

MICHIGAN EDUCATIONAL CHOICE CENTER
FINANCIAL STATEMENTS AND
REQUIRED AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2018

**MICHIGAN EDUCATIONAL CHOICE CENTER
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YEAR ENDED JUNE 30, 2018**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Michigan Educational Choice Center
Detroit, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Michigan Educational Choice Center (the Academy), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Academy'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.

Auditors' 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 auditors' 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 Academy'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 Academy'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 and the major fund of the Academy as of June 30, 2018, 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.

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 on pages 4 – 8 and 22 – 23 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Academy's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Academy's basic financial statements. The reconciliations for the schedule of expenditures for federal awards on pages 26 – 28 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Board of Directors
Michigan Educational Choice Center

The reconciliations for the schedule of expenditures for federal awards 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 November 1, 2018, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Indianapolis, Indiana
November 1, 2018

**MICHIGAN EDUCATIONAL CHOICE CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

As management of Michigan Educational Choice Center (the Academy), we offer readers of the Academy's financial statements this narrative overview and analysis of the financial activities of the Academy for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with the financial statements and related footnotes disclosures, which follow this section.

Financial Highlights

- The assets of the Academy exceeded its liabilities at the close of the most recent fiscal year by \$136,757 (net position).
- The Academy's total net position increased by \$109,429. The increase was primarily due to the budget adjustments made throughout the year.
- The general fund had an increase in fund balance of \$19,226. At the end of the year, unassigned fund balance for the general fund was \$19,326.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Academy's basic financial statements. The Academy's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Academy's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Academy's assets and liabilities with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Academy is improving or deteriorating.

The *statement of activities* presents information showing how the Academy's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

One of the most important questions asked about the Academy's finances is, "Is the Academy better off or worse off as a result of the year's activities?" The statement of net position and the statement of activities report information about the Academy as a whole and about its activities in a manner that helps to answer this question. The reader will need to consider other nonfinancial factors such as political conditions at the State Capitol, student enrollment growth, birth rates, and facility conditions in arriving at their conclusion regarding the overall health of the Academy.

**MICHIGAN EDUCATIONAL CHOICE CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

Government-wide financial statements (continued)

Governmental Activities – Since all of the Academy's basic services are principally supported by intergovernmental revenues, all activities are considered to be governmental activities, including instruction, support services and food services. Intergovernmental revenues (unrestricted and restricted State Aid) and federal grants finance most of these activities.

The government-wide financial statements can be found on pages 9-10 of this report.

Fund financial statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Academy, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." The Academy has one type of fund: governmental funds. Governmental funds use different accounting approaches as further discussed in the notes to the financial statements. In the fund financial statements, capital assets purchased by cash are reported as expenditures in the year of acquisition. No capital asset is reported in the governmental fund balance sheet.

Governmental funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Academy's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Academy adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 11-14 of this report.

Notes to basic financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements begin on page 15 of this report.

**MICHIGAN EDUCATIONAL CHOICE CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

Other information

Required Supplementary Information (RSI) is located directly after the notes to the basic financial statements and represents the required comparison of the budget and actual results on the Academy's budgetary basis for the General Fund. This information begins on page 22 of this report.

Supplementary Information (SI) includes the schedule of expenditures of federal awards (SEFA) and other financial schedules related to the SEFA. Supplementary information begins on page 25 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of an entity's financial position. The following table provides a summary of the Academy's net position as of June 30, 2018.

	Governmental Activities as of June 30,		Percentage Change
	2018	2017	
ASSETS			
Other Assets	\$ 1,260,259	\$ 2,429,852	-48%
Capital Assets	117,431	27,228	331%
Total Assets	<u>1,377,690</u>	<u>2,457,080</u>	-44%
LIABILITIES			
Accounts Payable	775,718	2,429,752	-68%
Accrued Expenses	465,215	-	-
Total Liabilities	<u>1,240,933</u>	<u>2,429,752</u>	-49%
NET POSITION			
Net Investment in Capital Assets	117,431	27,228	331%
Unrestricted	<u>19,326</u>	<u>100</u>	19226%
TOTAL NET POSITION	<u>\$ 136,757</u>	<u>\$ 27,328</u>	400%

By far, the largest portion of the Academy's net position (98%) reflects its investment in capital assets (computer equipment). The Academy uses these capital assets to provide services to students consequently, these assets are not available for future spending. The remaining net position is unrestricted.

