

Muskegon Area Promise Zone Authority

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2024

Muskegon Area Promise Zone Authority

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Muskegon Area Promise Zone Authority
Muskegon, Michigan

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and the major fund of the Muskegon Area Promise Zone Authority as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Muskegon Area Promise Zone Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Muskegon Area Promise Zone Authority, as of June 30, 2024, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Muskegon Area Promise Zone Authority, Michigan'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.

Board of Directors
Muskegon Area Promise Zone Authority
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Report on the Audit of the Financial Statements—Continued

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Muskegon Area Promise Zone Authority, Michigan’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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Muskegon Area Promise Zone Authority, Michigan’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.

Board of Directors
Muskegon Area Promise Zone Authority
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Report on the Audit of the Financial Statements—Continued

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* we have also issued our report dated October 18, 2024, on our consideration of the Muskegon Area Promise Zone Authority, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Muskegon Area Promise Zone Authority, Michigan's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Muskegon Area Promise Zone Authority, Michigan's internal control over financial reporting and compliance.



Muskegon, Michigan
October 18, 2024

Muskegon Area Promise Zone Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2024

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 Muskegon Area Promise Zone Authority (Authority) as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole Authority, presenting both an aggregate view of the Authority'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 Authority's operations in more detail than the government-wide financial statements by providing information about Authority's General Fund.

Reporting the Authority as a Whole

Government-Wide Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements, which appear in the Authority's financial statements, report information on the Authority as a whole and its activities in a way to provide an easy-to-understand overview of the Authority's financial position and results of operations for the year. 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 cash is received or paid.

These two statements report the Authority's net position (the difference between assets, deferred inflows/outflows, and liabilities, as reported in the statement of net position) as one way to measure the Authority's financial health or financial position. The statement of net position and statement of activities report the governmental activities of the Authority, which encompass all of the Authority's services, including scholarships and supporting services activities.

Over time, increases or decreases in the Authority's net position (as reported in the statement of activities) are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Authority's operating results. However, the Authority exists to provide scholarships to students. The Authority does not focus on generating profits as commercial entities do. Consideration of other non-financial factors, such as the quality of services provided, is needed to assess the overall health of the Authority. The Authority's mission is to provide scholarships to eligible students within the Muskegon Area Intermediate School District service area to help them obtain an associate degree or its equivalent.

Reporting the Authority's Most Significant Funds

Fund Financial Statements

The Authority's fund financial statements provide detailed information about the most significant funds—not the Authority as a whole. The Authority maintains one individual fund, the General Fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance for the General Fund which is considered a major fund.

Muskegon Area Promise Zone Authority
MANAGEMENT’S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2024

Reporting the Authority's Most Significant Funds—Continued

Fund Financial Statements—Continued

The General Fund of the Authority uses the following accounting approach:

The Authority’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 the modified accrual basis of accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Authority and the services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Authority’s programs. The audited financial statements describe the relationship or differences between governmental activities reported in the fund financial statements and the government-wide financial statements in a reconciliation schedule located in Note E.

The Authority’s Funds

The Authority uses funds to help control and manage money for specific purposes. Looking at funds helps the reader consider whether the Authority is being accountable for the resources taxpayers and others provide and may present greater insight into the Authority’s overall financial health.

As the Authority completed this year, the General Fund reported a fund balance of \$5,547,489.

The General Fund reflects a fund balance increase of \$2,130,959 from the prior year. The unrestricted fund balance may be used to meet the Authority’s ongoing operations.

The Authority as a Whole

The statement of net position provides the perspective of the Authority as a whole. Table 1 provides a summary of the Authority’s net position as of June 30, 2024 and 2023.

Table 1	2023-24 Governmental Activities	2022-23 Governmental Activities
Assets		
Cash	\$ 312,763	\$ 3,573,133
Pledges receivable, current portion	-	25,000
Investments	5,488,520	-
Total assets	5,801,283	3,598,133
Liabilities		
Current liabilities	253,794	156,603
Net Position		
Unrestricted	\$ 5,547,489	\$ 3,441,530

Muskegon Area Promise Zone Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2024

Reporting the Authority's Most Significant Funds—Continued

The Authority as a Whole—Continued

The results of this year's operations for the Authority as a whole are reported in the statement of activities (see Table 2), which shows the changes in net position for the years ended June 30, 2024 and 2023.

