

Presque Isle Academy II

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

Year Ended June 30, 2020

Presque Isle Academy II

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June 30, 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Presque Isle Academy II

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund information of Presque Isle Academy II, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Presque Isle Academy II, as of June 30, 2020, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the administration's discussion and analysis and other required supplementary information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, 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 not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Presque Isle Academy II's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements are 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 Date to be determined, on our consideration of Presque Isle Academy II'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 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 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 Presque Isle Academy II's internal control over financial reporting and compliance.



Douglas Wohlberg, CPA
Byron Center, Michigan
Date to be determined

Presque Isle Academy II

Management's Discussion and Analysis

As management of Presque Isle Academy II (the Academy), we offer readers of the Academy's financial statements this narrative overview and analysis of the financial activities of the Academy for the fiscal year ended June 30, 2020.

Financial Highlights

- The Academy's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$383,013 resulting in a positive *net position*. Of this amount, *unrestricted net position* had a positive balance of \$85,801.
- The Academy's total net position decreased by (\$38,373) from the June 30, 2019 net position.
- As of the close of the current fiscal year, the Academy's *governmental funds* reported combined ending fund balances of \$466,685, an increase of \$25,666 in comparison with the prior year. See pages 16, 18, and 42 for the exact composition of this net increase. Of the \$466,685, approximately 98 percent, or \$457,963 is *available for spending* at the Academy's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$457,963 or 144 percent of total general fund expenditures (including outgoing transfers.)

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 comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-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, deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between them 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 government's net position changed during the most recent fiscal 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., earned but unused vacation leave).

Presque Isle Academy II

Management's Discussion and Analysis

Both of the government-wide financial statements distinguish functions of the Academy that are principally supported by intergovernmental revenues (*governmental activities*). The governmental activities of the Academy include alternative high school instruction and support services. The Academy has no business-type activities as of and for the year ended June 30, 2020.

The government-wide financial statements can be found on pages 14 - 15 of this report.

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 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 government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The Academy maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund which is considered to be a major fund. Data from the other two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Academy adopts an annual appropriated budget for its general and food service funds. Budgetary comparison statements have been provided for the General Fund herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 16, 18 and 42 of this report.

Presque Isle Academy II

Management's Discussion and Analysis

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 - 40 of this report.

Other information. The combining statements referred to earlier in connection with non-major governmental funds are presented following the notes to the financial statements. Combining fund statements can be found on pages 46 - 47 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Academy, assets and deferred outflows exceeded liabilities and deferred inflows by \$383,013 at the close of the most recent fiscal year.

The Academy's net position, apart from the net pension obligation, is primarily comprised of its investment in capital assets (e.g., land, buildings, and equipment) less any related debt used to acquire those assets that is still outstanding. The Academy uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the Academy's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Presque Isle Academy II

Management's Discussion and Analysis

Academy's Net position

	Governmental Activities	
	2020	2019
Assets and Deferred Outflows of Resources		
Current and other assets	\$ 509,200	\$ 485,802
Capital assets, net	331,175	332,561
Total assets	840,375	818,363
Deferred outflows of resources	214,157	249,742
Total assets and deferred outflows of resources	\$ 1,054,532	\$ 1,113,105
Liabilities and Deferred Inflows of Resources		
Long-term outstanding	\$ 530,228	\$ 572,887
Other liabilities	42,515	44,783
Total liabilities	572,743	617,670
Deferred inflows of resources	98,776	74,049
Total liabilities and deferred inflows of resources	\$ 671,519	\$ 691,719
Net position		
Invested in capital assets, net of related debt	297,113	279,950
Restricted	99	99
Unrestricted	85,801	147,337
Total net position	\$ 383,013	\$ 421,386

Other components of the Academy's net position include \$2 for debt service and \$97 for food service. These represent resources that are subject to external restrictions on how they may be used. The component consisting of \$85,801 represents *unrestricted net position*.

The government's net position decreased by \$38,373 during the current fiscal year. See subsequent page for the major components of this increase.

Included in the current fiscal year was foundation allowance funding, set by the State of Michigan, of \$8,111 per student.

Within the past decade, the Academy's enrollment has ranged between 25 and 75 students.

Presque Isle Academy II

Management's Discussion and Analysis

Academy's Changes in Net position

	Governmental Activities	
	2020	2019
Revenue		
Program revenue		
Charges for services	\$ 46,800	\$ 46,800
Operating grants/contributions	45,700	50,842
General revenue		
State school aid	230,947	159,705
Unrestricted investment earnings and other	5,473	3,624
Total Revenue	328,920	260,971
Expenses		
Instruction	161,570	136,556
Supporting services	188,533	159,539
Food services	5,809	5,839
Depreciation – unallocated	9,606	8,784
Interest on long-term debt	1,775	2,696
Total Expenses	267,293	313,414
Increase (decrease) in net position	(38,373)	(52,443)
Net position, beginning of year	421,386	473,829
Net position, end of year	\$ 383,013	\$ 421,386

Presque Isle Academy II

Management's Discussion and Analysis

Governmental activities. Net position decreased by \$38,373. Three key elements of this net decrease are as follows:

- The \$24,549 *reduction* of 2011 Bonded debt outstanding was offset by \$9,606 of depreciation expense incurred from capital assets by \$15,000. This provided an increase in the equity attributable to the Academy's capital assets.
- Net position decreased by \$87,000 due to the overall net increase in the combination of deferred outflows of resources, deferred inflows of resources and net pension and OPEB liability.
- Net position related to the general fund increased by \$25,666 due to net operating surplus for the year.

