

DETROIT MERIT CHARTER ACADEMY

AUDIT COMMUNICATION LETTER

JUNE 30, 2025



Alan C. Young & Associates, P.C.

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October 30, 2025

To the Board of Directors
Detroit Merit Charter Academy
Detroit, Michigan

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

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

Very truly yours,

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



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RESULTS OF AUDIT

October 30, 2025

Board of Directors
Detroit Merit Charter Academy
Detroit, Michigan

We have audited the financial statements of the governmental activities and major fund of Detroit Merit Charter Academy (the Academy) for the year ended June 30, 2025. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* as well as certain information related to the scope and timing of our audit. We have communicated such information in our letter to you dated April 21, 2025. Professional standards also require that we communicate to you the following information related to our audit.

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

As stated in our engagement letter dated April 21, 2025, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

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

Results of Audit
(Continued)

Our Responsibilities under U.S. Generally Accepted Auditing Standards and Government Auditing Standards (Continued)

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

We have been engaged to report on the other supplementary information, which accompany the financial statements but are not RSI. Our responsibility for this supplementary information, as described by professional standards, was to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Scope of the Audit, Significant Risks and Other

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

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

We have identified the following significant risks of material misstatement as part of our audit planning which was communicated in our engagement letter dated April 21, 2025.

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

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

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Academy are described in Note 2 to the financial statements. The application of existing policies was not changed during the year. We noted no transactions entered into by the Academy during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We received complete cooperation from management throughout the process. We would like to commend management and staff on the assistance provided to us during the audit.

Corrected and Uncorrected Misstatements

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

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 30, 2025.

Management Consultations with Other Independent Accountants

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

Results of Audit
(Continued)

Other Audit Findings or Issues

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

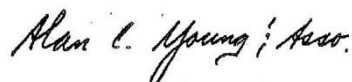
Other Matters

We applied certain limited procedures to the Academy's management discussion & analysis, and the budgetary comparison schedule, which are the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary schedules, which accompany the financial statements but are not RSI. With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, 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 information and use of the Board of Directors and management of the Academy and is not intended to be, and should not be, used by anyone other than these specified parties.



Detroit, Michigan
October 30, 2025

State and Federal Funding Outlook

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

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

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

Michigan School Aid and Enrollment Factors

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

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

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

Financial Stability and Fund Balance Management

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

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

Upcoming Accounting and Reporting Changes

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

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

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

Uniform Guidance Revisions

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

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

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

Areas of Ongoing Monitoring

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

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

Conclusion

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