

Audited Financial Statements

Ann Arbor Learning Community

Ann Arbor, Michigan

June 30, 2018

CONTENTS

	<u>Page</u>
Independent Auditor's Report	i - ii
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 <i>Government Auditing Standards</i>	iii - iv
Management's Discussion and Analysis	v - x
Basic Financial Statements	
Statement of Net Position	1
Statement of Activities	2
Combined Balance Sheet – All Governmental Funds	3
Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities	4
Statement of Revenues, Expenditures and Changes in Fund Balance – All Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	6
Statement of Fiduciary Net Position	7
Notes to Financial Statements	8 - 18
Supplementary Information	
Budgetary Comparison Schedule – General Fund	19
Schedule of Revenues – General Fund	20
Schedule of Expenditures – General Fund	21 – 22
Schedule of Findings and Responses	23

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Ann Arbor Learning Community

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ann Arbor Learning Community as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Ann Arbor Learning Community's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Ann Arbor Learning Community as of June 30, 2018, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and the 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Ann Arbor Learning Community's basic financial statements. The introductory section, combining and individual non-major fund financial statements, and schedules of revenues and expenditures, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statements and the schedules of revenues and expenditures are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and the schedules of revenues and expenditures are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2018, on our consideration of Ann Arbor Learning Community'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 Ann Arbor Learning Community'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 Ann Arbor Learning Community's internal control over financial reporting and compliance.



Croskey Lanni, PC

October 24, 2018
Rochester, Michigan



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

**To the Board of Directors
of Ann Arbor Learning Community**

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, each major fund, and the aggregate remaining fund information of Ann Arbor Learning Community, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Ann Arbor Learning Community's basic financial statements, and have issued our report thereon dated October 24, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Ann Arbor Learning Community'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 Ann Arbor Learning Community's internal control. Accordingly, we do not express an opinion on the effectiveness of Ann Arbor Learning Community's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency as item 2018 – 001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ann Arbor Learning Community'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 2018-001.

Ann Arbor Learning Community's Response to Findings

Ann Arbor Learning Community's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Ann Arbor Learning Community's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



Croskey Lanni, PC

October 24, 2018
Rochester, Michigan

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Ann Arbor Learning Community’s (Academy) annual financial report presents our discussion and analysis of the public school Academy’s financial performance during the fiscal year that ended on June 30, 2018. Please read it in conjunction with the Academy’s financial statements, which immediately follow this section.