Financial Analysis of the Government's Funds

As noted earlier, the Academy uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Academy's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Academy's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

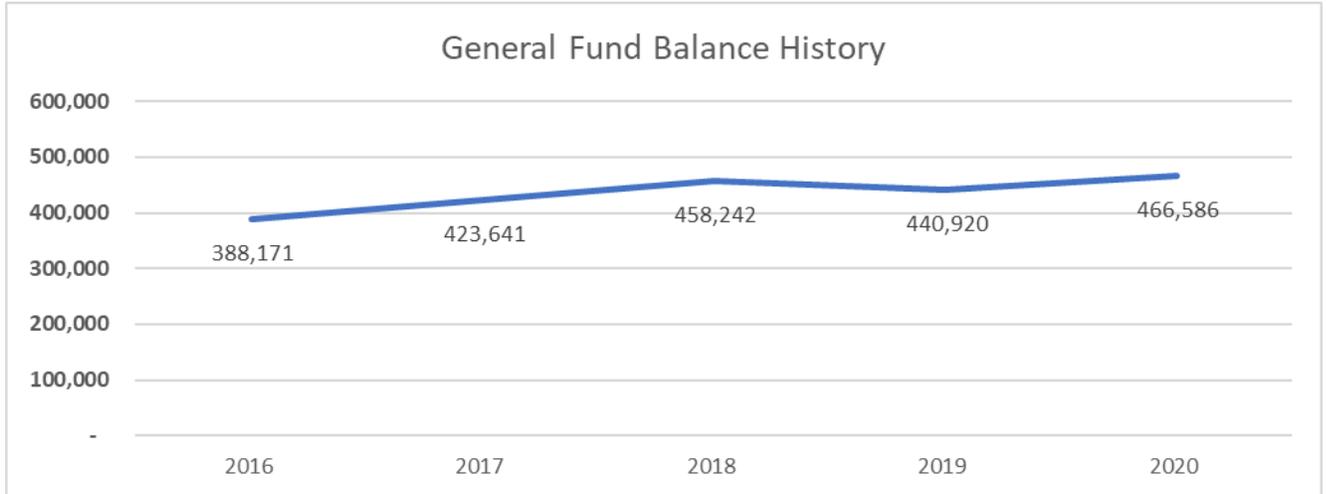
As of the end of the current fiscal year, the Academy's governmental funds reported combined ending fund balances of \$466,685, an increase of \$25,666 in comparison with the prior year. Approximately 98 percent of this total amount (\$457,693) constitutes *unassigned fund balance*, which is available for spending at the Academy's discretion. The remainder of fund balance is *non-spendable, restricted* or *assigned* to indicate that it is not available for new spending because the underlying assets are not available for current expenditures. This is because they are included as capital projects, school-based services and debt service fund accounts.

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 \$457,693. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents approximately 144 percent of total general fund expenditures (including outgoing transfers.)

Presque Isle Academy II

Management's Discussion and Analysis

The fund balance of the Academy's General Fund increased by \$25,666 during the current fiscal year.



The Food Service Fund has a total fund balance of \$97, which has not changed from the previous fiscal year.

The Debt Service fund had a total fund balance of \$2, which has not changed from the previous fiscal year.

Presque Isle Academy II

Management's Discussion and Analysis

General Fund Budgetary Highlights

Significant differences between the original and final amended budgets were partly due to actual enrollments coming in below projections. Additionally, supplemental revenues from services to other charter schools exceeded initial conservative estimates.

Capital Asset and Debt Administration

Capital assets. The Academy's investment in capital assets for its governmental activities as of June 30, 2020, amounted to \$331,175 (net of accumulated depreciation). This investment in capital assets includes land, a building, and a vehicle. The total change in the Academy's investment in capital assets for the current fiscal year (including depreciation) was (\$1,386.)

There were no major capital asset events during the current fiscal year.

Academy's Capital Assets	
(net of depreciation)	
June 30, 2020	
	<u>Governmental Activities</u>
Buildings and building improvements	\$ 329,390
Vehicles	<u>1,785</u>
Total capital assets, net	<u>\$ 331,175</u>

Additional information on the Academy's capital assets can be found in Note 4 on page 28 of this report.

Long-term debt. At the end of the current fiscal year, the Academy had 2011 School Building and Site debt outstanding of \$34,062. This bond issue is a general obligation liability of the Academy.

The Academy's total general obligation bonds payable decreased by \$24,549 during the current fiscal year.

Additional information on the Academy's long-term debt can be found in Note 8 on page 29 of this report.