Table 2	2023-24 Governmental Activities	2022-23 Governmental Activities
Revenue		
Program revenue		
Investment earnings	\$ 279,195	\$ 32,877
Contributions	5,333	19,375
SET capture	3,703,251	2,777,308
	<hr/>	
Total revenue	3,987,779	2,829,560
Expenditures		
Scholarships	1,787,958	1,519,432
Support services	93,862	50,680
Total expenditures	1,881,820	1,570,112
	<hr/>	
Change in net position	2,105,959	1,259,448
Beginning net position	3,441,530	2,182,082
	<hr/>	
Ending net position	\$ 5,547,489	\$ 3,441,530
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As reported in the statement of activities, the cost of governmental activities this year was \$1,881,820. Additionally, the Authority experienced an increase in net position of \$2,105,959.

Governmental Fund Budgetary Highlights

State law requires that a budget be adopted and amended to ensure that expenditures do not exceed appropriations. A schedule showing the Authority's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements. Material variances from the original budgets are as follows:

- Investment earnings were higher than budgeted due to investing in Michigan Investment Liquid Asset Fund in the current fiscal year.
- SET capture was higher than budgeted due to taxable values increasing more than expected.
- Scholarship expenditures were lower than anticipated because eligible students enrolled in fewer classes than a full-time course load, and an increased number of students qualified for other financial assistance such as PELL, TIP and the new Michigan Achievement Scholarship.
- Support services exceeded their budget due to increased costs from the impact specialist contractor. This overspend was primarily due to the hire of a new staff member at a higher salary, which also came with elevated benefit costs. Moreover, advertising expenses surpassed the budget this year because anticipated costs from the previous year's budget were actually incurred in the current year.

Muskegon Area Promise Zone Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2024

Capital Assets

At June 30, 2024, the Authority has no capital assets.

Debt Administration

At June 30, 2024, the Authority has no long-term debt.

Economic Factors and Next Year's Budgets

The Authority's operating revenue is currently comprised of one major source: property taxes which are captured through the State Education Taxes (SET) based on the incremental growth in taxable valuations within the Authority's boundaries. Treasury estimates healthy increases in this SET capture to continue for many years.

The Authority continues to provide scholarships to an increasing number of area students. In 2023-24, there were 732 scholarships provided to new and returning students. Next year, the authority expects to award over 800 scholarships.

The outlook for 2024-25 is positive as SET revenue capture continues to increase and the Authority has solid financial standing. The board of directors will consider and is committed to growth, equity and progress as they look to continue opportunities that expand and improve access for students. In the 2024-25 fiscal year, the GPA requirement will drop from 3.25 unweighted to 3.00 unweighted. This will significantly increase the pool of students who will qualify for the Promise Scholarship next year.

Contacting the Authority's Financial Management

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority. If you have questions about this report or need additional information, contact Michael Schluentz, Associate Superintendent for Administrative Services, 684 Harvey Street, Suite 202, Muskegon, MI 49442, phone 231-767-7207, fax 231-773-3498 or email mschluenta@muskegonisd.org.

Muskegon Area Promise Zone Authority
BALANCE SHEET—STATEMENT OF NET POSITION
June 30, 2024

	Balance Sheet - Modified Accrual	Adjustments	Statement of Net Position - Full Accrual
ASSETS			
Cash	\$ 312,763	\$ -	\$ 312,763
Investments	5,488,520	-	5,488,520
Total assets	\$ 5,801,283	-	5,801,283
LIABILITIES			
Accounts payable	\$ 4,615	-	4,615
Due to other governmental units	249,179	-	249,179
Total liabilities	253,794	-	253,794
FUND BALANCE			
Unassigned	5,547,489	(5,547,489)	-
Total liabilities and fund balance	\$ 5,801,283		
NET POSITION			
Unrestricted		\$ 5,547,489	\$ 5,547,489

The accompanying notes are an integral part of this statement.

Muskegon Area Promise Zone Authority
**STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE—STATEMENT OF ACTIVITIES**
 For the year ended June 30, 2024

	Statement of Revenues, Expenditures and Changes in Fund Balance - Modified Accrual		Adjustments	Statement of Activities - Full Accrual
REVENUES				
Investment earnings	\$ 279,195	\$ -		\$ 279,195
Contributions	30,333	(25,000)		5,333
SET capture	3,703,251	-		3,703,251
Total revenues	4,012,779	(25,000)		3,987,779
EXPENDITURES				
Scholarships	1,787,958	-		1,787,958
Support services	93,862	-		93,862
Total expenditures	1,881,820	-		1,881,820
Change in fund balance—net position	2,130,959	(25,000)		2,105,959
Fund balance—net position at beginning of year	3,416,530	25,000		3,441,530
Fund balance—net position at end of year	\$ 5,547,489	\$ -		\$ 5,547,489

The accompanying notes are an integral part of this statement.

