



PEMBROKE CHARTER ACADEMY

Financial Statements as of and for the Year Ended
June 30, 2023, Required Supplementary
Information and Additional Information for the Year
Ended June 30, 2023, Federal Awards
Supplementary Information for the Year Ended
June 30, 2023 and Independent Auditor's Reports

**NATIONAL
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The logo for National Heritage Academies, featuring a stylized white outline of an open book to the right of the text.

PEMBROKE CHARTER ACADEMY

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THE CLAIMOUNT GROUP, PLC
Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
Pembroke Charter Academy

Report on the Audit of the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund (General Fund), and the School Service Fund of Pembroke Charter Academy as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Pembroke Charter Academy's basic financial statements as listed in the table of contents.

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

Basis for Opinions

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

Responsibility of Management 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibility for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Academy's basic financial statements. The statement of revenues- general fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The statement of revenues – general fund is the responsibility of management and is derived and related 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 statement of revenues-general fund is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2023, on our consideration of Pembroke Charter Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Pembroke Charter Academy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pembroke Charter Academy's internal control over financial reporting and compliance.

The Clairmount Group, PLLC

The Clairmount Group, PLC
Detroit, Michigan
October 23, 2023

**PEMBROKE CHARTER ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2023**

This section of the annual financial report for Pembroke Charter Academy (the "Academy") provides an overview of the Academy's financial activities as of and for the fiscal year ended June 30, 2023. It should be read in conjunction with the financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy financially as a whole. The Academy-wide financial statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Academy's operations in more detail than the Academy-wide financial statements by providing information about the Academy's most significant fund — the General Fund — with the other fund presented in one column as the major School Service Fund.

Management's Discussion and Analysis
(Required Supplementary Information)

Basic Financial Statements

Academy-wide Financial Statements Fund Financial Statements

Notes to Basic Financial Statements

(Required Supplementary Information)
Budgetary Information for the Governmental Funds

(Additional Information)
Statement of Revenues — General Fund

PEMBROKE CHARTER ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2023

Reporting the Academy as a Whole — Academy-Wide Financial Statements

One of the most important questions asked about the Academy is, “As a whole, what is the Academy’s financial condition as a result of the year’s activities?” The Statement of Net Position and the Statement of Activities, which appear first in the Academy’s financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year’s revenues and expenses are taken into account regardless of when the cash is received or paid.

The Academy’s Statement of Net Position — the difference between assets and liabilities, as reported in the Statement of Net Position — is one way to measure the Academy’s financial position. The relationship between revenues and expenses is the Academy’s operating results. The Academy’s goal is to provide services to our students, not to generate profits as private sector companies do. One must consider nonfinancial factors, such as the quality of the education provided and the safety of the Academy, to assess the overall health of the Academy.

The Statement of Net Position and the Statement of Activities report the activities of the Academy, all of which are classified as governmental. These activities encompass all the Academy’s services, including instruction, support services and food services. State aid (based on student count) and state and federal grants finance most of these activities. The Academy has entered into a services agreement (the “agreement”) with National Heritage Academies, Inc. (NHA) which requires NHA to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the consideration received under the agreement, NHA also provides the facility in which the Academy operates. Under the terms of the agreement, NHA receives as remuneration for its services an amount equal to the total revenue received by the Academy from all revenue sources.

Reporting the Academy’s Fund Financial Statements

The Academy’s fund financial statements provide detailed information about the most significant funds — not the Academy as a whole. Some funds are required to be established by state law. However, the Academy establishes other funds to help it control and manage money for particular purposes or as required by state law (the School Service Fund is an example). The governmental funds of the Academy use the following accounting approach:

Governmental Funds — All of the Academy’s services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using an accounting method called modified accrual accounting. Only those revenues that are “measurable” and “currently available” are reported. Liabilities are recognized when incurred. The governmental fund statements provide a short-term view of the operations of the Academy and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy’s programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliations presented as part of the statements.

PEMBROKE CHARTER ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2023

The Academy as a Whole

Recall that the Statement of Net Position provides the perspective of the Academy as a whole. The table below provides a summary of the Academy's net position as of June 30:

	2023	2022
Assets:		
Current assets	\$ 854,389	\$ 784,944
Capital assets, net of accumulated depreciation	<u>-</u>	<u>-</u>
Assets - Current	854,389	784,944
Liabilities - current	<u>750,803</u>	<u>652,524</u>
Net position:		
Net investment in capital assets	-	-
Restricted - School Service Fund	-	44,022
Unrestricted	<u>103,586</u>	<u>88,398</u>
Total net position	<u>\$ 103,586</u>	<u>\$ 132,420</u>

The unrestricted net position of governmental activities represents the accumulated results of life-to-date operations. These assets can be used to finance day-to-day operations without constraints, such as legislative or legal requirements. The results of the current-year operations for the Academy as a whole are reported in the Statement of Activities, which shows the change in net position.