The above analysis focuses on the net position. The change in net position of the Academy's governmental activities is discussed below. The net position differs from fund balances and a reconciliation appears on page 12.

The results of this year's operations for the Academy as a whole are reported in the statement of activities (see table above), which shows the changes in net position for fiscal year 2018.

The Academy's net position increased by \$109,429 during the current fiscal year. The increase in net position differs from the change in fund balances and a reconciliation appears on page 14.

**MICHIGAN EDUCATIONAL CHOICE CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

Government-wide Financial Analysis (Continued)

For the fiscal year ended June 30, 2018, the Academy wide results of operations was:

	Governmental Activities Year Ended June 30,		Percentage Change
	2018	2017	
REVENUES			
State Sources	\$ 6,466,200	\$ 6,824,688	-5%
Federal Sources	1,359,320	3,185,833	-57%
Local Sources	16,355	2,083	685%
Total Revenues	<u>7,841,875</u>	<u>10,012,604</u>	-22%
EXPENDITURES			
Instruction	5,813,683	4,448,360	31%
Support Services	1,818,857	5,503,009	-67%
Community Services	-	61,235	-100%
Interest Expense	38,000	-	100%
Depreciation - Unallocated	61,906	29,704	108%
Total Expenditures	<u>7,732,446</u>	<u>10,042,308</u>	-23%
CHANGE IN NET POSITION	109,429	(29,704)	
Beginning Net Position	<u>27,328</u>	<u>57,032</u>	
Ending Net Position	<u>\$ 136,757</u>	<u>\$ 27,328</u>	

General Fund Budgeting and Operating Highlights

The Academy's budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund.

During the fiscal year ended June 30, 2018, the Academy terminated a management contract with Performance Academies and replaced it with a management contract with The Phalen Leadership Academy (PLA), effective July 1, 2017, through the date of the charter contract with the Detroit Public Schools Community District (DPSCD).

The Academy amended the budget of the General Fund once. State law requires that the budget be amended to ensure that expenditures do not exceed appropriation. A schedule showing the Academy's general fund original and final budget amounts compared with amounts actually paid and received is provided in required supplementary information of these financial statements.

The General Fund actual revenue was \$7,841,875. That amount is more than the final budget estimate of \$6,752,111. The variance was \$1,089,764 or 16%. The variance was due to the change in budgeted enrollment estimate at the Academy.

The actual expenditures of the General Fund were \$7,822,649, which was more than the final budget estimate of \$6,748,545. The variance was \$1,074,104 or 16%. The variance was due to a change in predicted facility expenses as well as the change in the enrollment estimate.

**MICHIGAN EDUCATIONAL CHOICE CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

General Fund Budgeting and Operating Highlights (Continued)

The General Fund had total revenues of \$7,841,875 and total expenditures of \$7,822,649 with a net increase in the fund balance of \$19,226 and an ending fund balance of \$19,326.

Capital Asset and Debt Administration

The Academy's investment in capital assets for its governmental activities as of June 30, 2018 amounted to \$117,431 (net of accumulated depreciation). This investment in capital assets included computers and equipment. Capital assets at fiscal year-end included the following:

Computers and Equipment	\$ 117,431
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Additional information on the Academy's capital assets can be found in Note 4.