Muskegon Area Promise Zone Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Muskegon Area Promise Zone Authority (Authority) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are listed below.

Reporting Entity

The Authority was authorized by the Michigan Promise Zone Authority Acts 549 and 550, of Public Acts of 2008, and the Michigan Promise Zone Authority Act of MCL 390.1661 *et seq.*, to supervise and control the Authority. The Authority was established on August 18, 2015 at a board meeting of the Muskegon Area Intermediate School District. The purpose of the Authority is to provide financial assistance to qualified students within the Authority. The Authority is governed by a Board of Directors consisting of eleven members. Nine members are appointed by the Chief Executive Officer of the eligible entity (the Superintendent of the Muskegon Area Intermediate School District) with the advice and consent of the governing body (the Muskegon Area Intermediate School District Board of Education). One member is appointed by the Senate Majority Leader, and one member is appointed by the Speaker of the House of Representatives, both of the State of Michigan. Not more than three members shall be government officials (as defined by Michigan State Act 566 of 1978). One member shall be a representative of the public school community.

The primary purpose of the Muskegon Area Promise Zone Authority is to provide financial assistance for the tuition, books and mandatory fees up to the cost of obtaining an associate's degree at the prevailing Muskegon Community College rate. Promise scholarships will fund educational opportunity at the partnering institutions of Muskegon Community College and Baker College to eligible students residing and graduating from high schools within all twelve local districts that comprise the Muskegon Area Intermediate School District.

Basis of Presentation—Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on the Authority.

The Authority utilizes the financial statement format recommended by the Governmental Accounting Standards Board for special purpose entities engaged only in governmental activities.

The Authority maintains only one fund, the General Fund, which is accounted for as a governmental fund.

The Authority reports the following major governmental fund:

The General Fund is the Authority's only operating fund. It accounts for all financial resources of the Authority. There are no resources required to be accounted for in another fund.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

Muskegon Area Promise Zone Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus and Basis of Accounting—Continued

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority 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.

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

Cash and Investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the Authority are reported at fair value (generally based on quoted market prices).

The Authority has adopted an investment policy in compliance with State of Michigan statutes. State statutes authorize the Authority to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Authority is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The Authority's deposits and investments are in accordance with statutory authority.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditures) until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Net Position Flow Assumption

The Authority could have to fund outlays for a particular purpose from both restricted and/or unrestricted resources. To calculate the amounts of net position to report as restricted and unrestricted in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Muskegon Area Promise Zone Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued

Fund Balance Flow Assumptions

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

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Authority itself can establish limitation on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Authority's highest level of decision-making authority. The Board of Directors is the highest level of decision-making authority for the Authority that can, by formal action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by formal action remains in place until a similar action is taken (another formal action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the Authority for specific purposes but do not meet the criteria to be classified as committed. The Board of Directors may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Revenues and Expenditures/Expenses

Program Revenues

Amounts reported as 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. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Muskegon Area Promise Zone Authority
NOTES TO FINANCIAL STATEMENTS
 June 30, 2024

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets were adopted for the General Fund. All annual appropriations lapse at year end.

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

1. A budget is submitted to the Board of Directors for approval.
2. Any budget revisions must be approved by the Board of Directors.
3. The budget for the General Fund was adopted on a basis consistent with accounting principles generally accepted in the United State of America.
4. Budget variations, if any, are disclosed in the required supplemental information.
5. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2024.

NOTE C—DEPOSITS AND INVESTMENTS

Deposit and Investment Risks

As of June 30, 2024, the Authority had the following investments:

Investment Type	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>	<u>Standard & Poor's Rating</u>
MILAF External Investment pool - MAX	<u>\$5,488,520</u>	35	AAAm

Interest Rate Risk

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

State law limits investments in commercial paper and corporate bonds to the two highest classifications issues by nationally recognized statistical rating organizations. The Authority has an investment policy that would limit its investment choices to certificates of deposit.

Concentration of Credit Risk

The Authority does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Authority'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.

Muskegon Area Promise Zone Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

NOTE C—DEPOSITS AND INVESTMENTS—Continued

Custodial Credit Risk – Deposits

The Authority does not have a custodial credit risk policy for deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Authority’s deposits may not be returned to it. As of June 30, 2024, \$211,426 of the Authority’s bank balance of \$312,763 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments

The Authority does not have a custodial credit risk policy for investments. In an investment, this is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign Currency Risk

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

Fair Value Management

The Authority voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the Authority is the Michigan Investment Liquid Asset Fund (MILAF). MILAF funds are considered external investment pools as defined by the GASB and as such are recorded at amortized cost which approximate fair value. These funds are not subject to the fair value disclosures.

