

Academic and Career Education Academy

Financial Statements

June 30, 2017



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**Academic and Career Education Academy
Members of the Board of Directors and Administration
June 30, 2017**

Members of the Board of Directors

Marisa Boulton

Denise Derr

David Koch

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Terri Cardon-Weiss

Administration

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Independent Auditors' Report

To the Board of Directors and Administration
Academic and Career Education Academy
Midland, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Academic and Career Education Academy, as of and for the year ended June 30, 2017, 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 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 Academic and Career Education Academy, as of June 30, 2017, 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, 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 Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Academic and Career Education Academy's basic financial statements. The Fiduciary Funds - Agency Fund Statement of Changes in Amounts Due to Student Groups, as identified in the table of contents, are presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The Fiduciary Funds - Agency Fund Statement of Changes in Amounts Due to Student Groups, 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. The Fiduciary Funds - Agency Fund Statement of Changes in Amounts Due to Student Groups 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 Fiduciary Funds - Agency Fund Statement of Changes in Amounts Due to Student Groups, as identified in the table of contents, is 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 August 10, 2017 on our consideration of Academic and Career Education 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 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 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 Academic and Career Education Academy's internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

August 10, 2017

**Academic and Career Education Academy
Management's Discussion and Analysis
Year Ended June 30, 2017**

Academic and Career Education Academy (Academy) is a grades 9 - 12 public school academy in Midland County, Michigan and 2016-17 was the eleventh year of operation and implementation of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Academy's management's discussion and analysis of the financial results for the fiscal year ended June 30, 2017.

This financial report is presented in the format required by the Governmental Accounting Standards Board (GASB) in their Statement Number 34 issued in June of 2000. Required comparative information is available, and the financial statements are prepared according to GASB 34 guidelines.

Overview of Financial Statements

The annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and the required supplementary information. Generally Accepted Accounting Principles (GAAP) according to GASB 34 now requires the reporting of two types of financial statements: Academy-wide Financial Statements and Fund Financial Statements.

Academy-wide Financial Statements

The academy-wide statements provide a perspective of the school as a whole. These statements use the full accrual basis of accounting similar to private sector companies. There are two academy-wide statements: the Statement of Net Position and the Statement of Activities.

The Statement of Net Position (page 4-1) combines and consolidates the governmental fund current financial resources (short-term spendable resources) with capital assets, regardless of whether they are currently available or not.

Consistent with the full accrual basis method of accounting, the Statement of Activities (page 4-2) accounts for current year revenues and expenses regardless of when cash is received or paid. The intent of this statement is to summarize and simplify the user's analysis of the costs of various district services.

When analyzed together, the two statements help the reader determine whether the Academy is financially stronger or weaker as a result of the year's activities. These statements reveal that the Academy is financially stronger at the end of the 2017 fiscal year.

Fund Financial Statements

The fund financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities that are to be paid with current financial resources are recognized. These statements focus on individual parts of the Academy rather than Academy as a whole.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the district's major instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds.

**Academic and Career Education Academy
Management's Discussion and Analysis
Year Ended June 30, 2017**

SUMMARY OF NET POSITION:

The following summarizes the Academy's net position at fiscal year ended June 30.

| | <u>2017</u> | <u>2016</u> |
|-----------------------------|-------------------|-------------------|
| Assets | | |
| Current assets | \$ 317,564 | \$ 340,682 |
| Liabilities | | |
| Current liabilities | <u>112,399</u> | <u>196,552</u> |
| Net position | | |
| Restricted for food service | 2,940 | 2,276 |
| Unrestricted | <u>202,225</u> | <u>141,854</u> |
| Total net position | <u>\$ 205,165</u> | <u>\$ 144,130</u> |

Analysis of Financial Position:

During the fiscal year ended June 30, 2017, the Academy's net position increased by \$61,035. Revenues from General Fund operations exceeded expenditures by \$60,371 for the fiscal year ended June 30, 2017. See the section entitled Results of Operations, below, for further discussion on General Fund operations.