The results of operations for the Academy as a whole are reported in the summarized Statements of Activities (below) which show the changes in net position for the fiscal years ended June 30:

	2023	2022
Revenues:		
State aid	\$ 3,162,606	\$ 2,874,746
Operating grants	967,394	867,505
Private sources - NHA	<u>1,748,807</u>	<u>1,422,855</u>
Total revenues	5,878,807	5,165,106
Expenses:		
Contracted service fee	5,862,991	4,975,651
Food services	628	200,520
Depreciation (unallocated)	<u>-</u>	<u>-</u>
Total expenses	<u>5,863,619</u>	<u>5,176,201</u>
SPECIAL ITEM - Transfer of operations	<u>(44,022)</u>	<u>-</u>
Change in net position	<u>\$ (28,834)</u>	<u>\$ 58,935</u>

PEMBROKE CHARTER ACADEMY
MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2023

As reported in the Statement of Activities, the cost of governmental activities was \$5,863,619. These activities were primarily funded by the Academy’s state aid (based on student count) and governments and organizations that subsidized certain programs with grants. *Revenues – Private sources – NHA donations* represent a contribution granted by NHA for excess of Academy expenditures over public revenues available.

The Academy experienced a decrease in net position of \$28,834 in 2023. The primary reason for the change in net position is due to the transfer of the Academy’s food service operations as described in Note 7 “Transfer of Operations”.

A reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities appears on page 10.

Fund Financial Statements

As we noted earlier, the Academy uses funds to help it control and manage money for particular purposes or as required by state law. Looking at funds helps the reader to consider whether the Academy is being accountable for the resources that the State and others provide to it and may provide more insight into the Academy’s overall financial health.

The Academy’s instruction and support services activities are reported in the General Fund. The School Service Fund represents food service activities. The Academy’s combined fund balance was \$103,586 at June 30, 2023.

A reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position appears on page 9.

General Fund Budgetary Highlights

Over the course of the year, the Academy revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Academy’s original and final budget amounts compared with amounts actually paid and received is provided in the required supplementary information of these financial statements.

Budgeted revenues for the General Fund were increased by \$84,887 from the original budget. Revenues were changed to reflect the following:

State Aid	<i>Decrease</i>
Other State Sources	<i>Decrease</i>
Local Sources	<i>Increase</i>
Federal Sources	<i>Decrease</i>
Private Sources	<i>Increase</i>

Budgeted expenditures for the General Fund were increased by \$84,887. This change was to reflect the change in anticipated funding. Significant variances between the final budget and actual amounts are disclosed in the notes to the financial statements (Refer to Note 2).

PEMBROKE CHARTER ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2023

General Economic Factors and Next Year's Budgets

Our officials and administration consider many factors when setting the Academy's 2024 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2024 fiscal year is expected to be 90% and 10% of the October 2023 and February 2023 student counts, respectively. The 2024 budget was adopted in May 2023. Approximately 54% of total General Fund revenue is from the foundation allowance. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2024 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2024 budget. Once the final student count and related per pupil funding are validated, state law requires the Academy to amend the budget if actual Academy resources are not sufficient to fund original appropriations.

Since the Academy's revenue is heavily dependent on state funding and the health of the State's school aid fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to public school academies. The State periodically holds a revenue-estimating conference to estimate revenues. If the State estimates funds are not sufficient to fund the appropriation, the legislature must revise the appropriation or proration of state aid will occur.

Contacting the Academy's Financial Management

The financial report is designed to provide users of the report with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report, contact the Chief Financial Officer of National Heritage Academies, Inc., 3850 Broadmoor SE, Suite 201; Grand Rapids, Michigan 49512.