Presque Isle Academy II

Management's Discussion and Analysis

Factors Bearing on the Academy's Future

The following factors were considered in preparing the Academy's budget for the 2020-21 fiscal year:

- Although currently approved, the State Aid Bill could be subject to adverse revisions later in the year. The ultimate State Aid Bill is expected to provide the Academy with per pupil funding that is materially close to the budget projection.
- Uncertainties related to enrollment counts continue to present budgeting challenges for all Michigan school districts and charter schools. Careful attention to official pupil counts and interim tallies is undertaken to assist with trending projections needed for budget forecasting.
- The continued economic uncertainty affecting the State of Michigan could result in insufficient per-pupil increases in 2021-22. The impact from a funding freeze from 2020-21 levels would present very serious budgetary challenges for all districts and charter schools. Spending decisions for 2020-21 are being made with consideration of potential 2021-22 funding issues.
- The Academy's operations may be affected by the recent and ongoing outbreak of the coronavirus disease (COVID-19). The ultimate disruption which may be caused by the outbreak is uncertain; however, it may result in a material adverse impact on the Academy's financial position, operations, and cash flows. Possible effects may include, but are not limited to, disruption to the Charter School Academy's revenue, and absenteeism in the Academy's workforce.

Requests for Information

This financial report is designed to provide a general overview of the Academy's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Administrative Office, 20830 Cedar Street, Onaway, Michigan 49765.

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BASIC FINANCIAL STATEMENTS

Presque Isle Academy II

Statement of Net Position

June 30, 2020

	Governmental Activities
ASSETS	
Cash and investments	\$ 456,299
Intergovernmental receivable	44,278
Prepays	8,623
Capital assets less accumulated depreciation of \$65,800	331,175
Total assets	840,375
DEFERRED OUTFLOWS OF RESOURCES	
Pension related	171,346
OPEB healthcare related	42,811
Total deferred outflows of resources	214,157
LIABILITIES	
Accounts payable	3,414
Accrued and other liabilities	27,348
Unearned revenue	11,753
Long-term liabilities:	
Due within one year	25,493
Due in more than one year	8,569
Net pension liability	408,037
OPEB healthcare liability	88,129
Total liabilities	572,743
DEFERRED INFLOWS OF RESOURCES	
Pension related	45,570
OPEB healthcare related	53,206
Total deferred inflows of resources	98,776
NET POSITION	
Net investment in capital assets	297,113
Restricted for:	
Food service	97
Debt service	2
Unrestricted	85,801
Total net position	\$ 383,013

The Notes to Financial Statements are an integral part of this statement.

Presque Isle Academy II

Statement of Activities

For the year ended June 30, 2020

	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
Functions/Programs:				
Governmental activities:				
Instruction	\$ 161,570	\$ -	\$ 45,700	\$ (115,870)
Support services	188,533	46,800	-	(141,733)
Food service	5,809	-	-	(5,809)
Interest on long-term debt	1,775	-	-	(1,775)
Depreciation (unallocated)	9,606	-	-	(9,606)
Total governmental activities	\$ 367,293	\$ 46,800	\$ 45,700	(274,793)
General revenues:				
State of Michigan aid, unrestricted				230,947
Unrestricted investment earnings				452
Other revenues				5,021
Total general revenues				236,420
Change in net position				(38,373)
Net position-beginning				421,386
Net position-ending				\$ 383,013

The Notes to Financial Statements are an integral part of this statement.

Presque Isle Academy II

Governmental Funds

Balance Sheet

June 30, 2020

	General	Total Nonmajor Funds	Total Governmental Funds
ASSETS			
Cash and investments	\$ 456,200	\$ 99	\$ 456,299
Intergovernmental receivable	44,278	-	44,278
Prepaid items	8,623	-	8,623
Total assets	\$ 509,101	\$ 99	\$ 509,200
LIABILITIES			
Accounts payable	\$ 3,414	\$ -	\$ 3,414
Accrued liabilities	27,348	-	27,348
Unearned revenue	11,753	-	11,753
Total liabilities	42,515	-	42,515
FUND BALANCES			
Nonspendable:			
Prepaid items	8,623	-	8,623
Restricted:			
Food service	-	97	97
Debt service	-	2	2
Unassigned	457,963	-	457,963
Total fund balances	466,586	99	466,685
Total liabilities and fund balances	\$ 509,101	\$ 99	\$ 509,200

The Notes to Financial Statements are an integral part of this statement.

Presque Isle Academy II

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position June 30, 2020

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

Total fund balances - governmental funds	\$	466,685
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		331,175
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. Balances at June 30, 2020 were:		
Bonds payable		(34,062)
Net pension liability		(408,037)
OPEB healthcare liability		(88,129)
Deferred outflows and inflows of resources are applicable to future periods and, therefore, are not reported in the funds:		
Deferred outflows of resources:		
Pension related		171,346
OPEB healthcare related		42,811
Deferred inflows of resources:		
Pension related		(45,570)
OPEB healthcare related		(53,206)
Net position of governmental activities	\$	383,013

The Notes to Financial Statements are an integral part of this statement.