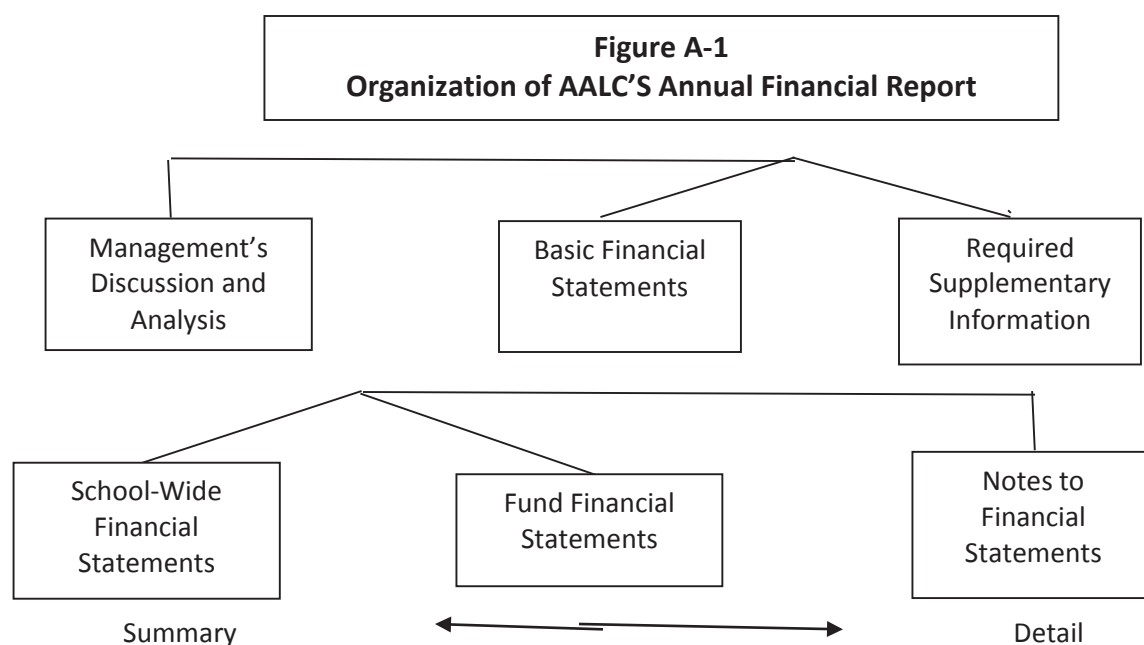
FINANCIAL HIGHLIGHTS

- ❖ Expenses decreased by 7 percent while revenues decreased by 37 percent between 2016-17 and 2017-18. Student enrollment decreased from 130 (October 2016) to 83 (October 2017).
- ❖ The Academy’s outstanding liabilities increased by \$48, 494.
- ❖ The year did not include capital outlay expenditures.
- ❖ The Academy’s fund balance decreased as expenditures exceeded revenue by \$414,624 in this fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management’s discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy.

- ❖ The first two statements are Academy-wide financial statements that provide both short-term and long-term information about the Academy’s overall financial status.
- ❖ The remaining statements are fund financial statements that focus on individual parts of the Academy, reporting the Academy’s operations in more detail than the Academy-wide statements.
- ❖ The governmental funds statements tell how basic services like regular education were financed in the short-term as well as what remains for future spending.
- ❖ Fiduciary funds statements provide information about the financial relationships in which the Academy acts solely as an agent for the benefit of others.



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy's budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

Figure A-2
Major Features of School-Wide and Fund Financial Statements

	School-Wide Statements	Government Funds	Fiduciary Funds
Scope	Entire school (except fiduciary funds)	The activities of the school that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the school administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required Financial Statements	*Statement of net position *Statement of activities	*Balance sheet *Statement of revenues, expenditures and changes in fund balances	*Statement of fiduciary net assets *Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarized the major features of the Academy’s financial statements, including the portion of the Academy’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

SCHOOL-WIDE STATEMENTS

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the Academy’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the Academy’s net position and how they have changed. Net position – the difference between the Academy’s assets, deferred outflows and liabilities, and deferred inflows, are one way to measure the Academy’s financial health or position.

- ❖ Over time, increases or decreases in the Academy’s net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- ❖ To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy’s enrollment, the condition of school buildings and other facilities, and the Academy’s ability to be competitive with other public school academies and area school districts.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Academy’s funds, focusing on its more significant or “major” funds – not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs:

- ❖ *Governmental activities* – Most of the school’s basic services are included in the general fund, such as regular and special education and administration. State foundation aid finances most of these activities.

The school has two kinds of funds:

- ❖ *Governmental funds* – Most of the school’s basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the school’s programs. Because this information does not encompass the additional long-term focus of the school-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.
- ❖ *Fiduciary funds* – The school is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the school-wide financial statements because the school cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net position - the Academy's combined net position was lower on June 30, 2018 than the year before, decreasing by \$440,780 to \$85,239. See Table A – 3.

The total revenues decreased by 37 percent to \$841,056. State aid foundation allowance included in revenue from state sources accounts for 86 percent of the Academy's total revenue.

The total cost of basic instruction decreased by 10 percent to \$315,676. Added (student) needs expenses decreased by 90 percent. Pupil support services expenses decreased by 12 percent. The student enrollment (count) dropped 36 percent from 2016-17 and 2017-18. There were no capital outlay expenses in 2017-18.

The change in the Academy's financial position is the product of a slight increase in the per-pupil foundation allowance, drastically lower state aid membership (student count) and a slight decrease in expenses.

The changing health of the Academy's finances results from a decrease in expenses and a significant decrease in revenue combined with lower cash reserves (assets). The foundation allowance was \$7,631 per pupil in 2017-18.

School Governmental

The declining financial performance of the Academy as a whole is reflected in its governmental fund as well. As the Academy completed the year, its governmental funds (general) reported a fund balance of \$61,941, a decrease of \$414,624 over last year's ending fund balance of \$476,565.