PEMBROKE CHARTER ACADEMY

STATEMENT OF NET POSITION YEAR ENDED JUNE 30, 2023

	Governmental Activities
ASSETS	
CURRENT ASSETS:	
Cash	\$ 105,374
Due from governmental revenue sources	<u>749,015</u>
Total current assets	<u>854,389</u>
NON-CURRENT ASSETS:	
Capital assets	18,986
Less accumulated depreciation	<u>(18,986)</u>
Total capital assets, net of accumulated depreciation	<u>-</u>
TOTAL	<u><u>\$ 854,389</u></u>
LIABILITIES AND NET POSITION	
LIABILITIES:	
Unearned revenue	\$ 352,509
Accounts payable	1,788
Contracted service fee payable	<u>396,506</u>
Total liabilities	<u>750,803</u>
NET POSITION:	
Net investment in capital assets	-
Restricted - School Service Fund	-
Unrestricted	<u>103,586</u>
Total net position	<u>103,586</u>
TOTAL	<u><u>\$ 854,389</u></u>

PEMBROKE CHARTER ACADEMY

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023**

	Expenses	Program Revenues		Governmental Activities Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants	
FUNCTIONS/PROGRAMS:				
Contracted service fee	\$ 5,862,991	\$ -	\$ 966,766	\$ (4,896,225)
Food services	628	-	628	-
Depreciation (unallocated)	-	-	-	-
	<u>\$ 5,863,619</u>	<u>\$ -</u>	<u>\$ 967,394</u>	<u>(4,896,225)</u>
GENERAL PURPOSE REVENUES:				
State aid unrestricted				3,162,606
Private sources - NHA				<u>1,748,807</u>
				<u>4,911,413</u>
SPECIAL ITEM - Transfer of operations				<u>(44,022)</u>
CHANGE IN NET POSITION				(28,834)
NET POSITION:				
Beginning of year				<u>132,420</u>
End of year				<u>\$ 103,586</u>

See notes to financial statements.

PEMBROKE CHARTER ACADEMY

**BALANCE SHEET - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2023**

	General Fund	School Service Fund	Total Governmental Funds
ASSETS			
Cash	\$ 105,374	\$ -	\$ 105,374
Due from governmental revenue sources	<u>749,015</u>	<u>-</u>	<u>749,015</u>
TOTAL	<u><u>\$ 854,389</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 854,389</u></u>
LIABILITIES AND FUND BALANCE			
LIABILITIES:			
Unearned revenue	\$ 356,125	\$ -	\$ 356,125
Accounts payable	1,788	-	1,788
Contracted service fee payable	<u>354,063</u>	<u>-</u>	<u>354,063</u>
Total liabilities	<u>711,976</u>	<u>-</u>	<u>711,976</u>
DEFERRED INFLOWS OF RESOURCES:			
Unavailable revenue	<u>38,827</u>	<u>-</u>	<u>38,827</u>
Total liabilities and deferred inflows of resources	<u>750,803</u>	<u>-</u>	<u>750,803</u>
FUND BALANCE:			
Nonspendable - School Service Fund	-	-	-
Committed	30,923	-	30,923
Unassigned	<u>72,663</u>	<u>-</u>	<u>72,663</u>
Total fund balance	<u>103,586</u>	<u>-</u>	<u>103,586</u>
TOTAL	<u><u>\$ 854,389</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 854,389</u></u>

**Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position**

Total governmental fund balance	\$ 103,586
Capital assets used in governmental activities are not financial resources and are not reported in the funds:	
Capital assets cost	\$ 18,986
Accumulated depreciation	<u>(18,986)</u>
Due from governmental revenue sources not available to pay current period expenditures therefore deferred in the funds	38,827
Contracted service fee payable not due and payable in the current period and not reported in the funds	(38,827)
Net position of governmental activities	<u><u>\$ 103,586</u></u>

See notes to financial statements.

PEMBROKE CHARTER ACADEMY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2023

	General Fund	School Service Fund	Total Governmental Funds
REVENUES:			
State aid	\$ 3,162,606	\$ -	\$ 3,162,606
Other state sources	173,111	-	173,111
Interdistrict sources	-	-	-
Federal sources	676,034	628	676,662
Private sources	20,180	-	20,180
Local sources	117,360	-	117,360
Private sources - NHA Donation	1,748,807	-	1,748,807
	<u>5,898,098</u>	<u>628</u>	<u>5,898,726</u>
Total revenues			
EXPENDITURES			
Contracted service fee	5,882,910	-	5,882,910
Food services	-	628	628
	<u>5,882,910</u>	<u>628</u>	<u>5,883,538</u>
Total expenditures			
REVENUES OVER (UNDER) EXPENDITURES	15,188	-	15,188
SPECIAL ITEMS			
Transfer of operations	-	(44,022)	(44,022)
NET CHANGE IN FUND BALANCE	15,188	(44,022)	(28,834)
FUND BALANCE — Beginning of year	<u>88,398</u>	<u>44,022</u>	<u>132,420</u>
FUND BALANCE — End of year	<u>\$ 103,586</u>	<u>\$ -</u>	<u>\$ 103,586</u>