Presque Isle Academy II

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

For the year ended June 30, 2020

	General	Total Nonmajor Funds	Total Governmental Funds
REVENUES			
Local sources	\$ 5,473	\$ -	\$ 5,473
State sources	267,747	-	267,747
Federal sources	22,874	-	22,874
Incoming transfers and other transactions	46,800	-	46,800
Total revenues	342,894	-	342,894
EXPENDITURES			
Current:			
Instruction	132,447	-	132,447
Support services	152,632	-	152,632
Food services	-	5,809	5,809
Debt service	-	26,340	26,340
Total expenditures	285,079	32,149	317,228
Excess (deficiency) of revenues over expenditures	57,815	(32,149)	25,666
OTHER FINANCING SOURCES (USES)			
Transfers in	-	32,149	32,149
Transfers out	(32,149)	-	(32,149)
Total other financing sources (uses)	(32,149)	32,149	-
Net change in fund balances	25,666	-	25,666
Fund balances-beginning	440,920	99	441,019
Fund balances-ending	\$ 466,586	\$ 99	\$ 466,685

The Notes to Financial Statements are an integral part of this statement.

Presque Isle Academy II

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the year ended June 30, 2020

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

Net change in fund balances - total governmental funds	\$	25,666
Governmental funds report capital outlays as expenditures. However, in the statements of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the capital outlays exceeded depreciation expense in the current period.		(1,386)
Repayments of note and lease principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).		24,549
Governmental funds report pension contributions as expenditures. However, in the statements of activities, the pension expense is determined by the pension plan. This is the amount by which the pension expense exceeded the contributions.		(93,545)
Governmental funds report OPEB healthcare contributions as expenditures. However, in the statements of activities, the OPEB healthcare expense is determined by the plan. This is the amount by which the OPEB healthcare expense exceeded the contributions.		6,343
<hr/> Change in net position of governmental activities	\$	<hr/> (38,373)

The Notes to Financial Statements are an integral part of this statement.

Presque Isle Academy II

Notes to Financial Statements

June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presque Isle Academy II (the "Academy") was formed as a charter school academy pursuant to the MCL 380.1 ct seg. This law allows for the Academy to be eligible for State aid and must comply with Michigan School Code. The Academy was established by the Onaway, Posen, and Rogers City School Districts as a Charter School Academy. The Academy operates under a charter contract with Bay Mills Community College. The Academy operates under a five-member Board of Directors and provides alternative secondary education services to students deemed at risk of dropping out or being dismissed from local school districts.

On July 1, 2016, the Academy and Bay Mills Community College entered into a Charter Public School contract under Michigan P.A. 362 of 1993. This charter is through June 30, 2024. The Academy will operate as an independent nonprofit entity while Bay Mills Community College will act as the fiscal agent for the Academy. The Academy will conduct itself as a governmental unit. Bay Mills Community College, as fiscal agent, will review and monitor books and records of financial transactions. For this service, Bay Mills Community College will receive an administrative fee equal to 3% of state school aid.

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

A. Reporting Entity

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the Academy. Based on application of the criteria, the Academy does not contain component units.

B. Academy-wide and Fund Financial Statements

The academy-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and 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 academy-wide activities are considered governmental 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. Intergovernmental payments and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Presque Isle Academy II

Notes to Financial Statements

June 30, 2020

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

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

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. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Revenues are recognized in the accounting period in which they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the fiscal period. Unrestricted State aid, intergovernmental revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

The Academy reports the following major governmental fund:

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

Additionally, the Academy reports the following fund types:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The Academy's Special Revenue Fund accounts for the Academy's food service activity. Any operating deficit generated by this activity is the responsibility of the General Fund.

Debt Service Funds accounts for property taxes and other revenues to be used to pay principal, interest and fees related to long-term debt.

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

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

Presque Isle Academy II

Notes to Financial Statements

June 30, 2020

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

Bank Deposits and Investments

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

Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

All trade receivables are shown as net of allowance for uncollectible amounts. The Academy considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both academy-wide and fund financial statements.

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the academy-wide financial statements. Capital assets are defined by the Academy as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized. The Academy does not have infrastructure-type assets.

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

<u>Capital Asset Classes</u>	<u>Lives</u>
Buildings and improvements	20-50 years
Land improvements	20 years
Transportation equipment	20 years
Furniture and other equipment	5-20 years
Computers and software	5 years

Presque Isle Academy II

Notes to Financial Statements

June 30, 2020

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial 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 two items that qualify for reporting in this category. They are pension related items and OPEB healthcare related items.

In addition to liabilities, the statement of financial 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. They are pension related items and OPEB healthcare related items.

Long-term Obligations

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

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 the following: assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Other Financing Sources (Uses)

Transfers of cash between the various Academy funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

Presque Isle Academy II

Notes to Financial Statements

June 30, 2020

Net Position and Fund Balances

The difference between fund assets and liabilities is "Net Position" on the academy-wide fund statements and "Fund Balances" on governmental fund statements. Net Position are classified as "Net investment in capital assets," legally "Restricted" for a specific purpose, or "Unrestricted" and available for appropriation for the general purposes of the fund. In governmental fund financial statements, fund balances are classified as follows:

- Nonspendable--Amounts that cannot be spent either because they are (a) not in spendable form; or (b) legally or contractually required to be maintained intact.
- Restricted--Amounts with constraints placed on the use of resources because they are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed--Amounts that can be used only for specific purposes determined by a formal action by Board of Directors resolution, and that remain binding unless removed in the same manner.
- Assigned--Amounts neither restricted nor committed for which an Academy has a stated intended use as established by the Board of Directors or a body or official to which the Board of Directors has delegated the authority to assign amounts for specific purposes.
- Unassigned--Amounts that cannot be properly classified in one of the other four categories. The General Fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include negative balances in the governmental funds reporting resources restricted for specific programs.