General Fund Budgetary Analysis

Over the course of the year, the Academy revised the annual operating budget two times. These budget amendments fall into several categories:

- ❖ No amendments were passed or approved in the first quarter.
- ❖ An amendment in the second quarter in December 2017 increased local revenue; decreased federal and state revenue; projected lower expenses for basic instruction, added needs, general administration, school administration, business and operations/maintenance; and increased pupil support services expenses.
- ❖ No amendments were passed or approved in the third quarter.
- ❖ One amendment was passed in the fourth quarter in June 2018. This amendment decreased local, state, federal and other transactions revenue; decreased basic program, added needs, instructional staff, general administration, business expenses; and increased pupil support, school administration operations/maintenance and central support service expenses.
- ❖ While the Academy's final budget anticipated expenditures would exceed revenue by (\$378,790), the actual results for the year showed expenditures exceeded revenue by \$414,624. For governmental fund revenue and expenditures, expenses exceeded revenue by \$440,780. Actual revenues were lower than and actual total expenditures were higher than the final amendment.

Table A-3
AALC's Net Position

	2018	2017
Current and other assets	\$ 182,760	\$ 548,890
Deposit	20,000	20,000
Capital assets, net	<u>23,298</u>	<u>49,454</u>
Total assets	<u>226,058</u>	<u>618,344</u>
Current liabilities and deferred inflows	<u>140,819</u>	<u>92,325</u>
Net position:		
Investment in capital assets	23,298	49,454
Unrestricted	<u>61,941</u>	<u>476,565</u>
Total net position	<u><u>\$ 85,239</u></u>	<u><u>\$ 526,019</u></u>

Table A-4
Changes in AALC's Net Position

	2018	2017
Revenues:		
Program revenues:		
Federal and state operating grants	\$ 175,689	\$ 299,821
General revenues:		
State aid - unrestricted	636,853	1,007,457
Other	<u>19,977</u>	<u>36,564</u>
Total revenues	832,519	1,343,842
Expenses:		
Instruction	329,184	482,875
Support services	926,496	886,524
Unallocated depreciation	<u>17,619</u>	<u>21,306</u>
Total expenses	<u>1,273,299</u>	<u>1,390,705</u>
Change in net position	<u><u>\$ (440,780)</u></u>	<u><u>\$ (46,863)</u></u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of the year ended June 30, 2018, the Academy had invested \$23,298 in capital assets consisting primarily of computers, software, furniture and fixtures net of accumulated depreciation. This amount represents a net decrease of \$26,156 from the beginning of the year. More detailed information about capital assets can be found in Note 5 to the financial statements. Total depreciation expense for the year was \$17,619.

The Academy's capital assets are as follows:

Table A-5
AALC's Capital Assets

	2018	2017
Computer equipment	\$ 25,839	\$ 37,394
Furniture and equipment	107,316	163,376
Subtotal	133,155	200,770
Accumulated depreciation	109,857	151,316
Net book value of assets	<u>\$ 23,298</u>	<u>\$ 49,454</u>

FACTORS BEARING ON THE SCHOOL'S FUTURE

- ❖ At the time these financial statements were prepared and audited, the Academy was aware of existing circumstances that could significantly affect its financial health in the future.
- ❖ The 2017-2018 foundation allowance (state aid funding) from the State of Michigan increased to \$7,631 per student. The foundation allowance represents 85 percent of the total Academy revenue. The Academy looks forward to a slight increase in foundation allowance for 2018-2019.
- ❖ In 2017-2018 the Academy's student enrollment continued to decline. Student enrollment has declined since 2013-2014. The total decreased state revenue combined with significant building costs (i.e. rent, maintenance, insurance and utilities) prompted a lease termination and relocation to a smaller leased space at this fiscal year end.
- ❖ In 2017-2018 the Academy continued its human resource service arrangement with an educational human resources company. Employees are employed by the human resource company. The employer's retirement contribution was a match not to exceed 5 percent of salaried wages. In 2018-2019 this staffing arrangement will continue.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our students, parents and creditors 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 or need additional information, contact the Academy's office at:

4377 Textile Rd., Ypsilanti, Michigan 48197

ANN ARBOR LEARNING COMMUNITY

STATEMENT OF NET POSITION JUNE 30, 2018

ASSETS AND DEFERRED OUTFLOWS

Current Assets

Cash and cash equivalents	\$ 42,954
Deposits	20,000
Due from other governmental units	129,050
Prepaid expenses	<u>10,756</u>
Total current assets	202,760

Capital Assets - Net of Accumulated Depreciation

23,298

Total assets and deferred outflows	<u><u>\$ 226,058</u></u>
------------------------------------	--------------------------

LIABILITIES, DEFERRED INFLOWS, AND NET POSITION

Current Liabilities

Accounts payable	\$ 45,040
Unearned revenue	9,279
Other accrued expenses	<u>86,500</u>
Total current liabilities	140,819

Net Position

Net investment in capital assets	23,298
Unrestricted	<u>61,941</u>
Total net position	<u>85,239</u>
Total liabilities, deferred inflows and net position	<u><u>\$ 226,058</u></u>

See accompanying notes to financial statements

ANN ARBOR LEARNING COMMUNITY

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

					Net (Expense) Revenues and Changes in Net Position
				Program Revenues	Government
	Expenses	Charges for Services		Operating Grants	Type Activities
Functions					
Instruction					
Basic programs	\$ 315,676	\$ -	\$ 53,877	\$ (261,799)	
Added needs	13,508	-	13,508	-	
Support services					
Pupil support services	107,354	-	107,354	-	
Instructional staff support services	950	-	950	-	
General administration	48,510	-	-	(48,510)	
School administration	178,435	-	-	(178,435)	
Business support services	19,741	-	-	(19,741)	
Operations and maintenance	569,503	-	-	(569,503)	
Pupil transportation services	144	-	-	(144)	
Central support services	1,859	-	-	(1,859)	
Unallocated depreciation	17,619	-	-	(17,619)	
Total primary government	<u>\$ 1,273,299</u>	<u>\$ -</u>	<u>\$ 175,689</u>	<u>(1,097,610)</u>	
General Purpose Revenues					
State school aid - unrestricted					636,853
Gain (Loss) on disposal of assets					(8,537)
Miscellaneous revenues					<u>28,514</u>
Total general purpose revenues					<u>656,830</u>
Change in net position					(440,780)
Net position - July 1, 2017					<u>526,019</u>
Net position - June 30, 2018					<u>\$ 85,239</u>

See accompanying notes to financial statements

ANN ARBOR LEARNING COMMUNITY

COMBINED BALANCE SHEET – ALL GOVERNMENTAL FUNDS JUNE 30, 2018

ASSETS

Cash and cash equivalents	\$ 42,954
Deposits	20,000
Due from other governmental units	129,050
Prepaid expenses	<u>10,756</u>
Total assets	<u>\$ 202,760</u>

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$ 45,040
Unearned revenue	9,279
Other accrued expenses	<u>86,500</u>
Total liabilities	140,819

Fund Balance

Nonspendable	30,756
Unassigned	<u>31,185</u>
Total fund balance	<u>61,941</u>
Total liabilities and fund balance	<u>\$ 202,760</u>

See accompanying notes to financial statements

ANN ARBOR LEARNING COMMUNITY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES JUNE 30, 2018

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

Total Governmental Fund Balances	\$ 61,941
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$133,155 and the accumulated depreciation is \$109,857.	<u>23,298</u>
Net Position of Governmental Activities	<u><u>\$ 85,239</u></u>

See accompanying notes to financial statements

ANN ARBOR LEARNING COMMUNITY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – ALL GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2018

Revenues

Local sources	\$ 28,514
State sources	724,598
Federal sources	29,114
Interdistrict sources	<u>58,830</u>
Total governmental fund revenues	841,056

Expenditures

Instruction	
Basic programs	315,676
Added needs	13,508
Support services	
Pupil support services	107,354
Instructional staff support services	950
General administration	48,510
School administration	178,435
Business support services	19,741
Operations and maintenance	569,503
Pupil transportation services	144
Central support services	<u>1,859</u>
Total governmental fund expenditures	<u>1,255,680</u>