Economic Factors and Next Year's Budget

The following factors will affect the Academy in the future and were considered in preparing the Academy's budget for the 2018-19 fiscal year:

- Student enrollment decrease to 350 students
- State aid membership count based on 90% Fall count and 10% Spring count

The Michigan Educational Choice Center's 2018-2019 adopted budget is as follows:

Revenue	\$ 3,565,957
Expenditures	<u>3,561,368</u>
Net Budget	<u><u>\$ 4,589</u></u>

Contacting the Academy's Financial Management

This financial report is intended to provide our parents and community with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to email Eva Spilker at espilker@phalenacademies.org.

**MICHIGAN EDUCATIONAL CHOICE CENTER
STATEMENT OF NET POSITION
JUNE 30, 2018**

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 110,796
Due from Other Governmental Units	1,149,463
Computers and Equipment	117,431
Total Assets	1,377,690
LIABILITIES	
Accounts Payable	355,034
Related Party Payable	420,684
Accrued Expenses	465,215
Total Liabilities	1,240,933
NET POSITION	
Net Investment in Capital Assets	117,431
Unrestricted	19,326
TOTAL NET POSITION	\$ 136,757

See accompanying Notes to Basic Financial Statements.

**MICHIGAN EDUCATIONAL CHOICE CENTER
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

	Expenses	Program Revenues Operating Grants and Contributions	Governmental Activities Net (Expense) Revenue & Change in Net Position
FUNCTIONS/PROGRAMS			
Governmental Activities:			
Instruction	\$ 5,775,683	\$ 1,359,320	\$ (4,416,363)
Support Services	1,856,857	-	(1,856,857)
Interest Expense	38,000	-	(38,000)
Depreciation - Unallocated	61,906	-	(61,906)
Totals	\$ 7,732,446	\$ 1,359,320	(6,373,126)
General Revenues:			
State Sources - Unrestricted			6,466,200
Other General Revenues			16,355
Total General Revenues			6,482,555
CHANGE IN NET POSITION			109,429
Net Position - Beginning of Year			27,328
NET POSITION - END OF YEAR			\$ 136,757

See accompanying Notes to Basic Financial Statements.

**MICHIGAN EDUCATIONAL CHOICE CENTER
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018**

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ 110,796
Due from Other Governmental Units	<u>1,149,463</u>
Total Assets	<u><u>\$ 1,260,259</u></u>
LIABILITIES	
Accounts Payable	\$ 355,034
Related Party Payable	420,684
Accrued Expenditures	<u>465,215</u>
Total Liabilities	<u>1,240,933</u>
FUND BALANCE	
Unassigned	<u>19,326</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 1,260,259</u></u>

See accompanying Notes to Basic Financial Statements.

**MICHIGAN EDUCATIONAL CHOICE CENTER
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2018**

Total Governmental Fund Balances	\$	19,326
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Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Capital Assets	\$	300,625	
Less: Accumulated Depreciation		(183,194)	
Capital Assets, Net of Accumulated Depreciation		117,431	

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	\$	136,757
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See accompanying Notes to Basic Financial Statements.

**MICHIGAN EDUCATIONAL CHOICE CENTER
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENT FUNDS
YEAR ENDED JUNE 30, 2018**

REVENUES

State Sources	\$ 6,466,200
Federal Sources	1,359,320
Local Sources	<u>16,355</u>
Total Revenues	<u>7,841,875</u>

EXPENDITURES

Instruction	5,813,683
Support Services	1,818,857
Capital Outlay	152,109
Interest Expense	<u>38,000</u>
Total Expenditures	<u>7,822,649</u>

NET CHANGE IN FUND BALANCE

19,226

Fund Balance - Beginning of Year

100

FUND BALANCE - END OF YEAR

\$ 19,326

See accompanying Notes to Basic Financial Statements.

**MICHIGAN EDUCATIONAL CHOICE CENTER
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

Total Net Change in Fund Balance - Governmental Funds	\$	19,226
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Amounts reported for governmental activities in the statement of activities are different because:

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

Capital Outlays		152,109
Depreciation Expense		<u>(61,906)</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>109,429</u>
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**MICHIGAN EDUCATIONAL CHOICE CENTER
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Michigan Educational Choice Center (the Academy) was formed in 2012 as a public school academy in accordance with the provisions of section 641 of Act 162, Public Acts of 1982.