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

Net change in fund balance — total governmental funds	\$ (28,834)
Governmental funds report capital outlays as expenditures, in the statement of activities these costs are allocated over their useful lives as depreciation	-
Revenue reported in the statement of activities that does not provide current financial resources and are not reported as revenue in the governmental funds	38,827
Revenue reported in the governmental funds as available and measurable — reported in the statement of activities in prior years	(58,746)
Contracted service fee recognized consistent with the revenue policy	<u>19,919</u>
Change in net position of governmental activities	<u>\$ (28,834)</u>

See notes to financial statements.

PEMBROKE CHARTER ACADEMY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2023

1. NATURE OF OPERATIONS

Pembroke Charter Academy (the “Academy”) is a Michigan Public School Academy that provides education based on rigorous teaching methods, parental involvement, student responsibility, and basic moral values. The Academy provides education, at no cost to the parent, to students in kindergarten through fifth grade. Enrollment is open to all appropriately aged children without regard to gender, ethnic background, disability, and/or religious affiliation. The Academy operates under a charter contract approved by Central Michigan University, which is responsible for oversight of the Academy’s operations. The charter contract expires June 30, 2023 and is subject to renewal. Central Michigan University Board of Trustees receives three percent of state aid funds as an administrative fee. The total administrative fee for year ended June 30, 2023, paid to the Central Michigan University Board of Trustees was \$97,763.

The Academy is exempt from taxation as a governmental entity pursuant to Internal Revenue Code Section 115. The Academy qualifies for public charity status by meeting the requirements of Internal Revenue Code Sections 509(1) and 170(b)(1)(A)(ii).

The Academy’s primary source of revenue is provided by the State of Michigan and consists of an amount per student multiplied by weighted average student counts. The state revenue is recognized ratably over the school year and is funded through payments from October 2022 through August 2023.

The Board of Directors of the Academy has entered into a services agreement (the “agreement”) with National Heritage Academies, Inc. (NHA) which requires NHA to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the contract service fees received under the agreement, NHA also provides the facility in which the Academy operates. The agreement will continue until the termination or expiration of the charter contract, up to a maximum of five years, unless at least 90 days written notice of intent to terminate or renegotiate is given by either the Academy or NHA.

Under the terms of the agreement, NHA receives as remuneration for its services an amount equal to the total revenue received by the Academy from all revenue sources.

Revenues – Private sources – NHA donations represent a contribution granted by NHA for excess of Academy expenditures over public revenues available.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Academy’s government-wide activities are considered governmental activities.

PEMBROKE CHARTER ACADEMY

NOTES TO FINANCIAL STATEMENTS (CONTINUED) AS OF AND FOR THE YEAR ENDED JUNE 30, 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Program revenue includes (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues not classified as program revenues are reported instead as general revenue.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

The effect of interfund activity has been eliminated from the Academy-wide financial statements.

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

Fund Based Statements — Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenue not meeting this definition is classified as a deferred inflow of resources. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. The contracted service fee to NHA is recorded consistent with the recognition of revenue. Interfund transfers are used to subsidize operations of the School Service Fund.

Fund Classification — The financial activities of the Academy are organized on the basis of funds. The operation of each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

General Fund — The General Fund is used to account for the general educational programs of the Academy. Its revenues are derived primarily from the State of Michigan.

School Service Fund — The School Service Fund is used to account for the food service operation. Its revenues are derived primarily from a federal grant and student charges.

Capital Assets — Capital assets, which include other equipment, are reported in the applicable governmental column in the Academy-wide financial statements at historical costs of more than \$5,000 and an estimated useful life in excess of one year.

PEMBROKE CHARTER ACADEMY

NOTES TO FINANCIAL STATEMENTS (CONTINUED) AS OF AND FOR THE YEAR ENDED JUNE 30, 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other equipment is depreciated using the straight-line method over useful lives of 3–10 years.

Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and expenditures during the reporting period. Actual results could differ from those estimates.

Cash — Cash as of June 30, 2023 represents bank deposits which are covered by federal depository insurance. Accordingly, there are no investments which are required to be categorized according to risk.