Use of Restricted Resources

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Academy's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the Academy's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications - committed and then assigned fund balances before using unassigned fund balances.

Comparative Data/Reclassifications

Comparative data is not included in the Academy's financial statements.

Presque Isle Academy II

Notes to Financial Statements

June 30, 2020

E. Revenues and Expenditures/Expenses

Program Revenues

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes and unrestricted State aid.

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

G. Postemployment Benefits Other Than Pensions

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

Presque Isle Academy II

Notes to Financial Statements

June 30, 2020

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. 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 function 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 academies to amend their budgets during the year. During the year, the budgets were amended in a legally permissible manner.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts, etc.) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Excess of Expenditures Over Appropriations in Budgeted Funds

For the year ended June 30, 2020, expenditures exceeded appropriations in the following functions (the legal level of budgetary control).

Fund and Function	Budget Appropriation	Actual Expenditure	Excess Expenditure	% Variance
General Fund:				
Basic programs	\$ 107,116	\$ 117,139	\$ 10,023	9 %
Business services	5,085	5,249	164	3 %

Presque Isle Academy II

Notes to Financial Statements

June 30, 2020

NOTE 3 - DEPOSITS AND INVESTMENTS

State statutes and the Academy's investment policy authorize the Academy to make deposits in the accounts of Federally insured banks, credit unions, and savings and loan associations that have an office 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 investments pools that are composed of authorized investment vehicles. The Academy's deposits are in accordance with statutory authority.

Deposits are carried at cost. The investment policy adopted by the Board, in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Academy's deposits and investment policy are in accordance with statutory authority.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy does not have a deposit policy for custodial credit risk of bank deposits. At year end, the bank balance of the Academy's deposits (checking and money market funds) is \$465,203, of that balance \$250,224 is insured by Federal depository insurance and the National Credit Union Administration and \$214,979 is uninsured. The Academy will minimize custodial credit risk by limiting investments to the types of securities allowed by law, prequalifying the financial institutions, broker/dealers, intermediaries and advisors with which the Academy will invest. The Board of Directors authorized Citizens National Bank and Awakon Federal Credit Union for the investment of the Academy's funds for the year.

Interest Rate Risk

The Academy does not have a formal investment policy to manage the exposure to fair value losses arising from interest rate .

Credit Risk

State law limits investment in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of year end, the Academy did not have any investments.

Concentration of Credit Risk

The Academy will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Foreign Currency Risk

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

Fair Value Hierarchy

The Academy categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The Academy owns no investments subject to the fair value measurement.

Presque Isle Academy II

Notes to Financial Statements

June 30, 2020

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the Academy's governmental activities, for the year ended June 30, 2020, was as follows:

Governmental Activities	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets, being depreciated:				
Buildings and improvements	\$ 388,755	\$ 8,220	\$ -	\$ 396,975
Less accumulated depreciation for:				
Buildings and improvements	56,194	9,606	-	65,800
Governmental activities capital assets, net	\$ 332,561	\$ (1,386)	\$ -	\$ 331,175

Depreciation expense was not charged to specific activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

NOTE 5 - LEASES

The Academy leases a copier system. The lease continues on a month-to-month basis until either party agrees to terminate. The Academy spent \$1,200 for the year.

NOTE 6 - INTERFUND TRANSFERS

The composition of interfund transfers, as of June 30, 2020, is as follows:

Interfund transfers:

Transfer Out Fund	Transfer In Fund		Total
	Food Service	Debt Service	
General	\$ 5,809	\$ 26,340	\$ 32,149

NOTE 7 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2020, consist of the following:

<u>State aid</u>	<u>\$ 44,278</u>
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Amounts reported as intergovernmental receivables include amounts due from federal, state, and local sources for various projects and programs.

No allowance for doubtful accounts is considered necessary.

Presque Isle Academy II

Notes to Financial Statements

June 30, 2020

NOTE 8 - LONG-TERM DEBT

The Academy issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General Obligation Bonds are direct obligations and pledge the full faith and credit of the Academy.

The following is a summary of long-term debt transactions for the year ended June 30, 2020:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bond obligations	\$ 58,611	\$ -	\$ 24,549	\$ 34,062	\$ 25,493

The annual requirement to amortize long-term debt outstanding, as of June 30, 2020, follows:

Year ended June 30,	Governmental Activities		
	Principal	Interest	Total
2021	\$ 25,493	\$ 847	\$ 26,340
2022	8,569	65	8,634
Totals	\$ 34,062	\$ 912	\$ 34,974

Long-term bond obligations were comprised of the following:

School Building and Site Bonds, Series 2011 Dated October 28, 2011, amount issued \$219,000, maturing through 2022, interest rate 3.75%, monthly payment \$2,195	\$ 34,062
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NOTE 9 - RISK MANAGEMENT

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

Presque Isle Academy II

Notes to Financial Statements

June 30, 2020

NOTE 10 - UNEARNED REVENUE

Governmental funds report unearned revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer 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 are as follows:

	Unavailable	Unearned
General Fund	\$ -	\$ 11,753

NOTE 11 - SUBSEQUENT EVENTS

The Charter School Academy's operations may be affected by the recent and ongoing outbreak of the coronavirus disease 2019 (COVID-19) which was declared a pandemic by the World Health Organization in March 2020. The ultimate disruption which may be caused by the outbreak is uncertain; however, it may result in a material adverse impact on the Charter School Academy's financial position, operations, and cash flows. Possible effects may include, but are not limited to, disruption to the Charter School Academy's customers and revenue, absenteeism in the Charter School Academy's labor workforce, unavailability of products and supplies used in operations, and a decline in value of assets held by the Charter School Academy, including inventories, property and equipment, and marketable securities.