On July 1, 2017, the Academy entered into a three-year contract expiring June 30, 2020 with the Detroit Public Schools Community District (DPSCD) to charter a public school academy which included the Academy undergoing a reauthorization process to obtain the charter. The contract requires the Academy to act exclusively as a public school academy 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 DPSCD 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 DPSCD 3% of per-pupil allocation funds that the Academy is entitled to receive. The total fees for the year ended June 30, 2018 to the DPSCD were approximately \$177,000.

For the year ending June 30, 2018, the Academy operated three schools located in the metropolitan Detroit area providing education for approximately 900 students from kindergarten through grade eight. For the 2018-2019 school year, the Academy consolidated into one school with one singular location.

The accounting policies of the Academy conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy.

Reporting Entity

The Academy is organized as a nonprofit, nonstock, directorship corporation. The business, property, and affairs of the Academy are managed by the Academy Board of Directors (the Board). The Board consists of five to nine members; and must always be an uneven number.

In evaluating how to define the reporting entity, for financial statement purposes, management has considered all potential component units. The decision to include a potential component unit was made by applying the criteria set forth in GAAP which defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. Application of this criterion and determination of type of presentation involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. Based upon the application of these criteria, there were no potential component units required to be included in this report.

**MICHIGAN EDUCATIONAL CHOICE CENTER
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation – Government-Wide Financial Statements and Fund Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Academy. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Intergovernmental payments and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for the governmental fund.

Measurement Focus and Basis of Accounting

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

Government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period (60 days). Expenditures are recorded when the liability is incurred.

Revenues susceptible to accrual are federal and state grants. Expenditure-driven grants are recognized as revenue when qualifying expenditures have been incurred and all other grant requirements have been met. All other revenue items are considered to be available only when cash is received by the Academy.

**MICHIGAN EDUCATIONAL CHOICE CENTER
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and reported amounts of revenues during the reported period. Actual results could differ from these estimates.

Assets, Liabilities, and Net Position

Cash and Cash Equivalents – Cash includes cash on hand and demand deposits.

Due from Other Governmental Units – All receivables are intergovernmental receivables. The Academy considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Computers and Equipment – Computers and equipment are defined by the Academy as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure-type assets.

Computers and equipment are depreciated using the straight-line method over three years.

Net Position Flow Assumptions – Net position is classified into the following categories:

Net investment in capital assets — consists of all capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position — consists of net position with constraints placed on use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. The Academy does not have any restricted net positions at June 30, 2018.

Unrestricted net position — consists of all other net position that is not included in the other categories previously mentioned.

When both restricted and unrestricted resources are available for use in a specific program or for a specific purpose, the Academy's normal policy is to use restricted resources first to finance its activities.

Fund Balance Policies

Governmental fund equity is classified as fund balance. GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions* provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent.

**MICHIGAN EDUCATIONAL CHOICE CENTER
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Position (Continued)

The following classifications describe the relative strength of the spending constraints placed on purpose for which resources can be used:

Unassigned - This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund.

NOTE 2 DEPOSITS

The Academy's deposits consisted of the following at June 30, 2018:

Cash - Academy Wide	<u><u>\$ 110,796</u></u>
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NOTE 3 RECEIVABLES

Receivables at June 30, 2018, consist of intergovernmental grants. All receivables are considered collectible in full due to the stable condition of state programs and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

Governmental Activities:	
State Aid	\$ 796,138
Federal Grants	353,325
Total Governmental Activities	<u><u>\$ 1,149,463</u></u>

NOTE 4 CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Balance Beginning	Additions	Deductions	Balance Ending
Governmental Activities:				
Computers and Equipment	\$ 148,616	\$ 300,625		\$ 449,241
Less: Accumulated Depreciation	(121,288)	(210,522)		(331,810)
Governmental Activities				
Capital Assets, Net	<u>\$ 27,328</u>	<u>\$ 90,103</u>	<u>\$ -</u>	<u>\$ 117,431</u>

Depreciation expense was unallocated on the Statement of Activities as the Academy considers all capital assets to have mixed use.