Unavailable and Unearned Revenue — Unavailable revenue is reported in connection with receivables for revenue that is not considered available and measurable to liquidate liabilities of the current period. Receivables collected within 60 days of year end are considered available. Unearned revenue is reported in connection with funds that have been received for services which have not been performed and is therefore not yet earned. As of June 30, 2023, there was a liability recognized for unavailable revenue for \$38,827 and a liability for unearned revenue was recognized for \$356,125.

Contracted Service Fee Payable — Contracted service fee payable as of June 30, 2023 represents a timing difference between funds received from governmental sources and amounts payable to NHA in accordance with the agreement.

Fund Balance — Fund balances may be classified as nonspendable, restricted, committed, assigned, or unassigned. The terms nonspendable and restricted are used either to indicate that certain assets do not represent spendable resources available for general educational programs or to earmark a portion of fund balance as legally segregated for a specific future use. The term committed represents amounts that can only be used for the specific purpose determined by a formal resolution of the board. The term assigned is used to classify the fund balance intended to be used by the board, but does not meet the criteria to be restricted or committed. The term unassigned is used for amounts that have not been restricted, committed, or otherwise assigned for future uses. At June 30, 2023, the Academy had \$0 in nonspendable fund balance, \$30,923 in committed fund balance, and \$72,663 in unassigned fund balance. The committed fund balance has been committed by resolutions of the Board of Directors for student, parent and staff appreciation, athletics, and board training and development.

Budgetary Information — Annual budgets are adopted on a basis utilizing generally accepted accounting principles and consistent with state law for the general and special revenue funds.

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. The budgets can be amended by the Board of Directors as considered necessary. The budgets were amended to increase budgeted revenues and expenditures by \$84,887 for the General Fund, and to decrease budgeted revenues and increase expenditures for the School Service Fund by (\$14,245) and \$15,914, respectively.

PEMBROKE CHARTER ACADEMY

NOTES TO FINANCIAL STATEMENTS (CONTINUED) AS OF AND FOR THE YEAR ENDED JUNE 30, 2023

3. DUE FROM GOVERNMENTAL REVENUE SOURCES

Receivables as of June 30, 2023 for the Academy included \$583,046 in state aid receivable, \$114,225 in federal grants receivable and \$51,744 from other state sources. Management of the Academy evaluates its receivables for collectability annually. At June 30, 2023, management believes all receivables are collectible, and no allowance is necessary.

4. RISK MANAGEMENT

The Academy is exposed to various risks of loss related to general liability. Commercial insurance policies to cover certain risks of loss have been obtained. There have been no significant reductions in insurance coverage during the fiscal year 2023, and claims did not exceed coverage less retained risk deductible amounts in the past three fiscal years.

5. CONTINGENCIES

The Academy receives significant funding from federal and state grants. Periodic audits of these grants are required, and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

6. LEASE

The Academy has entered into a sublease agreement with NHA for a facility to house the Academy. The lease term is from July 1, 2022 through June 30, 2023. Annual rental payments required by the lease are \$647,360, payable in twelve monthly payments of \$53,947. This lease is automatically renewed on a year-to-year basis unless a notice of non-renewal is provided by either the Academy or NHA. This lease is renewable on a year-to-year basis. The lease agreement can be canceled upon termination of the NHA services agreement.

The Academy is not a party to any leasing arrangements that meet the criteria for recognition of lease assets or liabilities under GASB Statement No. 87, *Leases* based on the noncancellable period being less than 12 months and applicability of the short-term lease exception for the facility lease agreement.

The Academy subsequently renewed the sublease with NHA for the period of July 1, 2023 through June 30, 2024, at the same rental rate.

PEMBROKE CHARTER ACADEMY

NOTES TO FINANCIAL STATEMENTS (CONTINUED) AS OF AND FOR THE YEAR ENDED JUNE 30, 2023

7. TRANSFER OF OPERATIONS

On July 1, 2022, the Academy transferred the assets and liabilities comprising its food service activity and school meals program to Center Line Preparatory Academy for the purpose of enhancing its food service program. As a result of the transfer, the Academy recognized a loss of \$44,022 on the statement of activities and on the statement of revenues, expenditures and changes in fund balances for the transfer of its food service operations as a special item. The Academy reported revenues and expenditures as disclosed on the statement of revenues, expenditures and changes in fund balances for the food service activity within the school service fund.

8. SUBSEQUENT EVENTS

On July 1, 2023, the Academy renewed the management company agreement with National Heritage Academies for one year.

On July 1, 2023, the Academy 's charter contract under Central Michigan University was renewed for seven years.