Results of Operations:

Revenues

| | <u>2017</u> | <u>2016</u> |
|------------------------------------|---------------------|---------------------|
| Program Revenues | | |
| Charges for services | \$ 13,987 | \$ 12,076 |
| Operating grants and contributions | 130,109 | 109,105 |
| Capital grants and contributions | 622 | 2,451 |
| General Revenues | | |
| State aid- unrestricted | 862,619 | 1,310,769 |
| Other | <u>64</u> | <u>1,737</u> |
| Total revenues | <u>\$ 1,007,401</u> | <u>\$ 1,436,138</u> |

Expenses

| | | |
|-------------------------|-------------------|-------------------|
| Instruction | \$ 400,072 | \$ 905,756 |
| Supporting services | 531,929 | 527,510 |
| Food services | 13,323 | 13,002 |
| Community services | 162 | 93 |
| Interest on debt | <u>880</u> | <u>964</u> |
| Total expenses | <u>946,366</u> | <u>1,447,325</u> |
| Change in net position | 61,035 | (11,187) |
| Net position- beginning | <u>144,130</u> | <u>155,317</u> |
| Net position - ending | <u>\$ 205,165</u> | <u>\$ 144,130</u> |

**Academic and Career Education Academy
Management's Discussion and Analysis
Year Ended June 30, 2017**

Revenues:

State of Michigan Unrestricted Aid (State Foundation Grant)

The State of Michigan unrestricted aid is determined by the following:

- a. State of Michigan State Aid Act per student foundation allowance.
- b. Student Enrollment – As a Public School Academy, enrollment for the year ended June 30, 2017, was based on enrollment blended at 90% of current year's fall count and 10% of last year's winter count.

Per Student, Foundation Allowance:

Annually, the State of Michigan establishes the per student foundation allowance. The foundation allowance for the Academy was \$7,511 per pupil for fiscal year 2017. The per-pupil amount increased \$120 over fiscal year 2016.

Student Enrollment

The blended student count is based on 90% of the Academy's October 2016 count of 108 and 10% of the February 2016 count of 186. Section 25 funds added additional FTE to the 2016-17 student count.

Operating Grants

The Academy received \$130,109 in operating grants during the last fiscal year.

Charges for Services

Food service fund revenue amounted to \$13,987 during 2016-2017. Federal portion of the food service revenue was to \$12,457, which was received for meal reimbursements.

Expenses:

Academy-wide expenses totaled \$946,366 for fiscal year 2017.

General Fund Budget vs. Actual Revenues & Expenditures

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

Typically, the Academy amends the budget twice per fiscal year. Once in the fall to incorporate changes in grants and actual student count and also a second time usually in June, to incorporate a more accurate reflection of expense allocations. In fiscal year 2017, the budget was amended in February and June.

General Fund Revenues

| | | |
|--------------------------------|----|---------|
| Total revenues original budget | \$ | 951,129 |
| Total revenues final budget | | 999,548 |
| Total revenues actual | | 993,414 |

Decrease in Revenues vs. Budget

The Academy's actual general fund revenues were \$6,134 less than the final budget.

The Academy experienced a decrease in revenue of \$442,724 or a 31% decrease from the fiscal year 2016. This was primarily the result of a lower pupil count due to no longer participating in the PACE Program.

**Academic and Career Education Academy
Management's Discussion and Analysis
Year Ended June 30, 2017**

General Fund Expenditures

| | | |
|------------------------------------|----|---------|
| Total expenditures original budget | \$ | 958,414 |
| Total expenditures final budget | | 950,154 |
| Total expenditures actual | | 933,043 |

Requests for Information

This financial report is designed to provide our citizens with a general overview of the Academy's finances. If you have questions about this report or would like additional information, contact Academic and Career Education Academy.

Decrease in Expenditures vs. Budget

The Academy's actual general fund expenses were less than the final budget by \$17,111, a variance of 2%.

Careful monitoring of overall expenditures as well as withdrawing from the PACE Program, contributed to the final budget exceeding actual expenditures. Expenses decreased by 35% from the previous fiscal year. This was also due to the decreased pupil count.