Excess (deficiency) of revenues over expenditures	(414,624)
---	-----------

Fund balance - July 1, 2017	<u>476,565</u>
-----------------------------	----------------

Fund balance - June 30, 2018	<u><u>\$ 61,941</u></u>
------------------------------	-------------------------

ANN ARBOR LEARNING COMMUNITY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

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

Net Change in Fund Balances - Total Governmental Funds	\$ (414,624)
---	---------------------

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation and amortization expense. This is the amount by which capital outlays exceeded depreciation and amortization in the current period

Depreciation and amortization expense	\$ (17,619)	
Loss on disposal of assets	<u>(8,537)</u>	<u>(26,156)</u>

Change in Net Position of Governmental Activities	<u>\$ (440,780)</u>
--	----------------------------

ANN ARBOR LEARNING COMMUNITY

STATEMENT OF FIDUCIARY NET POSITION FIDUCIARY FUND JUNE 30, 2018

ASSETS

Cash and cash equivalents	\$ 718
Total assets	<u>\$ 718</u>

LIABILITIES

Due to student groups	\$ 718
Total liabilities	<u>\$ 718</u>

See accompanying notes to financial statements

ANN ARBOR LEARNING COMMUNITY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Ann Arbor Learning Community (the “Academy”) conform to generally accepted accounting principles applicable to public school academies. The following is a summary of the significant accounting policies:

Reporting Entity

Ann Arbor Learning Community was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, on November 26, 1997, and began operation in September 1998.

In July 2017, the Academy entered into a three year contract extension with the Eastern Michigan University’s Board of Regents to charter a public school academy. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State constitution. The University’s Board of Regents is the fiscal agent for the Academy and is responsible for overseeing the Academy’s compliance with the contract and all applicable laws. The Academy pays the Eastern Michigan University’s Board of Regents three percent of state aid as administrative fees. Total administrative fees paid for the year ended June 30, 2018 were approximately \$19,000.

In October 2015, the Academy entered into an agreement with Axios HR that has been extended through June 30, 2020. Under the terms of this agreement, Axios HR provided a variety of services including payroll and other human resource services. The Academy is obligated to pay Axios HR 3.69 percent of gross payroll each pay period. The total paid for these services amounted to approximately \$19,700 for the year ended June 30, 2018.

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

Fund Financial Statements

Fund financial statements report detailed information about the Academy. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

ANN ARBOR LEARNING COMMUNITY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Presentation – Fund Accounting

The accounts of the Academy are organized on the basis of funds. The operations of a fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report, into generic fund types in two broad fund categories.

Governmental Funds

A governmental fund is a fund through which most Academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through a governmental fund.

General Fund - The general fund is used to record the general operations of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Fund - The special revenue fund, which the Academy does not currently maintain, is used to account for the food service program operations. The special revenue fund is a subsidiary operation and is an obligation of the general fund. Therefore any shortfall in the special revenue fund will be covered by an operating transfer from the general fund. The special revenue fund does not maintain its own assets and liabilities; accordingly, no balance sheet is presented for this fund.

Debt Service Fund - The debt service fund, which the Academy does not currently maintain, is used to record certain revenue and the payment of interest, principal and other expenditures on long-term debt.

Capital Projects Fund - The capital projects fund, which the Academy does not currently maintain, accounts for financial resources to be used for the acquisition, construction, or improvement of capital facilities.

Fiduciary Fund - The fiduciary fund is used to account for assets held by the Academy in a trustee capacity or as an agent. The agency fund is custodial in nature and does not involve the measurement of results of operations.

Activity (Agency) Fund - The Academy presently maintains an activity fund to record the transactions of a student group for school and school-related purposes. The fund is segregated and held in trust for the students.

Governmental and agency funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

ANN ARBOR LEARNING COMMUNITY

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. 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 Academy considers revenues to be available if they are collected within sixty days of the end of the current fiscal period.
- b. Payments for inventorial types of supplies, which are not significant at year end, are recorded as expenditures at the time of purchase.
- c. Principal and interest of general long-term debt are not recorded as expenditures until their due dates.
- d. The State of Michigan utilizes a foundation allowance funding approach, which provides for specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law. A major portion of the Academy's revenue is derived from this state aid. As such, the Academy is considered to be economically dependent on this aid. The Academy's existence is dependent upon qualification for such aid.

