\$ 25,080

9) DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS

Plan Description – The Academy currently does not participate in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan.

Post-employment Benefits – Currently, the Academy does not offer any post-employment benefits.

10) SUBSEQUENT EVENTS

The Academy has evaluated all subsequent events through October 29, 2025, the date the financial statements were available to be issued. No items were noted requiring disclosure in this report.



Alan C. Young & Associates, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

7310 Woodward Ave, Suite 740
Detroit, MI 48202

(313) 873-7500 (Tel.)
(313) 873-7502 (Fax)
www.alancyoung.com

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 of
MacDowell Preparatory Academy
Detroit, 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 and major fund of MacDowell Preparatory Academy (the Academy) as of and for the year ended June 30, 2025, 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 29, 2025.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that were not identified.

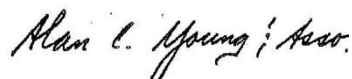
Independent Auditor's Report on Internal Control over
Financial Reporting And on Compliance and Other Matters Based
on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*
(Continued)

Report on Compliance and Other Matters

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

Purpose of this Report

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



Detroit, Michigan
October 29, 2025

REQUIRED SUPPLEMENTAL INFORMATION

MACDOWELL PREPARATORY ACADEMY

Budgetary Comparison Schedule General Fund Year Ended June 30, 2025

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Federal Sources	\$ 311,385	\$ 295,765	\$ 371,799	\$ 76,034
State Sources	4,277,458	4,310,031	4,324,168	14,137
Local Sources	157,000	253,000	232,987	(20,013)
Total Revenue	<u>4,745,843</u>	<u>4,858,796</u>	<u>4,928,954</u>	<u>70,158</u>
Expenditures				
<u>Instructional Services</u>				
Basic Programs	1,326,892	2,039,387	2,038,105	(1,282)
Added Needs	537,378	570,782	553,559	(17,223)
<u>Supporting Services:</u>				
Pupil Support Services	344,613	486,657	481,728	(4,929)
Instructional Staff Services	628,576	499,672	490,992	(8,680)
General Administration Services	347,702	309,047	295,353	(13,694)
School Administration Services	457,402	673,015	667,426	(5,589)
Business Services	222,755	183,891	180,305	(3,586)
Operation and Maintenance	362,818	805,307	761,790	(43,517)
Other Central Support	136,120	145,569	115,798	(29,771)
Pupil Transportation Services	87,162	117,861	102,782	(15,079)
Community Services	91,880	85,880	84,011	(1,869)
Welfare Activities	500	11,000	9,953	(1,047)
Debt Services	123,274	115,116	115,116	-
Total Expenditure	<u>4,667,072</u>	<u>6,043,184</u>	<u>5,896,918</u>	<u>(146,266)</u>
Excess of Revenue over Expenditures	78,771	(1,184,388)	(967,964)	216,424
Fund Balance - July 1, 2024			<u>3,250,878</u>	
Fund Balance - June 30, 2025			<u>\$ 2,282,914</u>	

MACDOWELL PREPARATORY ACADEMY

AUDIT COMMUNICATION LETTER

JUNE 30, 2025



Alan C. Young & Associates, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

7310 Woodward Ave, Suite 740
Detroit, MI 48202

(313) 873-7500 (Tel.)
(313) 873-7502 (Fax)
www.alancyoung.com

October 29, 2025

To the Board of Directors
MacDowell Preparatory Academy
Detroit, Michigan

We have recently completed our audit of the financial statements of MacDowell Preparatory Academy (the Academy) for the year ended June 30, 2025. In addition to our audit report, we are providing the following required communication which impacts the Academy.

	<u>Page</u>
Communication Required Under AU-C 260	1
Informational	5

We are grateful for the opportunity to be of service to the Academy. Should you have any questions regarding the comments in this report, please do not hesitate to contact us.

Very truly yours,

Alan C. Young & Associates, P.C.
Detroit, Michigan



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7310 Woodward Ave, Suite 740
Detroit, MI 48202

(313) 873-7500 (Tel.)
(313) 873-7502 (Fax)
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RESULTS OF AUDIT

October 29, 2025

Board of Directors
MacDowell Preparatory Academy
Detroit, Michigan

We have audited the financial statements of the governmental activities and major fund of MacDowell Preparatory Academy (the Academy) for the year ended June 30, 2025. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, and *Government Auditing Standards* as well as certain information related to the scope and timing of our audit. We have communicated such information in our letter to you dated June 16, 2025. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated June 16, 2025, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we consider the system of internal control of the Academy. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we also perform tests of the Academy's compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the Management Discussion & Analysis, and the Budgetary Comparison Schedule, which supplement the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

Results of Audit (Continued)

Scope of the Audit, Significant Risks and Other

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions examined and the areas tested.

Our audit included obtaining an understanding of the Academy and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the Academy.

We have identified the following significant risks of material misstatement as part of our audit planning which was communicated in our engagement letter dated June 16, 2025.

- Recording of revenues and unearned revenue for restricted grants.
- Year-end cut-off of payables.
- Override of controls.