Economic Factors and Next Year's Budget

We considered many factors when setting the Academy's 2016-17 year budget. Since most of the Academy's revenue is derived from the per pupil foundation allowance, student enrollment as reported in the *blended count* is one of the key factors in forecasting revenue. Once the final student count is known in late October, State law requires the district to amend the budget if actual revenues will vary significantly from those originally appropriated.

Since the Academy's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The 2017-18 budget plans for a foundation allowance of \$7,561 per pupil. The District is projecting an October count of 104 and budgeted expenses were decreased according to anticipated needs.

Academic and Career Education Academy
Statement of Net Position
June 30, 2017

| | <u>Governmental Activities</u> |
|-------------------------------------|------------------------------------|
| Assets | |
| Cash | \$ 145,734 |
| Due from other governmental units | <u>171,830</u> |
| Total assets | <u>317,564</u> |
| Liabilities | |
| Accounts payable | 51,519 |
| State aid anticipation note payable | 60,000 |
| Accrued expenditures | <u>880</u> |
| Total liabilities | <u>112,399</u> |
| Net position | |
| Restricted for | |
| Food service | 2,940 |
| Unrestricted | <u>202,225</u> |
| Total net position | <u><u>\$ 205,165</u></u> |

See Accompanying Notes to the Financial Statements

Academic and Career Education Academy
Statement of Activities
For the Year Ended June 30, 2017

| | Program Revenues | | | | |
|----------------------------|-------------------------|--|--|--|------------------|
| Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Position | |
| Functions/Programs | | | | | |
| Governmental activities | | | | | |
| Instruction | \$ 400,072 | \$ - | \$ 128,959 | \$ 622 | \$ (270,491) |
| Supporting services | 531,929 | - | 1,150 | - | (530,779) |
| Food services | 13,323 | 13,987 | - | - | 664 |
| Community services | 162 | - | - | - | (162) |
| Interest on long-term debt | 880 | - | - | - | (880) |
| | <u>\$ 946,366</u> | <u>\$ 13,987</u> | <u>\$ 130,109</u> | <u>\$ 622</u> | <u>(801,648)</u> |
| General revenues | | | | | |
| | | | | | 862,619 |
| | | | | | 20 |
| | | | | | 44 |
| | | | | | 862,683 |
| | | | | | 61,035 |
| | | | | | 144,130 |
| | | | | | \$ 205,165 |

See Accompanying Notes to the Financial Statements

Academic and Career Education Academy
Governmental Funds
Balance Sheet
June 30, 2017

| | General Fund | Nonmajor Governmental Fund - Food Service Fund | Total Governmental Funds |
|---|--------------------------|--|--------------------------------|
| Assets | | | |
| Cash | \$ 142,938 | \$ 2,796 | \$ 145,734 |
| Due from other governmental units | 171,830 | - | 171,830 |
| Due from other funds | - | 144 | 144 |
| Total assets | <u>\$ 314,768</u> | <u>\$ 2,940</u> | <u>\$ 317,708</u> |
| Liabilities and fund balance | | | |
| Liabilities | | | |
| Accounts payable | \$ 51,519 | \$ - | \$ 51,519 |
| State aid anticipation note payable | 60,000 | - | 60,000 |
| Due to other funds | 144 | - | 144 |
| Accrued expenditures | 880 | - | 880 |
| Total liabilities | <u>112,543</u> | <u>-</u> | <u>112,543</u> |
| Fund balance | | | |
| Restricted for food service | - | 2,940 | 2,940 |
| Unassigned | 202,225 | - | 202,225 |
| Total fund balance | <u>202,225</u> | <u>2,940</u> | <u>205,165</u> |
| Total liabilities and fund balance | <u>\$ 314,768</u> | <u>\$ 2,940</u> | <u>\$ 317,708</u> |

