

Audited Financial Statements

Ann Arbor Learning Community

Ann Arbor, Michigan

June 30, 2020

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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, 2020, 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Ann Arbor Learning Community, as of June 30, 2020, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying financial statements have been prepared assuming Ann Arbor Learning Community will continue as a going concern. As discussed in Note 11 to the financial statements, Ann Arbor Learning Community has been steadily utilizing fund balance reserves over the past six years and have experienced declines in student count, which has a direct impact on revenue and related operations. Management is currently working developing a deficit reduction plan with the Michigan Department of Education to mitigate these effects. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

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 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 combining and individual nonmajor 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 nonmajor fund financial statements, and 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 nonmajor fund financial statements, and schedules of revenues and expenditures, are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2020, 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 the 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 the Ann Arbor Learning Community's internal control over financial reporting and compliance.



Croskey Lanni, PC

Rochester, Michigan
November 17, 2020



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, 2020, 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 November 17, 2020.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. And therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and response as item 2020-01 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2020-02 to be a significant deficiency.

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 items 2020-001 and 2020-002.

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

Rochester, Michigan
November 17, 2020

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, 2020. Please read it in conjunction with the Academy’s financial statements, which immediately follow this section.

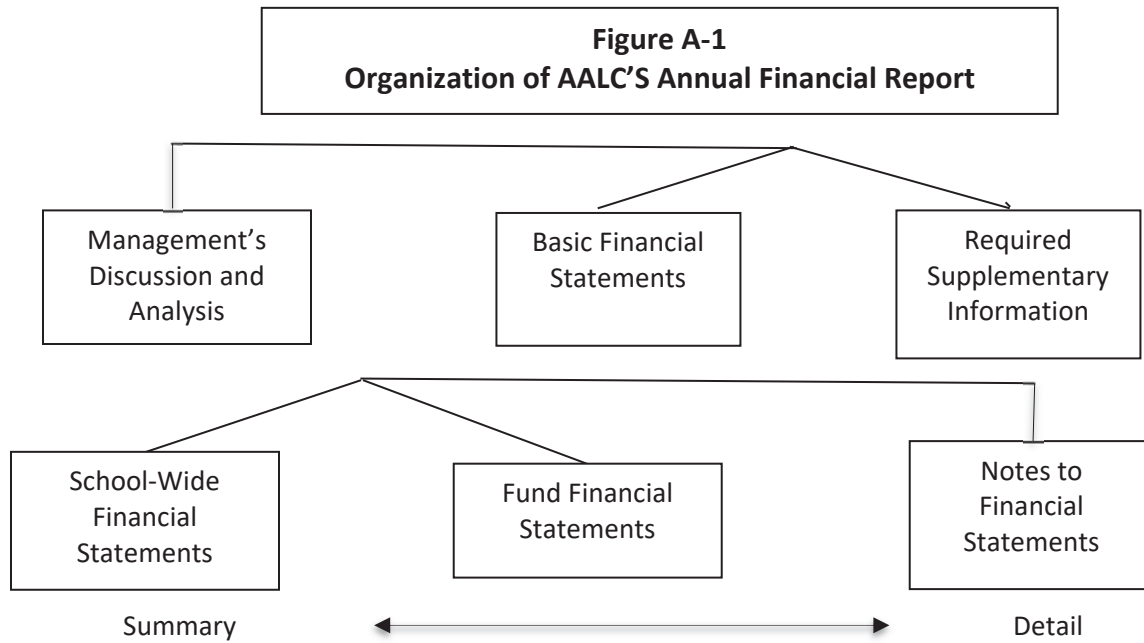
FINANCIAL HIGHLIGHTS

- ❖ Expenses increased by 52 percent and revenues increased by 140 percent between 2018-19 and 2019-20. Student enrollment increased from 205 (October 2018) to 312 (October 2019).
- ❖ The Academy’s outstanding liabilities increased by \$323,662.
- ❖ The year includes no capital outlay expenditures.
- ❖ The Academy’s fund balance decreased as expenditures exceeded revenue by \$110,657 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- 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 due and payable	All additions and deductions during the received year, regardless of when cash is 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, 2020 than the year before, decreasing by \$116,048 to \$(55,867). See Table A – 3.

The total revenues increased by 140 percent to \$2,631,487. State aid foundation allowance included in revenue from state sources accounts for 95 percent of the Academy's total revenue.