Government-Wide Financial Statements

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationships between the government-wide statements and the statements for governmental funds.

The government-wide Statement of Activities presents a comparison between expenses and program revenues for each segment of the business-type activities of the Academy and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. The Academy does not allocate indirect expenses to programs. In creating the government wide financial statements the Academy has eliminated inter-fund transactions. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or function is self-financing or draws from the general revenues of the Academy.

ANN ARBOR LEARNING COMMUNITY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net position should be reported as restricted when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The Academy first utilizes restricted resources to finance qualifying activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government - wide financial statements.

Cash and Cash Equivalents

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition. The Academy reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and GASB No. 40, Deposit and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity. The Academy held no investments during the year ended June 30, 2018. State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, saving accounts, deposit accounts, and 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 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 Academy 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.

Receivables

Receivables at June 30, 2018 consist primarily of state school aid due from the State of Michigan and the federal government. All receivables are expected to be fully collected in July and August of 2018 and are considered current for the purposes of these financial statements.

Prepaid Assets

Payments made to vendors for services that will benefit periods beyond June 30, 2018, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

ANN ARBOR LEARNING COMMUNITY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital Assets and Depreciation

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions or retirements during the year. The Academy follows the policy of not capitalizing assets with a useful life of less than one year. The Academy does not possess any infrastructure assets.

All reported capital assets, with the exception of land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Building and improvements	10 – 50 years
Furniture and equipment	5 – 15 years
Computers and software	3 – 10 years

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the non-current portion of capital leases that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Net Position

Net position represents the difference between assets, deferred outflows and liabilities and deferred inflows. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws of regulations of other governments.

Fund Equity

The Academy has adopted GASB 54 as part of its fiscal year reporting. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the Academy’s financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on those resources.

ANN ARBOR LEARNING COMMUNITY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Equity

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

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

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

The Academy follows the policy that restricted, committed, or assigned amounts will be considered to have been spent when an expenditure is incurred for purposes for which both unassigned and restricted, committed, or assigned fund balances are available. There are no governmental funds with a deficit.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a consistent basis with accounting principles generally accepted in the United States of America and state law for the general fund. All annual appropriations lapse at fiscal year end and encumbrances are not formally recorded.

ANN ARBOR LEARNING COMMUNITY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. The Academy is required by law to adopt general and special revenue fund budgets. During the year ended June 30, 2018 the budget was amended in a legally permissible manner. The Academy had expenditures in certain budgetary functions and in total that were in excess of the amounts appropriated for the year ended June 30, 2018 as detailed on page 19 of these financial statements. Please see finding 2018-001 for additional information.

NOTE 3 - DEPOSITS AND INVESTMENTS

Interest Rate Risk

In accordance with its investment policy, the Academy will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Academy's cash requirements.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2018, the Academy did not hold any investments.

Concentration of Credit Risk

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

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2018, none of the Academy's cash was exposed to custodial credit risk because it was uninsured. All cash balances were uncollateralized as of June 30, 2018.

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

ANN ARBOR LEARNING COMMUNITY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 3 - DEPOSITS AND INVESTMENTS – Continued

The Academy will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Academy will do business.

Foreign Currency Risk

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

Fair Value

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Academy has the ability to access.
- b. Level 2 inputs are inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly.
- c. Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The observable inputs should be developed based on the best information available in the circumstances and may include the Academy's own data.)

The Academy does not have any investments that are subject to the fair value measurement.

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

Amounts due from other governmental units consist of the following:

Local sources	\$	500
State sources		128,550
Total	\$	129,050

ANN ARBOR LEARNING COMMUNITY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2017	Additions	Disposals	Balance June 30, 2018
Capital assets subject to depreciation				
Equipment	\$ 22,826	\$ -	\$ 8,079	\$ 14,747
Furniture	140,550	-	47,981	92,569
Computer	37,394	-	11,555	25,839
Sub-total	200,770	-	67,615	133,155
Accumulated depreciation				
Equipment	14,551	3,047	6,301	11,297
Furniture	117,346	9,215	45,024	81,537
Computer	19,419	5,357	7,753	17,023
Sub-total	151,316	17,619	59,078	109,857
Total net capital assets	<u>\$ 49,454</u>	<u>\$ (17,619)</u>	<u>\$ 8,537</u>	<u>\$ 23,298</u>