See Accompanying Notes to the Financial Statements

Academic and Career Education Academy
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2017

| | General Fund | Nonmajor Governmental Fund - Food Service Fund | Total Governmental Funds |
|---------------------------------|-------------------|--|--------------------------------|
| Revenues | | | |
| Local sources | \$ 5,064 | \$ 833 | \$ 5,897 |
| State sources | 918,705 | 697 | 919,402 |
| Federal sources | 69,645 | 12,457 | 82,102 |
| Total revenues | <u>993,414</u> | <u>13,987</u> | <u>1,007,401</u> |
| Expenditures | | | |
| Current | | | |
| Education | | | |
| Instruction | 398,062 | - | 398,062 |
| Supporting services | 531,929 | - | 531,929 |
| Food services | - | 13,323 | 13,323 |
| Community services | 162 | - | 162 |
| Capital outlay | 2,010 | - | 2,010 |
| Debt service | | | |
| Interest and other expenditures | 880 | - | 880 |
| Total expenditures | <u>933,043</u> | <u>13,323</u> | <u>946,366</u> |
| Net change in fund balance | 60,371 | 664 | 61,035 |
| Fund balance - beginning | <u>141,854</u> | <u>2,276</u> | <u>144,130</u> |
| Fund balance - ending | <u>\$ 202,225</u> | <u>\$ 2,940</u> | <u>\$ 205,165</u> |

See Accompanying Notes to the Financial Statements

Academic and Career Education Academy
Statement of Fiduciary Assets and Liabilities
June 30, 2017

| | <u>Agency Funds</u> |
|-----------------------|-------------------------|
| Assets | |
| Cash | \$ <u>612</u> |
| Liabilities | |
| Due to student groups | \$ <u>612</u> |

See Accompanying Notes to the Financial Statements

Academic and Career Education Academy
Notes to the Financial Statements
June 30, 2017

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Academic and Career Education Academy (the “Academy”) conform to accounting principles generally accepted in the United States of America as applicable to academies. The following is a summary of the significant accounting policies.

Reporting Entity

Academic and Career Education Academy was granted a contract to organize and operate a public school academy under the authority of the Midland County Educational Service Agency, as granted by the State of Michigan.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. The Academic and Career Education Academy Board of Directors (Board) is the primary government that has oversight responsibility and control over all activities related to public education in the Academy. The Board receives funding from local, state and federal government sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental “reporting entity” as defined in GASB pronouncements. The Board has separate legal standing and is fiscally independent of other governmental entities. As such, the Board has decision-making authority, the right to determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. The Board does not include any other component within its financial statements.

Academy-wide Financial Statements

The Academy’s basic financial statements include both academy-wide (reporting for the Academy as a whole) and fund financial statements (reporting the Academy’s major funds). The academy-wide financial statements categorize all nonfiduciary activities as either governmental

or business type. All of the Academy’s activities are classified as governmental activities.

The statement of net position presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy’s net position is reported in two parts (1) restricted net position and (2) unrestricted net position. The Academy first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the Academy’s functions. The functions are also supported by general government revenues (State aid, grants, and interest and investments earnings, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (state sources and federal sources, interest income, etc.). The Academy does not allocate indirect costs. In creating the academy-wide financial statements, the Academy has eliminated interfund transactions.

The academy-wide focus is on the sustainability of the Academy as an entity and the change in the Academy’s net position resulting from current year activities.

Fund Financial Statements

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the academy-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Academic and Career Education Academy
Notes to the Financial Statements
June 30, 2017

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected 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 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The Academy reports the following major governmental fund:

General Fund – The General Fund is used to record the general operations of the Academy pertaining to education and those operations not required to be provided for in other funds.

Additionally, the Academy reports the following fund types:

Food Service Fund –The Food Service Fund is used to record operations of the Academy's food service operations.

Fiduciary Funds – Fiduciary funds are used to account for assets held by the Academy in a trustee capacity or as an agent. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This

fund is used to record the transactions of student groups for school and school-related purposes.

Assets, Liabilities and Net Position

Cash – Cash includes cash on hand and demand deposits.