The total cost of basic instruction increased by 172 percent to \$2,074,630. Added (student) needs expenses increased by 530 percent. Pupil support services expenses increased by 160 percent. The student enrollment (count) increased 107 percent from 2018-19 and 2019-20.

The change in the Academy's financial position is the product of a \$53,455.50 revenue reduction from state aid and an increase in instructional 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 \$8,111 per pupil in 2019-20.

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 \$(60,148) a decrease of \$110,657 over last year's ending fund balance of \$50,509.

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 2019 decreased local and federal revenue, increased state revenue, projected higher expenses for basic instruction, general administration, and operations/maintenance, and decreased added needs, supporting services, school administration and business support services expenses.
- ❖ No amendments were passed or approved in the third quarter.
- ❖ One amendment was passed in the fourth quarter in June 2019. This amendment decreased local and federal revenue, increased state revenue, increased basic program, general administration, school administration and business support services expenses; decreased supporting services, improvement of instruction, operations/maintenance, transportation services and staff personnel services.
- ❖ While the Academy's final budget anticipated revenue would exceed expenditures by \$30,965, the actual results for the year showed expenditures exceeded revenue by \$110,657. For governmental fund revenue and expenditures, expenses exceeded revenue by \$116,048. Actual revenues were lower than and actual total expenditures were higher than the final amendment.

**Table A-3
AALC's Net Position**

	<u>2020</u>	<u>2019</u>
Current and other assets	\$ 470,828	\$ 367,528
Deposit	15,000	14,000
Capital assets, net	<u>4,281</u>	<u>9,672</u>
Total assets	<u>490,109</u>	<u>391,200</u>
Current liabilities and deferred inflows	<u>545,976</u>	<u>331,019</u>
Net position:		
Investment in capital assets	4,281	9,672
Unrestricted	<u>(60,148)</u>	<u>50,509</u>
Total net position	<u>\$ (55,867)</u>	<u>\$ 60,181</u>

**Table A-4
Changes in AALC's Net Position**

	<u>2020</u>	<u>2019</u>
Revenues:		
Program revenues:		
Federal and state operating grants	\$ 185,023	\$ 69,863
General revenues:		
State aid - unrestricted	2,433,665	1,683,181
Other	<u>12,799</u>	<u>14,820</u>
Total revenues	2,631,487	1,767,864
Expenses:		
Instruction	2,137,377	1,216,398
Support services	604,767	566,273
Unallocated depreciation	<u>5,391</u>	<u>10,251</u>
Total expenses	<u>2,747,535</u>	<u>1,792,922</u>
Change in net position	<u>\$ (116,048)</u>	<u>\$ (25,058)</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of the year ended June 30, 2020, the Academy had invested \$4,281 in capital assets consisting primarily of computers, software, furniture and fixtures net of accumulated depreciation. More detailed information about capital assets can be found in Note 5 to the financial statements. Total depreciation expense for the year was \$5,391.

The Academy's capital assets are as follows:

**Table A-5
AALC's Capital Assets**

	2020	2019
Computer equipment	\$ 14,246	\$ 14,246
Furniture and equipment	99,556	99,556
Subtotal	113,802	113,802
Accumulated depreciation	109,521	104,130
Net book value of assets	\$ 4,281	\$ 9,672

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 2019-2020 foundation allowance (state aid funding) from the State of Michigan increased to \$8,111 per student. The foundation allowance represents 96 percent of the total Academy revenue. The Academy anticipates no increase in foundation allowance for 2020-2021.
- ❖ In 2019-2020 the Academy's student enrollment declined in elementary and middle school, while the addition of a high school virtual program increased the total student enrollment. Elementary and middle school enrollment has declined since 2013-2014. The school relocated to a smaller leased space for the elementary and middle school classroom program in 2018.
- ❖ In 2019-2020 the Academy continued its human resource service arrangement with an educational human resources company. Staff for the elementary and middle school program are employed by the human resource company. The employer's retirement contribution was a match not to exceed 5 percent of salaried wages. In 2020-2021 this staffing arrangement will continue.
- ❖ Staff for the high school program were employed by an educational management company in 2019-2020. This management company service arrangement will continue in 2020-2021.
- ❖ The Academy's current charter contract expires in June 2022. An application for a renewed charter will be completed in 2021-2022.