**MICHIGAN EDUCATIONAL CHOICE CENTER
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 5 SHORT-TERM DEBT

The Academy has various options for short-term financing including tax anticipation notes, state aid anticipation notes, and lines of credit. The Academy borrowed \$1,750,000 from the Michigan Finance Authority in August 2017. Original terms of the note were from August 2017 – August 2018. The note was paid off in June 2018 and thus there are no outstanding debt balances at June 30, 2018.

NOTE 6 RELATED PARTY TRANSACTIONS

The Academy entered into a school management agreement with PLA commencing on July 1, 2017 and expiring on June 30, 2020. Under the agreement, PLA is responsible for the management, operation, administration, and education at the Academy. Monthly management fee payments for the Academy equal 12% of all funds the Academy receives directly or indirectly and subject to reduction in a mutually agreeable amount by the parties. The remainder of the funds are to be retained by the school and used for future programs, school improvements, or any other items deemed necessary by Academy management. All costs incurred in providing this educational program at the Academy are paid by PLA. Expenses to the management company for the year ended June 30, 2018 were \$824,949.

NOTE 7 RISK MANAGEMENT

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The risk of employee injuries and medical benefits for employees of the management company are covered by insurance held by the management company. The Academy has purchased commercial insurance for all other claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since inception.

NOTE 8 LEASES

During 2018, the Academy had three separate leases for each of the locations in Detroit, Michigan. The terms of the leases called for monthly payments of \$7,143 from each location for the period of October through April. Total rent expenses paid to DPSCD totaled \$150,000. The leases expired June 30, 2018.

The three schools in the Academy leased equipment for operations during the year ended June 30, 2018. The agreement required monthly payments of \$5,350 and expired on June 30, 2018. Total lease expense incurred under terms of the lease amount to \$64,200 for 2018.

**MICHIGAN EDUCATIONAL CHOICE CENTER
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 9 SUBSEQUENT EVENTS

In July 2018, the Academy entered into a new leasing arrangement with the Archdiocese of Detroit for a school building in Detroit, Michigan. The term of the lease expires in August 2023. Due to the new school building needing a significant amount of repairs, Entrepreneurial Ventures in Education (EVE), the parent of the management company, loaned the Academy funds to complete renovations at the school. As of November 1, 2018, it is anticipated that \$375,000 from EVE will be used for school renovations.

In July 2018, the Academy entered into a new authorizer agreement with Central Michigan University to be the fiscal agent for the Academy. The term of the new agreement expires in June 2023.

REQUIRED SUPPLEMENTARY INFORMATION

**MICHIGAN EDUCATIONAL CHOICE CENTER
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2018
(SEE INDEPENDENT AUDITORS' REPORT)**

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Local Sources	\$ 5,000	\$ 8,216	\$ 16,355	\$ 8,139
State Sources	-	5,277,431	6,466,200	1,188,769
Federal Sources	-	1,466,464	1,359,320	(107,144)
Other Income	7,991,044	-	-	-
Total Revenues	<u>7,996,044</u>	<u>6,752,111</u>	<u>7,841,875</u>	<u>1,089,764</u>
EXPENDITURES				
Basic Programs	3,215,000	3,215,608	3,694,675	479,067
Added Needs	375,000	288,936	357,749	68,813
Total Instruction	<u>3,590,000</u>	<u>3,504,544</u>	<u>4,052,424</u>	<u>547,880</u>
Student Services	885,000	370,776	420,978	50,202
Instructional Support	1,261,634	508,199	833,078	324,879
General Administration	55,000	87,596	82,255	(5,341)
School Administration	815,000	961,790	1,129,145	167,355
Operating and Maintenance	1,045,000	1,047,470	897,556	(149,914)
Transportation	225,000	196,199	266,319	70,120
Support Services - Other	100,000	71,971	140,894	68,923
Community Services	11,000	-	-	-
Total Expenditures	<u>7,987,634</u>	<u>6,748,545</u>	<u>7,822,649</u>	<u>1,074,104</u>
NET CHANGE IN FUND BALANCE	<u>\$ 8,410</u>	<u>\$ 3,566</u>	19,226	<u>\$ 15,660</u>
Fund Balance - Beginning of Year			<u>100</u>	
FUND BALANCE - END OF YEAR			<u>\$ 19,326</u>	