During our audit procedures we did not note any findings or exceptions related to the above items.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Academy are described in Note 1 to the financial statements. The application of existing policies was not changed during the year. 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. Depreciation expense is a significant accounting estimate for the Academy, as well as the implied interest rate used for the Academy's lease calculations.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. Note 7 is significant as it discusses the Academy's long-term debt.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit. We would like to commend management and staff on the assistance provided to us during the audit.

Results of Audit (Continued)

Significant Audit Matters (Continued)

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. No such misstatements were noted as a result of our audit.

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 29, 2025.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the Academy's management discussion & analysis, and the budgetary comparison schedule, which are the 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.

Results of Audit
(Continued)

Significant Audit Matters (Continued)

Restriction on Use

This information is intended solely for the information and 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.

Alan C. Young; Assoc.

Detroit, Michigan
October 29, 2025

State and Federal Funding Outlook

The fiscal outlook for Michigan's charter schools continues to evolve due to both state and federal developments. The May 2025 Consensus Revenue Estimating Conference projected modest short-term growth in School Aid Fund revenues; however, long-term projections remain uncertain due to macroeconomic conditions, inflationary pressures, and changes in federal tax and trade policy.

The enactment of the federal "*One Big Beautiful Bill Act*" (OBBA) on July 4, 2025, is expected to significantly reduce Michigan's state income tax revenue beginning in fiscal year 2026, which may limit future funding available to the School Aid Fund.

At the federal level, the U.S. Department of Education is undergoing structural changes under executive order, with certain programs being reassigned to other agencies. Proposed FY 2026 budget legislation eliminates or consolidates several programs historically relied upon by charter schools, including Titles I-C, III, and IV-A. Boards should anticipate potential delays or modifications to future federal grant allocations, particularly for programs subject to Uniform Guidance (2 CFR Part 200) compliance and reporting requirements.

Michigan School Aid and Enrollment Factors

The 2024–2025 School Aid Bill maintained the target foundation allowance at approximately \$9,608 per pupil. Certain charter academies received a separate categorical increase of 3.9%, resulting in a per-pupil funding level near \$9,983. Not all academies realized the full intended benefit due to the reallocation of some categorical funding toward MPSERS retirement-related obligations.

Student enrollment continues to influence overall funding stability. Michigan's total K–12 enrollment remains approximately 50,000 students below pre-pandemic levels, and recovery is expected to be gradual. Since state aid is distributed on a per-pupil basis, recruiting and retaining students will remain a primary financial driver for academies.

The At-Risk categorical program now exceeds \$1 billion statewide, with expanded flexibility for class size reduction and teacher retention initiatives. However, mental health and safety funding under Section 31a declined sharply—from \$328 million to \$26.5 million, highlighting the need for schools to carefully plan around categorical volatility.

Financial Stability and Fund Balance Management

Maintaining a sufficient fund balance continues to be a critical component of financial health and stability. The Michigan Department of Education (MDE) reports a statewide average fund balance of approximately 24.7% of operating expenditures, representing about 11 weeks of operations.

We recommend that charter academies continue to target a fund balance level that provides a buffer against delayed funding or unforeseen expenditures. A healthy fund balance contributes to stronger credit ratings, operational flexibility, and long-term sustainability.

Upcoming Accounting and Reporting Changes

The Governmental Accounting Standards Board (GASB) has issued new pronouncements that will impact future financial reporting:

- GASB Statement No. 103 – Financial Reporting Model Improvements Effective for fiscal years ending June 30, 2026, this standard revises the presentation of governmental fund financial statements. It limits the MD&A to five focus areas, introduces a subtotal for *operating income (loss)*, and clarifies the budget-to-actual comparison presentation.
- GASB Statement No. 104 – Disclosure of Certain Capital Assets This new standard expands disclosure requirements for lease assets, subscription-based IT assets, and intangible right-to-use assets. It enhances transparency and comparability among governments and will also be effective for fiscal years ending June 30, 2026.

Academies should begin preparing for these standards by reviewing their capital asset policies and financial statement disclosure templates.

Uniform Guidance Revisions

Significant changes were made to the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR Part 200), effective for fiscal years beginning on or after October 1, 2024. Key updates include:

- Single Audit Threshold Increase: Raised from \$750,000 to \$1 million.
- Type A Program Determination Threshold: Increased from \$750,000 to \$1 million.
- Equipment Capitalization Threshold: Increased from \$5,000 to \$10,000 per item.

These revisions are expected to apply to academies' fiscal years ending June 30, 2026, and beyond. Management should update procurement, capitalization, and subrecipient monitoring policies accordingly to maintain compliance with federal audit and reporting requirements.

Areas of Ongoing Monitoring

As the educational and fiscal environment continues to shift, charter school boards should remain attentive to the following emerging areas:

- The impact of the *OBBB* on state School Aid Fund revenues and future per-pupil allocations.
- Potential restructuring or reallocation of federal education programs under the U.S. Department of Education.
- The effect of enrollment trends, inflation, and technology costs on operational budgets.
- Timely implementation of Uniform Guidance and GASB updates to ensure compliance and transparency.

Conclusion

While the fiscal environment remains fluid, proactive financial planning and strong governance will help charter schools maintain operational stability. We will continue to monitor federal and state developments, provide timely updates, and assist management in implementing accounting and compliance changes consistent with MDE, U.S. Department of Education, and Uniform Guidance standards.