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, 2020

ASSETS AND DEFERRED OUTFLOWS

Current Assets

Cash and cash equivalents	\$	39,567
Accounts receivable		6,408
Deposits		15,000
Due from other governmental units		423,653
Prepaid expenses		1,200
		<hr/>
Total current assets		485,828

Capital Assets - Net of Accumulated Depreciation

4,281

Total assets and deferred outflows

\$ 490,109

LIABILITIES, DEFERRED INFLOWS, AND NET POSITION

Current Liabilities

Accounts payable	\$	45,897
Unearned revenue		83,703
Other accrued expenses		416,376
		<hr/>
Total current liabilities		545,976

Net Position

Net investment in capital assets		4,281
Unrestricted		(60,148)
		<hr/>
Total net position		(55,867)
		<hr/>
Total liabilities, deferred inflows and net position	\$	<u>490,109</u>

See accompanying notes to financial statements

ANN ARBOR LEARNING COMMUNITY

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2020

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues Operating Grants</u>	<u>Net (Expense) Revenues and Changes in Net Position Government Type Activities</u>
Functions				
Instruction				
Basic programs	\$ 2,074,630	\$ -	\$ 21,040	\$ (2,053,590)
Added needs	62,747	-	62,747	-
Support services				
Pupil support services	100,638	-	99,210	(1,428)
Instructional staff support services	3,000	-	-	(3,000)
General administration	112,893	-	-	(112,893)
School administration	98,302	-	-	(98,302)
Business support services	33,891	-	1,090	(32,801)
Operations and maintenance	255,023	-	-	(255,023)
Central support services	1,020	-	936	(84)
Unallocated depreciation	5,391	-	-	(5,391)
Total primary government	<u>\$ 2,747,535</u>	<u>\$ -</u>	<u>\$ 185,023</u>	<u>(2,562,512)</u>
General Purpose Revenues				
State school aid - unrestricted				2,433,665
Miscellaneous revenues				<u>12,799</u>
Total general purpose revenues				<u>2,446,464</u>
Change in net position				(116,048)
Net position - July 1, 2019				<u>60,181</u>
Net position - June 30, 2020				<u>\$ (55,867)</u>

See accompanying notes to financial statements

ANN ARBOR LEARNING COMMUNITY

COMBINED BALANCE SHEET – ALL GOVERNMENTAL FUNDS JUNE 30, 2020

ASSETS

Cash and cash equivalents	\$	39,567
Accounts receivable		6,408
Deposits		15,000
Due from other governmental units		423,653
Prepaid expenses		1,200
		<hr/>
Total assets	\$	<u>485,828</u>

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$	45,897
Unearned revenue		83,703
Other accrued expenses		416,376
		<hr/>
Total liabilities		545,976

Fund Balance

Nonspendable		16,200
Assigned		42,050
Unassigned		(118,398)
		<hr/>
Total fund balance		(60,148)
		<hr/>
Total liabilities and fund balance	\$	<u>485,828</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, 2020

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

Total Governmental Fund Balances	\$ (60,148)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$113,802 and the accumulated depreciation is \$109,521.	<u>4,281</u>
Net Position of Governmental Activities	<u><u>\$ (55,867)</u></u>

ANN ARBOR LEARNING COMMUNITY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – ALL GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2020

Revenues

Local sources	\$ 12,800
State sources	2,495,115
Federal sources	90,559
Interdistrict sources	<u>33,013</u>
Total governmental fund revenues	2,631,487

Expenditures

Instruction	
Basic programs	2,074,630
Added needs	62,747
Support services	
Pupil support services	100,638
Instructional staff support services	3,000
General administration	112,893
School administration	98,302
Business support services	33,891
Operations and maintenance	255,023
Central support services	<u>1,020</u>
Total governmental fund expenditures	<u>2,742,144</u>

Excess (deficiency) of revenues over expenditures (110,657)

Fund balance - July 1, 2019 50,509

Fund balance - June 30, 2020 \$ (60,148)

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, 2020

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

Net Change in Fund Balances - Total Governmental Funds	\$ (110,657)
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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	<u>(5,391)</u>
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Change in Net Position of Governmental Activities	<u><u>\$ (116,048)</u></u>
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ANN ARBOR LEARNING COMMUNITY

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2020

ASSETS

Cash and cash equivalents	<u>\$ 2,854</u>
Total assets	<u><u>\$ 2,854</u></u>

LIABILITIES

Due to student groups	<u>\$ 2,854</u>
Total liabilities	<u><u>\$ 2,854</u></u>

See accompanying notes to financial statements

ANN ARBOR LEARNING COMMUNITY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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. In July 2020, the Academy extended the contract for two years which will expire June 30, 2022. 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, 2020 were approximately \$74,200.