See accompanying Note to Required Supplementary Information.

**MICHIGAN EDUCATIONAL CHOICE CENTER
 NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2018
 (SEE INDEPENDENT AUDITORS' REPORT)**

NOTE 1 BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund. All annual appropriations lapse at fiscal year-end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The School District increased/decreased budgeted amounts during the year in response to changes in funding and related expenditures.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

During the year, Michigan Educational Choice Center has the following expenditure budget variances.

	Final Budget	Actual	Variance with Final Budget
Basic Programs	\$ 3,215,608	\$ 3,694,675	\$ 479,067
Added Needs	288,936	357,749	68,813
Student Services	370,776	420,978	50,202
Instructional Support	508,199	833,078	324,879
School Administration	961,790	1,129,145	167,355
Transportation	196,199	266,319	70,120
Support Services - Other	71,971	140,894	68,923

SUPPLEMENTARY INFORMATION

**MICHIGAN EDUCATIONAL CHOICE CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018
(SEE INDEPENDENT AUDITORS' REPORT)**

Federal Grantor/Pass through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued Revenue July 1, 2017	Current Year Expenditures	Adjustments and Transfers	Current Year Cash/ Payments In-Kind Received	Accrued Revenue June 30, 2018	Passed Through to Subrecipients
U.S. Department of Education										
Pass-Through Michigan Department of Education:										
Title I Grants To Local Education Agencies										
84.010										
ESEA Title I - Regular (17-18)										
181530-1718										
			\$ 995,342	\$ -	\$ -	\$ 929,086	\$ -	\$ 670,723	\$ 258,363	\$ -
Total Title I Grants To Local Education Agencies			995,342	-	-	929,086	-	670,723	258,363	-
Pass-Through Michigan Department of Education:										
Student Support and Academic Enrichment Programs										
84.424										
ESEA Title IV - Regular (17-18)										
180750-1718										
			10,000	-	-	3,435	-	3,210	225	-
Total Title IV Grants To Local Education Agencies			10,000	-	-	3,435	-	3,210	225	-
Pass-Through Michigan Department of Education:										
Supporting Effective Instruction State Grant										
84.367										
Supporting Effective Instruction (17-18)										
180520-1718										
			301,024	-	-	192,976	-	132,494	60,482	-
Total Improving Teacher Quality			301,024	-	-	192,976	-	132,494	60,482	-
Total Pass-Through Michigan Department of Education			1,306,366	-	-	1,125,497	-	806,427	319,070	-
Pass-Through Wayne County RESA:										
Special Education Cluster: Special Education Grants to States										
84.027										
IDEA Flow Through (17-18)										
181450-1718										
			233,823	-	-	233,823	-	216,973	16,850	-
Total Pass-Through Wayne County RESA			233,823	-	-	233,823	-	216,973	16,850	-
Total Federal Awards			<u>\$ 1,540,189</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,359,320</u>	<u>\$ -</u>	<u>\$ 1,023,400</u>	<u>\$ 335,920</u>	<u>\$ -</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**MICHIGAN EDUCATIONAL CHOICE CENTER
RECONCILIATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018
(SEE INDEPENDENT AUDITORS' REPORT)**

FEDERAL REVENUE RECOGNIZED FOR THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	<u>\$ 1,359,320</u>
FEDERAL REVENUE RECOGNIZED PER THE GENERAL PURPOSE FINANCIAL STATEMENTS	
General Fund	<u>\$ 1,359,320</u>
Total	<u>\$ 1,359,320</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

MICHIGAN EDUCATIONAL CHOICE CENTER
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2018
(SEE INDEPENDENT AUDITORS' REPORT)

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Michigan Educational Choice Center for the year ended June 30, 2018.