Subsequent events have been evaluated through October 23, 2023, which is the date the financial statements were available to be issued. Events occurring after the date have not been evaluated to determine whether a change in the financial statements would be required.

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REQUIRED SUPPLEMENTARY INFORMATION

PEMBROKE CHARTER ACADEMY

**REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2023**

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
REVENUES:				
State aid	\$ 3,494,396	\$ 3,162,606	\$ 3,162,606	\$ -
Other state sources	368,653	185,963	173,111	(12,852)
Local sources	-	104,400	117,360	12,960
Federal sources	710,066	676,077	676,034	(43)
Private sources	10,000	25,287	20,180	(5,107)
Private sources - NHA	1,320,683	1,834,352	1,748,807	(85,545)
Total revenues	<u>5,903,798</u>	<u>5,988,685</u>	<u>5,898,098</u>	<u>(90,587)</u>
EXPENDITURES				
Instruction:				
Basic instruction	2,395,258	2,567,363	2,399,279	(168,084)
Added needs	380,499	318,575	315,659	(2,916)
Support services:				
Pupil services	267,706	175,353	187,001	11,648
Instructional staff services	726,370	612,783	623,556	10,773
General Administration	191,164	179,063	221,692	42,629
School Administration	544,295	569,333	569,482	149
Business & Internal Services	42,478	91,246	91,320	74
Central services	196,044	239,913	225,151	(14,762)
Pupil transportation services	2,050	3,350	1,050	(2,300)
Pupil Activities	-	261	4,261	4,000
Operations and maintenance	1,157,934	1,226,959	1,239,493	12,534
Community Activities	-	4,486	4,966	480
Welfare Activities	-	-	-	-
Total expenditures	<u>5,903,798</u>	<u>5,988,685</u>	<u>5,882,910</u>	<u>(105,775)</u>
NET CHANGE IN FUND BALANCE	-	-	15,188	15,188
FUND BALANCE - Beginning of year	<u>65,104</u>	<u>88,106</u>	<u>88,398</u>	<u>292</u>
FUND BALANCE - End of year	<u>\$ 65,104</u>	<u>\$ 88,106</u>	<u>\$ 103,586</u>	<u>\$ 15,480</u>

PEMBROKE CHARTER ACADEMY

**REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
SCHOOL SERVICE FUND
YEAR ENDED JUNE 30, 2023**

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>(Under) Over Final Budget</u>
REVENUES:				
Other state sources	\$ 4,180	\$ 2,940	\$ -	\$ (2,940)
Local sources	-	-	-	-
Federal sources	254,567	241,062	628	(240,434)
Private sources	-	500	-	(500)
Total revenues	<u>258,747</u>	<u>244,502</u>	<u>628</u>	<u>(243,874)</u>
EXPENDITURES				
Food services	<u>240,282</u>	<u>256,196</u>	<u>628</u>	<u>(255,568)</u>
REVENUES OVER (UNDER) EXPENDITURES	18,465	(11,694)	-	11,694
OTHER FINANCING SOURCES				
Operating transfers (out) in	<u>-</u>	<u>-</u>	<u>(44,022)</u>	<u>(44,022)</u>
NET CHANGE IN FUND BALANCE	18,465	(11,694)	(44,022)	(32,328)
FUND BALANCE - Beginning of year	<u>48,598</u>	<u>44,022</u>	<u>44,022</u>	<u>-</u>
FUND BALANCE - End of year	<u>\$ 67,063</u>	<u>\$ 32,328</u>	<u>\$ -</u>	<u>\$ (32,328)</u>

SUPPLEMENTARY INFORMATION

PEMBROKE CHARTER ACADEMY

ADDITIONAL INFORMATION STATEMENT OF REVENUES — GENERAL FUND YEAR ENDED JUNE 30, 2023

State aid	\$	3,162,606
Other state sources:		
Special education		27,980
At-risk		133,049
Grants		<u>12,082</u>
Total		173,111
Federal sources — grants		676,034
Private sources — other		20,180
Local sources		117,360
Private sources — NHA		<u>1,748,807</u>
TOTAL	\$	<u>5,898,098</u>



THE CLAIRMOUNT GROUP, PLC
Certified Public Accountants

**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
Pembroke Charter Academy

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, major fund, and the remaining fund information of Pembroke Charter Academy, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Pembroke Academy's basic financial statements, and have issued our report thereon dated October 23, 2023.

Report on Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

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.

The Clairmount Group, PLC

The Clairmount Group, PLC
Detroit, Michigan
October 23, 2023