Presque Isle Academy II

Notes to Financial Statements

June 30, 2020

NOTE 12 - PENSION PLAN

General Information about the Michigan Public School Employees' Retirement System (MPSERS) 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 governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members— eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System's 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 www.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, 2018 valuation will be amortized over a 20-year period beginning Oct. 1, 2018 and ending Sept. 30, 2038.

Presque Isle Academy II

Notes to Financial Statements

June 30, 2020

The schedule below summarizes pension contribution rates in effect for the fiscal year ended September 30, 2019.

Benefit Structure	Pension Contribution Rates		
	Member	Universities	Employer Non-Universities
Basic	0.0 - 4.0 %	25.03 %	18.25 %
Member Investment Plan	3.0 - 7.0 %	25.03 %	18.25 %
Pension Plus	3.0 - 6.4 %	N/A	16.46 %
Pension Plus 2	6.2 %	N/A	19.59 %
Defined Contribution	0.0 %	19.74 %	13.39 %

Required contributions to the pension plan from the Academy were \$32,732 for the year ended September 30, 2019.

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

At June 30, 2019, the Academy reported a liability of \$408,037 for its proportionate share of the MPERS net pension liability. The net pension liability was measured as of September 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2018. 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 September 30, 2019, the Academy's proportion was 0.00001232 percent, which was a decrease of 6.8994 percent from its proportion measured as of September 30, 2018.

For the year ended June 30, 2020, the Academy recognized pension expense of \$118,921. At June 30, 2020, 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 expected and actual experience	\$ 1,829	\$ 1,701
Changes of assumptions	79,894	-
Net difference between projected and actual earnings on pension plan investments	-	13,077
Changes in proportion and differences between Academy contributions and proportionate share of contributions	70,393	16,818
Academy contributions subsequent to the measurement date	19,230	13,974
Total	\$ 171,346	\$ 45,570

Presque Isle Academy II

Notes to Financial Statements

June 30, 2020

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 ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred (Inflows) and Deferred Outflows of Resources by Year (To Be Recognized in Future Pension Expenses)	
Year Ending September 30	Amount
2020	\$ 63,440
2021	39,893
2022	14,047
2023	3,140

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2018
Actuarial Cost Method	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return	
- MIP and Basic Plans	6.80%
- Pension Plus Plan	6.80%
- Pension Plus 2 Plan	6.00%
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:	P-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Notes:

- Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2017 valuation. The total pension liability as of September 30, 2019, is based on the results of an actuarial valuation date of September 30, 2018, 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: 4.4977 for non-university employers.
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2019 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Presque Isle Academy II

Notes to Financial Statements

June 30, 2020

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2019, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return*</u>
Domestic Equity Pools	28.0 %	5.5 %
Private Equity Pools	18.0	8.6
International Equity	16.0	7.3
Fixed Income Pools	10.5	1.2
Real Estate and Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.4
Short Term Investment Pools	2.0	0.8
Total	100.0	

*Long term rates of return are net of administrative expenses and 2.3% inflation

Rate of Return

For the fiscal year ended September 30, 2019, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 5.14%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 6.80% was used to measure the total pension liability (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 6.80% (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan). The projection of cash flows used to determine 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.

Presque Isle Academy II

Notes to Financial Statements

June 30, 2020

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 6.80% (6.80% for the Pension Plus plan, 6.0% 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 higher:

1% Decrease 5.80% / 5.80% / 5.0%	Current Single Discount Rate Assumption 6.80% / 6.80% / 6.0%	1% Increase 7.80% / 7.80% / 7.0%
\$ 530,474	\$ 408,037	\$ 306,532

* Discount rates listed in the following order: Basic and Member Investment Plan (MIP), Pension Plus, and Pension Plus 2. Non-university employers provide Basic, MIP, Pension Plus and Pension Plus 2 plans. University employers provide only the Basic and MIP plans.

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 CAFR, available on the ORS website at www.michigan.gov/orsschools.

Presque Isle Academy II

Notes to Financial Statements

June 30, 2020

NOTE 13 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

General Information about the Michigan Public School Employees' Retirement System (MPSERS) OPEB 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 governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

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

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

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

Benefits Provided

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

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.

Presque Isle Academy II

Notes to Financial Statements

June 30, 2020

Employer OPEB contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the Sept. 30, 2018 valuation will be amortized over a 20-year period beginning Oct. 1, 2018 and ending Sept. 30, 2038.