The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (the Uniform Guidance). Because the schedule presents only a selected portion of the operations of Michigan Educational Choice Center, it is not intended to and does not present the financial position or changes in net position of Michigan Educational Choice Center.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Expenditures are recognized following the cost principles in OMB Circular A-87 or the Uniform Guidance, as applicable, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

The District has elected not to use the 10 percent de minimus indirect cost rate to recover indirect costs as allowed under the Uniform Guidance.

NOTE 3 MANAGEMENT

Management has utilized the Cash Management System (CMS) in preparing the Schedule of Expenditures of Federal Awards. All differences between the Schedule of Expenditures of Federal Awards and the Grant Auditor's Report have been reconciled in the attached reconciliation on page 26 of this report.

NOTE 4 SUBRECIPIENTS

The Academy did not pass-through any federal awards to subrecipients.

**MICHIGAN EDUCATIONAL CHOICE CENTER
RECONCILIATION OF FORM R 7120 *GRANT AUDITOR'S REPORT*
TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018
(SEE INDEPENDENT AUDITORS' REPORT)**

Current Payments per the Grant Auditors' Report:

Cash Management System	\$ 806,427
Add: Grants Passed Through Wayne County RESA Special Education Grants (CFDA 84.027)	<u>216,973</u>
Total Current Year Receipts per Schedule of Expenditures of Federal Awards	<u>\$ 1,023,400</u>

**INDEPENDENT AUDITORS' 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***

Board of Directors
Michigan Educational Choice Center
Detroit, Michigan

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 and of the major fund of Michigan Educational Choice Center (the Academy), a nonprofit Michigan school district, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated November 1, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the consolidated 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. However, material weaknesses may exist that have not been identified. We did identify a deficiencies in internal controls, described in the accompanying schedule of findings and questioned costs as item 2018-002 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Academy's Response to Findings

The Academy's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Academy'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 Academy'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 Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Indianapolis, Indiana
November 1, 2018



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
Michigan Educational Choice Center
Detroit, Michigan

We have audited Michigan Educational Choice Center's (the Academy) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Academy's major federal programs for the year ended June 30, 2018. The Academy's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Academy's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Academy's compliance.

Opinion on Each Major Federal Program

In our opinion, the Academy complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as items 2008-001. Our opinion on each major federal program is not modified with respect to these matters.

The Academy's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Academy's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Academy is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Academy's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify one certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a significant deficiency.

The Academy's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Academy's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Board of Directors
Michigan Educational Choice Center

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Indianapolis, Indiana
November 1, 2018

**MICHIGAN EDUCATIONAL CHOICE CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018
(SEE INDEPENDENT AUDITORS' REPORT)**

Section I – Summary of Auditors' Results

Financial Statements

1. Type of auditors' report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? _____ yes x no
 - Significant deficiency(ies) identified? x yes _____ none reported
3. Noncompliance material to financial statements noted? _____ yes x no

Federal Awards

1. Internal control over major federal programs:
- Material weakness(es) identified? _____ yes x no
 - Significant deficiency(ies) identified? x yes _____ none reported
2. Type of auditors' report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? x yes _____ no

Identification of Major Federal Programs

CFDA Number(s)

84.010

Name of Federal Program or Cluster

Title I, Grants to Local Educational Agencies

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

 x yes _____ no

**MICHIGAN EDUCATIONAL CHOICE CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018
(SEE INDEPENDENT AUDITORS' REPORT)**

Section II – Financial Statement Findings

Finding 2018-002

Finding Type: Significant Deficiency in Internal Control over Financial Reporting

Condition: The Academy did not record capital assets held in the prior year in the financial statements.