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Fund Equity – In the fund financial statements, governmental funds report fund balance in the following categories:

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose

Assigned – amounts intended to be used for specific purposes, as determined by the Business Manager. Residual amounts in governmental funds other than the General Fund are automatically assigned by their nature.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Academy's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the Academy's policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

Academic and Career Education Academy
Notes to the Financial Statements
June 30, 2017

Eliminations and Reclassifications

In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the “grossing up” effect on assets and liabilities within the governmental activities column.

Adoption of New Accounting Standards

The Governmental Accounting Standards Board (“The GASB”) has issued Statement No. 77, *Tax Abatement Disclosures*, which requires disclosure of tax abatement information about (1) a reporting government’s own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government’s tax revenues. The requirements of this Statement are effective for the fiscal year ending June 30, 2017.

Upcoming Accounting and Reporting Changes

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Statement No. 81 is effective for the fiscal year ending June 30, 2018.

Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the criteria includes the following: (1) is the

government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable are: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

Statement No. 85, *Omnibus 2017* addresses practice issues that were identified during implementation and application of certain GASB Statements. This statement covers issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits), which is effective for the fiscal year ending June 30, 2018.

Statement No. 86, *Certain Debt Extinguishment Issues* is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The statement provides uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irremovable trust for the purpose of extinguishing that debt were acquired. The effective date is for the fiscal year ending June 30, 2018.

The Academy is evaluating the impact that the above GASBs will have on its financial reporting.

Academic and Career Education Academy
Notes to the Financial Statements
June 30, 2017

Note 2 – Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and State law for the General Fund and special revenue funds. 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 is the function level. State law requires the Academy to have its budget in place by July 1. An Academy is not considered in violation of the law if reasonable procedures are in use by the Academy to detect violations.

The Principal is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Directors.

Budgeted amounts are as originally adopted, or as amended by the Board of Directors throughout the year. Individual amendments were not material in relation to the original appropriations.

Appropriations lapse at year-end and, therefore, cancel all encumbrances. These appropriations are reestablished at the beginning of the following year.

Note 3 – Deposits

The Academy's deposits were reported in the basic financial statements in the following categories:

| | Governmental Activities | Fiduciary Funds | Total Primary Government |
|------|----------------------------|--------------------|--------------------------------|
| Cash | \$ 145,734 | \$ 612 | \$ 146,346 |

The breakdown between deposits and investments for the Academy is as follows:

| | |
|---------------------------------------|------------|
| Deposits (checking, savings accounts) | \$ 146,346 |
|---------------------------------------|------------|

Interest rate risk – The Academy does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

Credit risk – State statutes authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the Academy is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles.

Concentration of credit risk – The Academy has no policy that would limit the amount that may be invested with any one issuer.

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. The Academy does not have a deposit policy for custodial credit risk. As of June 30, 2017, the Academy's bank balance of \$156,964 was fully insured by FDIC.

Academic and Career Education Academy
Notes to the Financial Statements
June 30, 2017

Note 4 – Interfund Receivables, Payables and Transfers

Individual interfund receivable and payable balances at year end were:

| Due From Fund | Due to Fund | Amount |
|---------------|-------------|--------|
| Nonmajor | General | \$ 144 |

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

Note 5 – Operating Leases

The Academy leases its facilities and operating equipment from Education and Training Connection, Inc. (ETC), a related party, as discussed in Note 9. Rental expenses for the year ended June 30, 2017 amounted to \$82,407. Future minimum lease payments under the non-cancelable lease remaining are \$82,407 and will be paid during the next fiscal year.

Note 6 – State Aid Anticipation Note

The Academy issues state aid anticipation notes in advance of state aid collections, depositing the proceeds in the General Fund. These notes are necessary because the Academy receives state aid from October through the following August for its fiscal year ending June 30th.

Short-term debt activity for the year was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance |
|-----------------------------|----------------------|-----------|------------|-------------------|
| State aid anticipation note | \$ 85,000 | \$ 60,000 | \$ 85,000 | \$ 60,000 |

Note 7 – Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions. The Academy has purchased commercial insurance for general liability and property. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three years.