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

NOTE 6 – OTHER ACCRUED EXPENSES

Other accrued expenses may be summarized as follows:

Purchased services - payroll and benefits	\$ 81,542
Management fee	1,499
University oversight fee	3,459
Total other accrued expenses	<u>\$ 86,500</u>

ANN ARBOR LEARNING COMMUNITY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 7 - OPERATING LEASES

Lease Information

	<u>Maturity Date</u>	<u>Approximate Payment</u>	<u>Other</u>
Facilities - Research Drive	June, 2018	\$37,587 monthly	Monthly payment to increase 2% annually on November 1. Amount shall be calculated as the maximum of either 22% of per pupil state aid allocation or the minimum rent amount as established within the lease. Lease was terminated by landlord for future periods.
Facilities - Textile Road	June, 2023	\$10,000 monthly	Lease effective July 1, 2018 for a term ending June 3, 2023. Monthly payment to increase to \$12,000 for year 2, \$14,000 for year 3, and \$15,000 for years 4 and 5.

The approximate amount of lease obligations coming due during the next five years are as follows:

	<u>Facilities</u>
2019	\$ 120,000
2020	144,000
2021	168,000
2022	180,000
2023	180,000

Total lease expense for the year ended June 30, 2018 amounted to approximately \$424,900.

The Academy leased its facilities to unrelated third parties for certain functions. During the year ended June 30, 2018 the Academy received \$23,100 in rental fees under subleases.

The Academy's lease agreement for Facilities – Textile Road noted above is currently under revision with the landlord pending the Academy's cash flow and student enrollment for the school year ending June 30, 2019.

ANN ARBOR LEARNING COMMUNITY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2018

NOTE 8 - RETIREMENT PLAN

All leased employees of the Academy are eligible to participate in a retirement plan established by "Axios HR" which qualifies under the provisions of Section 401(k) of the Internal Revenue Code. Eligible employees may contribute up to 15% of their salaries under the terms of this plan. The employer matched up to 4% of the employee's contribution during the year ended June 30, 2018.

NOTE 9 - RISK MANAGEMENT

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

SUPPLEMENTARY INFORMATION

ANN ARBOR LEARNING COMMUNITY

REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2018

	Original Budget	Final Budget	Actual	Variance
Revenues				
Local sources	\$ 22,778	\$ 21,778	\$ 28,514	\$ 6,736
State sources	983,646	732,902	724,598	(8,304)
Federal sources	53,248	29,114	29,114	-
Interdistrict sources	110,000	58,830	58,830	-
Total general fund revenues	1,169,672	842,624	841,056	(1,568)
Expenditures				
Instruction				
Basic programs	343,003	321,571	315,676	(5,895)
Added needs	93,642	14,659	13,508	(1,151)
Support services				
Pupil support services	62,249	105,884	107,354	1,470
Instructional staff support services	2,677	950	950	-
General administration	45,131	36,601	48,510	11,909
School administration	161,601	175,067	178,435	3,368
Business support services	26,910	19,809	19,741	(68)
Operations and maintenance	532,096	544,573	569,503	24,930
Pupil transportation services	500	500	144	(356)
Central support services	1,100	1,800	1,859	59
Total general fund expenditures	1,268,909	1,221,414	1,255,680	34,266
Excess (deficiency) of revenues over expenditures	(99,237)	(378,790)	(414,624)	(35,834)
Fund balance - July 1, 2017	476,565	476,565	476,565	-
Fund balance - June 30, 2018	\$ 377,328	\$ 97,775	\$ 61,941	\$ (35,834)

ANN ARBOR LEARNING COMMUNITY

SCHEDULE OF REVENUES – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2018

Local Sources

Earnings on investments	\$ 335
Other local revenues	<u>28,179</u>
Total local sources	28,514

State Sources

At risk	18,329
Special education	69,416
State aid	<u>636,853</u>
Total state sources	724,598