Criteria: The financial statements should reflect all assets owned and in service by the Academy.

Context: During our rollforward procedures, it was noted that the beginning capital asset balances did not agree to the prior year ending balances.

Effect: Capital assets and net position were understated at the beginning of the year.

Cause: Records related to capital assets in service were not provided by the previous management company.

Recommendation: The Academy should retain all capital asset files and conduct a periodic inventory to compare to its capital asset listing.

Views of responsible officials: There is no disagreement with the audit finding.

**MICHIGAN EDUCATIONAL CHOICE CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018
(SEE INDEPENDENT AUDITORS' REPORT)**

Section III – Federal Award Findings

Finding 2018-001

Federal Agency: U.S. Department of Education

Federal Program Title Name & CFDA No: CFDA 84.010: Title I, Grants to Local Educational Agencies

Pass-through Agency: Michigan Department of Education

Pass-Through Number: 181530-1718

Finding Type: Significant Deficiency in Internal Control over Compliance and Other Matter

Criteria: Based on the guidance requiring bids for items over a certain scope, the Academy did not maintain procurement files for a purchase of laptops.

Condition: The Academy did not maintain or retain the procurement files from the prior management company in order to properly demonstrate that procurement procedures were followed.

Questioned Costs: \$-0-

Context: The Academy did not have a procurement file for certain reviewed expenses.

Cause: This was due to the Academy not maintaining procurement files after the Academy changed management companies. This was originally budgeted in 2016-2017 but was purchased using 2017-2018 funds due to the change in management companies.

Effect: Without maintenance of procurement files, the Academy will be unable to support expenditures that are in compliance with the Uniform Guidance requires for procurement.

Recommendation: The Academy should retain all procurement files and they should not change hands in the event of a change in administrative companies.

Views of responsible officials: There is no disagreement with the audit finding.

Michigan Educational Choice Center



Finding 2018-001

Program Name & CFDA No. – Title I, CFDA 84.010A

Finding Description: Based on the guidance requiring bids for items over a certain scope, the client did not retain the procurement files from the prior management company for a computer purchase related to a prior year grant.

Corrective Action: The purchase noted was an extraordinary event that was part of the approved 2016-2017 grant managed by the previous management company. Going forward, MECC will follow the procurement policy and maintain procurement files that do not change even if there is a change in the management company.

Persons Responsible:

Melissa Ross, Compliance Director
Eva Spilker, Finance Director

Date of Completion: 10/26/18

Finding 2018-002

Finding Description: The Academy did not record capital assets held in the prior year in the financial statements because the Academy did not have access to prior year financials.

Corrective Action: The assets were verified and recorded as of 6/30/18. The academy will retain a current capital asset file and conduct a periodic inventory to ensure the accuracy of capital assets.

Persons Responsible:

Eva Spilker, Finance Director
Tahirah Thompson, Operations Director

Date of Completion: 10/31/18

Michigan Educational Choice Center



Michigan Department of Education:

Michigan Educational Choice Center (MECC) respectfully submits the following summary schedule of prior audit findings for the year ended June 30, 2018.

Audit period: 7/1/17-6/30/18

The findings from the prior audit's schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the prior year.

FINDINGS—FINANCIAL STATEMENT AUDIT

There were no financial statement findings in the prior year.

FINDINGS— FEDERAL AWARD PROGRAMS AUDITS

2017 – 001 (Repeat Finding)

Condition: The school district did not spend the required amount for parental activities for the 2016-17 grant.

Status: Corrective action was taken.

2016-001 Finding

Condition: The school district did not spend the required amount for parental activities for the 2015-16 grant.

Status: Corrective action was taken.

If the Michigan Department of Education has questions regarding this schedule, please call Eva Spilker at 410-598-3087.