	Amortized Cost
MILAF External Investment pool - MAX class	<u>\$ 5,488,520</u>

NOTE D—OTHER INFORMATION

Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Authority carries commercial insurance. Liabilities in excess of insurance are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. There have been no losses in excess of insurance in the prior three years.

Related-Party Transactions

During the year ended June 30, 2024, the Authority paid tuition of \$1,787,958 to two colleges whose Presidents are also Board members. Total liabilities to these colleges were \$253,794 as of June 30, 2024. During the year ended June 30, 2024, the Authority paid administrative costs of \$77,331 to Muskegon Area Intermediate School District whose Superintendent is a Board member. No items were due to the Muskegon Area Intermediate School District at June 30, 2024.

Muskegon Area Promise Zone Authority
NOTES TO FINANCIAL STATEMENTS
 June 30, 2024

NOTE E—RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance —governmental fund	\$ 5,547,489
No reconciling items as of June 30, 2024	-
Net position of governmental activities	\$ 5,547,489
 Net change in fund balance —total governmental fund	 \$ 2,130,959
Amounts reported for government activities in the Statement of Activities are different because:	
Revenue reported in the Statement of Activities that does not provide current financial resources is not reported as revenue in the governmental funds	(25,000)
Change in net position of governmental activities	\$ 2,105,959

NOTE F—UPCOMING ACCOUNTING PRONOUNCEMENT

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee’s pay rate as of the date of the financial statements. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted during the 2024-2025 fiscal year.

In December 2023, the GASB issued Statement No. 102, *Certain Risk Disclosures*. This Statement requires a government to assess whether a concentration or constraint makes the government vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. If a government determines that those criteria for disclosure have been met for a concentration or constraint, it should disclose information in notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of circumstances disclosed and the government’s vulnerability to the risk of substantial impact. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted during the 2024-2025 fiscal year.

Muskegon Area Promise Zone Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2024

NOTE F—UPCOMING ACCOUNTING PRONOUNCEMENT—Continued

In April 2024, the GASB issued Statement No. 103, *Financial Reporting Model Improvements*. This Statement establishes new accounting and financial reporting requirements—or modifies existing requirements—related to the following:

- Management’s discussion and analysis (MD&A);
 - Requires that the information presented in MD&A be limited to the related topics discussed in five specific sections:
 - Overview of the Financial Statements,
 - Financial Summary,
 - Detailed Analyses,
 - Significant Capital Asset and Long-Term Financing Activity,
 - Currently Known Facts, Decisions, or Conditions;
 - Stresses detailed analyses should explain why balances and results of operations changed rather than simply presenting the amounts or percentages by which they changed;
 - Removes the requirement for discussion of significant variations between original and final budget amounts and between final budget amounts and actual results;
- Unusual or infrequent items;
- Presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position;
 - Requires that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses and clarifies the definition of operating and nonoperating revenues and expenses;
 - Requires that a subtotal for *operating income (loss) and noncapital subsidies* be presented before reporting other nonoperating revenues and expenses and defines subsidies;
- Information about major component units in basic financial statements should be presented separately in the statement of net position and statement of activities unless it reduces the readability of the statements in which case combining statements of should be presented after the fund financial statements;
- Budgetary comparison information should include variances between original and final budget amounts and variances between final budget and actual amounts with explanations of significant variances required to be presented in the notes to RSI;

The Authority is currently evaluating the impact this standard will have on the financial statements when adopted during the 2025-2026 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

Muskegon Area Promise Zone Authority
 Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
 General Fund
 For the year ended June 30, 2024

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Investment earnings	\$ 30,000	\$ 30,000	\$ 279,195	\$ 249,195
Contributions	25,000	25,000	30,333	5,333
SET capture	3,400,000	3,400,000	3,703,251	303,251
Total revenues	3,455,000	3,455,000	4,012,779	557,779
EXPENDITURES				
Scholarships	2,800,000	2,800,000	1,787,958	1,012,042
Support services	64,600	64,600	93,862	(29,262)
Total expenditures	2,864,600	2,864,600	1,881,820	982,780
Net change in fund balance	\$ 590,400	\$ 590,400	2,130,959	\$ 1,540,559
Fund balance at beginning of year			3,416,530	
Fund balance at end of year			\$5,547,489	