Federal Sources

IDEA	28,164
Title II A	<u>950</u>
Total federal sources	29,114

Interdistrict Sources

	<u>58,830</u>
Total general fund revenues	<u><u>\$ 841,056</u></u>

ANN ARBOR LEARNING COMMUNITY

SCHEDULE OF EXPENDITURES – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2018

Basic Programs

Purchased services	\$ 294,619
Repairs and maintenance	12,663
Rentals	2,310
Supplies and materials	4,550
Non-depreciable capital assets	784
Other expenditures	750
	<hr/>
Total basic programs	315,676

Added Needs

Purchased services	13,508
--------------------	--------

Pupil Support Services

Health services	9,391
Psychological services	5,918
Speech pathology and audiology	14,763
Social work services	30,535
Teacher consultant	44,469
Other pupil services	2,278
	<hr/>
Total pupil support services	107,354

Instructional Staff Support Services

Purchased services	950
--------------------	-----

General Administration

Purchased services	48,510
--------------------	--------

School Administration

Purchased services	170,211
Repairs and maintenance	1,635
Rentals	1,151
Supplies and materials	830
Other expenditures	4,608
	<hr/>
Total school administration	178,435

ANN ARBOR LEARNING COMMUNITY

SCHEDULE OF EXPENDITURES - GENERAL FUND - Continued FOR THE YEAR ENDED JUNE 30, 2018

Business Support Services

Purchased services	19,741
--------------------	--------

Operations and Maintenance

Purchased services	75,242
--------------------	--------

Repairs and maintenance	32,850
-------------------------	--------

Rentals	424,857
---------	---------

Supplies and materials	34,586
------------------------	--------

Non-depreciable capital assets	1,863
--------------------------------	-------

Other expenditures	105
--------------------	-----

Total operations and maintenance	569,503
----------------------------------	---------

Pupil Transportation Services

Purchased services	144
--------------------	-----

Central Support Services

Purchased services	1,859
--------------------	-------

Total general fund expenditures	<u>\$ 1,255,680</u>
---------------------------------	---------------------

ANN ARBOR LEARNING COMMUNITY

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2018

Reference Number

Findings

2018-001

Finding Type – Noncompliance and Significant Deficiency.

Criteria – The Michigan Public School Accounting Manual, Section IV, indicates that, when used appropriately, a budget provides the school board and administration with the ability to control and evaluate the use of the Academy's funds.

Condition – Actual expenditures exceeded anticipated expenditures by \$34,266.

Cause / Effect – The budget while amended during the year, did not accurately reflect actual final expenditures. The effect was a lower final fund balance than anticipated and budgeted for.

Recommendation – The Academy should fully review actual and anticipated revenues and expenditures and in response amend the budget accordingly in order to comply with state law.

Auditee Response – The auditee agrees with the finding. The Academy has reviewed and revised its accounting procedures to ensure actual results are properly and timely reviewed resulting in budget amendments throughout the year.

**Ann Arbor Learning Community
Corrective Action Plan**

<i>Findings and Recommendations</i>	<i>Corrective Action Plan</i>	<i>Responsible Department</i>	<i>Responsible Person</i>	<i>Planned Completion Date (TBD or Date)</i>
<p>2018 – 001: Budgeting</p> <p>Finding Type: Significant Deficiency and Noncompliance</p> <p><u>Condition:</u></p> <p>Actual expenditures exceeded anticipated expenditures by \$34,266</p> <p><u>Recommendation:</u></p> <p>The Academy Board should fully review actual and anticipated revenues and expenditures and in response amend the budget accordingly in order to comply with state law.</p>	<p>The business office will implement additional policies and procedures for budgeting. This will include a time schedule to:</p> <ol style="list-style-type: none"> 1. Review actual expenditures and compare against board appropriations. 2. Communicate new guidelines to all applicable departments and Board committee members 3. Ensure that final adopted budgets are compared against actual and expected expenditures to fully comply with the Uniform Budgeting and Accounting Act 	<p>Business department which includes the bookkeeping, payroll, grants management, and purchasing functions</p>	<p>All applicable AALC team and subcontractors that fill these rolls. Business office responsible party to take the lead in initiating and implementing with the School Leader & Board Treasurer</p>	<p>December 15, 2018</p>