The schedule below summarizes OPEB contribution rates in effect for fiscal year ended Sept. 30, 2019.

Benefit Structure	Member	Employer	
		Universities	Non-Universities
Premium Subsidy	3.00 %	6.42 %	7.93 %
Personal Healthcare Fund (PHF)	0.00 %	5.99 %	7.57 %

Required contributions to the OPEB plan from the Academy were \$8,430 for the year ended September 30, 2019.

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

At June 30, 2020, the Academy reported a liability of \$88,129 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2018. 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 applicable employers during the measurement period. At September 30, 2019, the Academy's proportion was 0.00001228 percent, which was a decrease of 21.3355 percent from its proportion measured as of October 1, 2018.

For the year ended June 30, 2020, the Academy recognized OPEB expense of \$2,725. At June 30, 2020, the Academy reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 32,337
Changes of assumptions	19,096	-
Net difference between projected and actual earnings on OPEB plan investments	-	1,533
Changes in proportion and differences between Academy contributions and proportionate share of contributions	16,353	19,336
Academy contributions subsequent to the measurement date	7,362	-
Total	\$ 42,811	\$ 53,206

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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Presque Isle Academy II

Notes to Financial Statements

June 30, 2020

Deferred (Inflows) and Deferred Outflows of Resources by Year (To Be Recognized in Future OPEB Expenses)

Year Ending September 30	Amount
2020	\$ (3,632)
2021	(3,632)
2022	(2,926)
2023	(3,573)
2024	(3,994)

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2018
Actuarial Cost Method	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return:	6.95%
Projected Salary Increases:	2.75 - 11.55%, including wage inflation at 2.75%
Healthcare Cost Trend Rate:	7.5% Year 1 graded to 3.5% Year 12
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 Assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan
Survivor Coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death
Coverage Election at Retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 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 OPEB valuations beginning with the September 30, 2017 valuation. The total OPEB liability as of September 30, 2019, is based on the results of an actuarial valuation date of September 30, 2018, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: [5.71018 for non-university employers or 1.1641 for university employers].
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2019 MPERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Presque Isle Academy II

Notes to Financial Statements

June 30, 2020

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2019, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return*</u>
Domestic Equity Pools	28.0 %	5.5 %
Private Equity Pools	18.0	8.6
International Equity	16.0	7.3
Fixed Income Pools	10.5	1.2
Real Estate and Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.4
Short Term Investment Pools	2.0	0.8
Total	100.0	

*Long term rates of return are net of administrative expenses and 2.3% inflation

Rate of Return

For the fiscal year ended September 30, 2019, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 5.37%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

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

Presque Isle Academy II

Notes to Financial Statements

June 30, 2020

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 Academy'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 5.95%	Current Discount Rate 6.95%	1% Increase 7.95%
\$ 108,104	\$ 88,129	\$ 71,356

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 the net OPEB liability would be if it were calculated using a trend rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
\$ 70,645	\$ 88,129	\$ 108,101

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2019 MPSERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

REQUIRED SUPPLEMENTAL INFORMATION

Presque Isle Academy II

General Fund

Budgetary Comparison Schedule

For the year ended June 30, 2020

	<u>Budgeted Amounts</u>			Variance with Final Budget
	Original	Final	Actual	
REVENUES				
Local sources	\$ 1,347	\$ 3,555	\$ 5,473	\$ 1,918
State sources	283,038	274,071	267,747	(6,324)
Federal sources	28,915	22,874	22,874	-
Incoming transfers and other transactions	45,000	46,800	46,800	-
Total revenues	358,300	347,300	342,894	(4,406)
EXPENDITURES				
Current:				
Instruction:				
Basic programs	131,657	107,116	117,139	(10,023)
Added needs	20,876	25,112	15,308	9,804
Support services:				
Instructional staff services	700	181	181	-
General administration	19,822	19,376	19,196	180
School administration	98,746	96,894	96,835	59
Business services	6,862	5,085	5,249	(164)
Operations and maintenance	26,650	23,510	23,373	137
Pupil transportation	4,490	3,737	736	3,001
Central support services	8,757	7,064	7,062	2
Total expenditures	318,560	288,075	285,079	2,996
Excess (deficiency) of revenues over expenditures	39,740	59,225	57,815	(1,410)
OTHER FINANCING SOURCES (USES)				
Transfers out	(33,640)	(32,025)	(32,149)	(124)
Net change in fund balance	6,100	27,200	25,666	(1,534)
Fund balance-beginning	440,920	440,920	440,920	-
Fund balance-ending	\$ 447,020	\$ 468,120	\$ 466,586	\$ (1,534)

Presque Isle Academy II

Pension Plan

Required Supplemental Information

June 30, 2020

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.00001232 %	0.00001317 %	0.00001139 %	0.00006366 %	0.00005000 %	0.00002000 %
Reporting unit's proportionate share of net pension liability	\$ 408,037	\$ 395,812	\$ 295,241	\$ 158,829	\$ 115,247	\$ 5,053
Reporting unit's covered employee payroll	\$ 110,889	\$ 130,375	\$ 123,768	\$ 70,718	\$ 72,268	\$ 3,450
Reporting unit's proportionate share of net pension liability as a percentage of its covered employee payroll (%)	367.97 %	303.60 %	238.54 %	224.59 %	159.47 %	146.46 %
Plan fiduciary net position as a percentage of total pension liability	60.31 %	62.36 %	64.21 %	63.01 %	63.17 %	66.20 %