Note 8 – Contingencies and Commitments

Grant Programs

The Academy has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.

Note 9 – Related Party Transactions

The Academy has executed an Educational Service Provider Agreement (ESP) with Education and Training Connection (ETC), a tax exempt, non-profit organization, to provide support services for the Academy. The two corporations have separate non-overlapping boards and officers. Under the Agreement, ETC provides all staffing, including benefits, purchases of supplies and performs management services for the Academy. Payments to ETC for these services for the year ended June 30, 2017 amounted to \$765,947. The Academy leases its facilities, as described in Note 5, from Education and Training Connection. The total rent payments under this agreement amounted to \$82,407 for the year ended June 30, 2017. In addition, the Academy paid \$44,947 to ETC for its allocable percentage of building operations. The Academy also had accounts payable to ETC of \$51,154 as of June 30, 2017.

Academic and Career Education Academy
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2017

| | Budgeted Amounts | | Actual | Over (Under) Budget |
|---------------------------------|-------------------|-------------------|-------------------|---------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Local sources | \$ 8,434 | \$ 7,784 | \$ 5,064 | \$ (2,720) |
| State sources | 832,374 | 922,593 | 918,705 | (3,888) |
| Federal sources | 110,321 | 69,171 | 69,645 | 474 |
| Total revenues | <u>951,129</u> | <u>999,548</u> | <u>993,414</u> | <u>(6,134)</u> |
| Expenditures | | | | |
| Instruction | | | | |
| Basic programs | 366,061 | 357,485 | 353,578 | (3,907) |
| Added needs | 55,228 | 44,547 | 44,484 | (63) |
| Supporting services | | | | |
| Pupil | 31,836 | 37,535 | 36,923 | (612) |
| Instructional staff | 28,866 | 12,035 | 11,945 | (90) |
| General administration | 15,139 | 15,622 | 15,363 | (259) |
| School administration | 132,629 | 137,904 | 137,007 | (897) |
| Business | 54,355 | 62,844 | 62,404 | (440) |
| Operations and maintenance | 168,075 | 164,416 | 160,186 | (4,230) |
| Pupil transportation services | 70,300 | 71,206 | 69,835 | (1,371) |
| Central | 34,395 | 39,631 | 38,266 | (1,365) |
| Community services | 530 | 4,039 | 162 | (3,877) |
| Capital outlay | - | 2,010 | 2,010 | - |
| Debt service | | | | |
| Interest and other expenditures | 1,000 | 880 | 880 | - |
| Total expenditures | <u>958,414</u> | <u>950,154</u> | <u>933,043</u> | <u>(17,111)</u> |
| Net change in fund balance | (7,285) | 49,394 | 60,371 | 10,977 |
| Fund balance - beginning | <u>141,854</u> | <u>141,854</u> | <u>141,854</u> | <u>-</u> |
| Fund balance - ending | <u>\$ 134,569</u> | <u>\$ 191,248</u> | <u>\$ 202,225</u> | <u>\$ 10,977</u> |

Academic and Career Education Academy
Other Supplementary Information
Fiduciary Funds - Agency Fund
Statement of Changes in Amounts Due to Student Groups
For the Year Ended June 30, 2017

| | <u>Due to Student Groups June 30, 2016</u> | <u>Cash Receipts</u> | <u>Cash Disbursements</u> | <u>Due to (from) Student Groups June 30, 2017</u> |
|--|--|--------------------------|-------------------------------|---|
| School fundraiser / pop and vending machine fund | \$ 445 | \$ 1,309 | \$ 1,142 | \$ 612 |



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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

Independent Auditors' Report

Management and the Board of Directors
Academic and Career Education Academy
Midland, 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, each major fund, and the aggregate remaining fund information of Academic and Career Education Academy as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Academic and Career Education Academy's basic financial statements, and have issued our report thereon dated August 10, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Academic and Career Education 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Academic and Career Education Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of Academic and Career Education 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Academic and Career Education 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*.

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.

Yeo & Yeo, P.C.

August 10, 2017