In October 2015, the Academy entered into an agreement with Axios HR that has been extended through June 30, 2021. 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 \$17,300 for the year ended June 30, 2020.

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.

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.

ANN ARBOR LEARNING COMMUNITY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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:

- 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.

ANN ARBOR LEARNING COMMUNITY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- 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.

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.

ANN ARBOR LEARNING COMMUNITY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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, 2020. 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, 2020 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 2020 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, 2020, 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.

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

ANN ARBOR LEARNING COMMUNITY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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.

ANN ARBOR LEARNING COMMUNITY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Equity

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.

Upcoming Accounting Pronouncements

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The Academy has evaluated the impact this statement will have on the financial statements when adopted. The provisions of this statement are effective for the Academy's financial statements for the year ended June 30, 2021.

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases* which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based upon the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Academy is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Academy's financial statements for the year ending June 30, 2022.

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, 2020

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, 2020 the budget was amended in a legally permissible manner. The analysis of amounts appropriated to amounts expended is contained on page 19 of these financial statements.

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, 2020, 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, 2020, 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, 2020.

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, 2020

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:

State sources	<u>\$ 423,653</u>
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ANN ARBOR LEARNING COMMUNITY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 5 - CAPITAL ASSETS

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

	<u>Balance July 1, 2019</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2020</u>
Equipment	\$ 14,618	\$ -	\$ -	\$ 14,618
Furniture	84,938	-	-	84,938
Computer	14,246	-	-	14,246
Sub-total	113,802	-	-	113,802
Accumulated depreciation				
Equipment	12,612	1,337	-	13,949
Furniture	78,901	2,971	-	81,872
Computer	12,617	1,083	-	13,700
Sub-total	104,130	5,391	-	109,521
Total net capital assets	<u>\$ 9,672</u>	<u>\$ (5,391)</u>	<u>\$ -</u>	<u>\$ 4,281</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	\$ 402,854
University oversight fee	<u>13,522</u>
Total other accrued expenses	<u>\$ 416,376</u>

ANN ARBOR LEARNING COMMUNITY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 7 - OPERATING LEASES

Lease Information

	<u>Maturity Date</u>	<u>Approximate Payment</u>	<u>Other</u>
Facilities - Textile Road	June, 2023	\$14,000 monthly	Lease effective July 1, 2018 for a term ending June 3, 2023. Monthly payment is \$12,000 for year 2 and will increase to \$14,000 for year 3, and \$15,000 for years 4 and 5.

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

	<u>Facilities</u>
2021	\$ 168,000
2022	180,000
2023	180,000

Total lease expense for the year ended June 30, 2020 amounted to approximately \$144,000.

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, 2020.

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.

ANN ARBOR LEARNING COMMUNITY

NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2020

NOTE 10 - CONTINGENCIES

Global efforts to contain the spread of COVID-19, often referred to as the Coronavirus, have significantly impacted many businesses, the economy and school. As a precaution to slow the spread of the virus the 2019 – 2020 school year ended in person education early pursuant to the governor of Michigan’s executive order on March 13, 2020. There were also resulting budget cuts to state aid that resulted in reduced state funding for the last payment of the year. The Academy is economically dependent upon this state funding for normal and continued operations. The reduced funding will be supplemented two for one with federal program funds during the 2020 – 2021 school year however the existence and continuation of federal resources beyond this coming fiscal year is not currently known. While the situation continues to evolve, and the full impact is yet to be determined, it can be reasonably expected that state funding for schools will be affected due to the economic effects of COVID-19.

NOTE 11 – GOING CONCERN

The Academy’s financial statements have been prepared assuming the Academy will continue as a going concern. The Academy has experienced losses over the last six years, which has depleted fund balance and resulted in deficit. The cause has been from unexpected building and moving costs, along with declining enrollment in the K-8 program. Management is working with the Michigan Department of Education to put a Deficit Elimination Plan in place to bring the Academy back into good standing. The plan is expected to be in place by December 15, 2020.