Schedule of the Reporting Unit's Contributions

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 32,732	\$ 35,853	\$ 29,486	\$ 26,750	\$ 12,135	\$ 6,363
Contributions in relation to statutorily required contributions	32,732	35,853	29,486	26,750	12,135	6,363
Contribution deficiency (excess)	-	-	-	-	-	-
Reporting units covered-employee payroll	\$ 117,602	\$ 109,787	\$ 137,935	\$ 121,123	\$ 84,775	\$ 56,858
Contributions as a percentage of covered-employee payroll	27.83 %	32.66 %	21.38 %	22.08 %	14.31 %	11.19 %

Notes to Required Supplementary Information

Changes of benefit terms: There were no changes of benefit terms during the plan year ending 2019.

Presque Isle Academy II

OPEB Plan

Required Supplemental Information

June 30, 2020

Schedule of the Academy's Proportionate Share of the Net OPEB Liability

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Academy's proportion of net OPEB liability (%)	0.00001228 %	0.00001490 %	0.00001220 %
Academy's proportionate share of net OPEB liability	\$ 88,129	\$ 118,464	\$ 107,993
Academy's covered payroll (OPEB)	\$ 110,889	\$ 130,375	\$ 123,768
Academy's proportionate share of net OPEB liability as a percentage of its covered employee payroll (%)	79.47 %	90.86 %	87.25 %
Plan fiduciary net position as a percentage of total OPEB liability	48.46 %	42.95 %	36.39 %

Schedule of the Academy's OPEB Contributions

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily required contributions	\$ 8,430	\$ 9,674	\$ 2,561
Contributions in relation to statutorily required contributions	8,430	9,674	2,561
Contribution deficiency (excess)	-	-	-
Reporting units covered-employee payroll	\$ 117,602	\$ 109,787	\$ 130,375
Contributions as a percentage of covered-employee payroll	7.17 %	8.81 %	1.96 %

Notes to Required Supplementary Information

Changes of benefit terms: There were no changes of benefit terms during the plan year ending 2019.

OTHER SUPPLEMENTAL INFORMATION

Presque Isle Academy II

Nonmajor Governmental Funds

Combining Balance Sheet

June 30, 2020

	Food Service	Debt Service	Total Nonmajor Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 97	\$ 2	\$ 99
FUND BALANCES			
Restricted:			
Food service	\$ 97	\$ -	\$ 97
Debt service	-	2	2
Total fund balances	\$ 97	\$ 2	\$ 99

Presque Isle Academy II

Nonmajor Governmental Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

For the year ended June 30, 2020

	Food Service	Debt Service	Total Nonmajor Governmental Funds
EXPENDITURES			
Current:			
Food service	\$ 5,809	\$ -	\$ 5,809
Debt service:			
Principal	-	24,565	24,565
Interest	-	1,775	1,775
Total expenditures	5,809	26,340	32,149
Excess (deficiency) of revenues over expenditures	(5,809)	(26,340)	(32,149)
OTHER FINANCING SOURCES (USES)			
Transfers in	5,809	26,340	32,149
Net change in fund balances	-	-	-
Fund balances-beginning	97	2	99
Fund balances-ending	\$ 97	\$ 2	\$ 99

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AUDITORS' REPORTS

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Email: doug@wohlbergcpa.com

Date to be determined

To the Board of Directors
Presque Isle Academy II

We have audited the financial statements of the governmental activities and the major fund information of Presque Isle Academy II for the year ended June 30, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards 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 October 24, 2020. 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 Presque Isle Academy II are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Estimates have been used to calculate the net pension and net OPEB liabilities. We evaluated the key factors and assumptions used to develop the net pension and net OPEB liabilities in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's estimates of the useful lives of capital assets which is based on previous history, management's estimate of the accrued compensated absences is based on current contracts, rates and policies regarding payment of these benefits, and the net pension liability which is based on an actuarial valuation of the entire Michigan Public School Employees Retirement System. We evaluated key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing 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. We identified no misstatements.

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 Date to be determined.

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 governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the budgetary comparison schedule, Schedule of the Reporting Unit's Proportionate share of the Net Pension Liability, Schedule of the Reporting Unit's Contributions, and the Notes to Required Supplementary Information, 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 combining statements, 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 Presque Isle Academy II and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



Douglas Wohlberg, CPA
Byron Center, Michigan

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

To the Board of Directors
Presque Isle Academy II

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 the major funds, of Presque Isle Academy II, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Presque Isle Academy II's basic financial statements and have issued our report thereon dated Date to be determined.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

**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)**

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.

Very truly yours,

A handwritten signature in black ink that reads "Douglas Wohlberg". The signature is written in a cursive, flowing style.

Douglas Wohlberg, CPA
Byron Center, Michigan
Date to be determined

DOUGLAS WOHLBERG, CPA

Certified Public Accountants

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Byron Center, MI 49315
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We did not issue a management letter for Presque Isle Academy II for the year ended June 30, 2020.