SUPPLEMENTARY INFORMATION

ANN ARBOR LEARNING COMMUNITY

REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2020

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Local sources	\$ 3,718	\$ 13,675	\$ 12,800	\$ (875)
State sources	1,723,039	2,614,569	2,495,115	(119,454)
Federal sources	47,811	92,615	90,559	(2,056)
Interdistrict sources	34,000	37,396	33,013	(4,383)
	<u>1,808,568</u>	<u>2,758,255</u>	<u>2,631,487</u>	<u>(126,768)</u>
Expenditures				
Instruction				
Basic programs	1,213,522	1,244,957	2,074,630	829,673
Added needs	35,996	110,389	62,747	(47,642)
Support services				
Pupil support services	62,840	171,216	100,638	(70,578)
Instructional staff support services	10,636	78,000	3,000	(75,000)
General administration	60,131	108,225	112,893	4,668
School administration	122,915	233,901	98,302	(135,599)
Business support services	40,778	248,574	33,891	(214,683)
Operations and maintenance	260,090	424,878	255,023	(169,855)
Pupil transportation services	500	-	-	-
Central support services	800	107,050	1,020	(106,030)
Community services	-	100	-	(100)
	<u>1,808,208</u>	<u>2,727,290</u>	<u>2,742,144</u>	<u>14,854</u>
Excess (deficiency) of revenues over expenditures	360	30,965	(110,657)	(141,622)
Fund balance - July 1, 2019	<u>50,509</u>	<u>50,509</u>	<u>50,509</u>	<u>-</u>
Fund balance - June 30, 2020	<u>\$ 50,869</u>	<u>\$ 81,474</u>	<u>\$ (60,148)</u>	<u>\$ (141,622)</u>

ANN ARBOR LEARNING COMMUNITY

SCHEDULE OF REVENUES – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2020

Local Sources

Earnings on investments	\$ 122
Other local revenues	<u>12,678</u>
Total local sources	12,800

State Sources

At risk	54,420
Special education	7,030
State aid	<u>2,433,665</u>
Total state sources	2,495,115

Federal Sources

IDEA	16,641
Title I	40,916
Title II A	13,002
Title IV	<u>20,000</u>
Total federal sources	90,559

Interdistrict Sources

	<u>33,013</u>
Total general fund revenues	<u><u>\$ 2,631,487</u></u>

ANN ARBOR LEARNING COMMUNITY

SCHEDULE OF EXPENDITURES – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2020

Basic Programs

Purchased services	\$ 2,065,275
Repairs and maintenance	352
Supplies and materials	3,745
Non-depreciable capital assets	4,286
Other expenditures	972
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Total basic programs	2,074,630

Added Needs

Purchased services	62,747
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Pupil Support Services

Health services	6,869
Psychological services	1,294
Speech pathology and audiology	5,510
Social work services	46,304
Teacher consultant	40,661
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Total pupil support services 100,638

Instructional Staff Support Services

Purchased services	3,000
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General Administration

Purchased services	112,893
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School Administration

Purchased services	93,148
Repairs and maintenance	227
Supplies and materials	833
Non-depreciable capital assets	718
Other expenditures	3,376
	<hr/>

Total school administration 98,302

ANN ARBOR LEARNING COMMUNITY

SCHEDULE OF EXPENDITURES - GENERAL FUND - Continued
FOR THE YEAR ENDED JUNE 30, 2020

Business Support Services

Purchased services	33,891
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Operations and Maintenance

Purchased services	65,943
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Repairs and maintenance	21,528
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Rentals	144,000
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Supplies and materials	22,539
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Non-depreciable capital assets	66
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Other expenditures	947
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Total operations and maintenance	255,023
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Central Support Services

Purchased services	1,020
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Total general fund expenditures	<u>\$ 2,742,144</u>
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ANN ARBOR LEARNING COMMUNITY

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2020

Reference Number

Findings

2020-001

Finding Type – Noncompliance and Material Weakness.

Criteria – The State School Aid Act of 1979 Article 10 Section 388.1702 does not allow districts receiving funds under the act to operate under a deficit.

Condition – As of June 30, 2020, the General Fund of the Academy had an overall deficit fund balance of \$60,148.

Cause / Effect – Revenues decreased due to the COVID-19 pandemic in addition to higher than anticipated expenditures during the year. The Academy is required to notify the Michigan Department of Education and file a Deficit Elimination Plan.

Recommendation – In accordance with Public Act 621 the Academy must adopt a Deficit Elimination Plan. Additional cost cutting and revenue enhancement alternatives should be explored in order to ensure the Academy can eliminate the deficit.

Auditee Response – The Academy agrees with the finding.

ANN ARBOR LEARNING COMMUNITY

SCHEDULE OF FINDINGS AND RESPONSES - Continued FOR THE YEAR ENDED JUNE 30, 2020

**Reference
Number**

Findings

REPEAT FINDING

2020-002

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 \$14,854.

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 its accounting procedures to ensure actual results are properly and timely reviewed, resulting in budget amendments throughout the year.