

MICHIGAN EDUCATIONAL CHOICE CENTER
FINANCIAL STATEMENTS AND
REQUIRED AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2020



CLAconnect.com

WEALTH ADVISORY
OUTSOURCING
AUDIT, TAX, AND
CONSULTING

**MICHIGAN EDUCATIONAL CHOICE CENTER
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2020**

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION	9
STATEMENT OF ACTIVITIES	10
BALANCE SHEET – GOVERNMENTAL FUNDS	11
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET POSITION OF GOVERNMENTAL ACTIVITIES	12
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS	13
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	14
NOTES TO BASIC FINANCIAL STATEMENTS	15
REQUIRED SUPPLEMENTARY INFORMATION	
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND	21
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION	22
OTHER SUPPLEMENTARY INFORMATION	
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	23
RECONCILIATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	24
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	25
RECONCILIATION OF FORM R 7120 <i>GRANT AUDITOR'S REPORT</i> TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	26
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 <i>GOVERNMENT AUDITING STANDARDS</i>	27
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE, AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE	29
SCHEDULE OF FINDINGS AND RESPONSES	31



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, major fund, and remaining fund information of the Michigan Educational Choice Center (the Academy), as of and for the year ended June 30, 2020, 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, major fund and remaining fund information of the Academy as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 21 – 22, respectively, 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 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 24 and 26 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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2020, 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 black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Indianapolis, Indiana
October 29, 2020

**MICHIGAN EDUCATIONAL CHOICE CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

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, 2020. 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 \$1,504,487 (net position).
- The Academy's total net position increased by \$385,135. The increase was primarily due to the budget adjustments made throughout the year.
- The general fund had an increase in fund balance of \$381,846. At the end of the year, unassigned fund balance for the general fund was \$850,272 and the nonspendable fund balance for the general fund was \$66,453.
- The food service had a fund balance of \$23,470 restricted for food service.

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 required supplementary information and 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 (CONTINUED)
YEAR ENDED JUNE 30, 2020**

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 assets are 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 annual appropriated budgets for its General Fund and Food Service Special Revenue Fund. A budgetary comparison statement has been provided for the General Fund, the Academy's major governmental 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 (CONTINUED)
YEAR ENDED JUNE 30, 2020**

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 21 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 23 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, 2020.

	Governmental Activities as of June 30,		Percentage Change
	2020	2019	
ASSETS			
Other Assets	\$ 1,148,246	\$ 1,415,729	(19)%
Capital Assets	564,292	559,630	1
Total Assets	<u>1,712,538</u>	<u>1,975,359</u>	(13)
LIABILITIES			
Accounts Payable	15,724	583,290	(97)
Accrued Expenses	192,327	272,717	(29)
Total Liabilities	<u>208,051</u>	<u>856,007</u>	(76)
NET POSITION			
Net Investment in Capital Assets	564,292	172,250	228
Restricted for Food Service	23,470	-	
Unrestricted	<u>916,725</u>	<u>947,102</u>	(3)
TOTAL NET POSITION	<u>\$ 1,504,487</u>	<u>\$ 1,119,352</u>	34

A portion of the Academy's net position (38%) reflects its investment in capital assets. 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 on the following page), which shows the changes in net position for fiscal year 2020.

The Academy's net position increased by \$385,135 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 (CONTINUED)
YEAR ENDED JUNE 30, 2020**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

For the fiscal year ended June 30, 2020, the Academy-wide results of operations was:

	Governmental Activities Year Ended June 30,		Percentage Change
	2020	2019	
Operating Grants and Contributions			
Program Revenues	\$ 800,096	\$ 744,734	7 %
General Revenues			
State Sources - Unrestricted	2,512,145	3,134,249	(20)
Local Sources	7,619	7,704	(1)
Total Revenues	<u>3,319,860</u>	<u>3,886,687</u>	(15)
EXPENDITURES			
Instruction	1,040,376	1,174,402	(11)
Support Services	1,788,876	1,647,131	9
Depreciation - Unallocated	105,473	82,559	28
Total Expenditures	<u>2,934,725</u>	<u>2,904,092</u>	1
CHANGE IN NET POSITION	385,135	982,595	
Beginning Net Position	<u>1,119,352</u>	<u>136,757</u>	
ENDING NET POSITION	<u>\$ 1,504,487</u>	<u>\$ 1,119,352</u>	

GENERAL FUND BUDGETING AND OPERATING HIGHLIGHTS

The Academy's budget is prepared according to Michigan law. Separate budgets are adopted for the Academy's General Fund and Food Service Special Revenue Fund.

During the fiscal year ended June 30, 2016, the Academy terminated a management contract with Performance Academies and replaced it with a management contract with Entrepreneurial Ventures in Education (EVE), effective July 1, 2017, through the date of the charter contract with the Detroit Public Schools Community District (DPSCD). During the fiscal year ended June 30, 2018, the Academy entered into a new authorizer agreement with Central Michigan University (CMU) to be the fiscal agent for the Academy. The term of the new agreement expires June 2023.

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 \$3,201,019. That amount is more than the final budget estimate of \$3,185,125. The variance was \$15,894 or 0.5%. The variance was due to the change in budgeted enrollment estimate at the Academy and additional appropriations related to Coronavirus (COVID-19) that is to be recognized in the 2020-21 fiscal year.

**MICHIGAN EDUCATIONAL CHOICE CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2020**

GENERAL FUND BUDGETING AND OPERATING HIGHLIGHTS (CONTINUED)

The actual expenditures of the General Fund were \$2,801,866, which was more than the final budget estimate of \$2,697,302. The variance was (\$104,564) or (3.9%). The variance was due to a change in predicted facility expenses and capital outlay as well as the change in the enrollment estimate.

The General Fund had total revenues of \$3,183,712 and total expenditures of \$2,801,866 with a net increase in the fund balance of \$381,846 and an ending fund balance of \$916,725.

CAPITAL ASSET AND DEBT ADMINISTRATION

The Academy's investment in capital assets for its governmental activities as of June 30, 2020 amounted to \$564,292 (net of accumulated depreciation). This investment in capital assets included computers, equipment, and leasehold improvements. Capital assets at fiscal year-end included the following:

Computers, Equipment, and Leasehold Improvements	\$ 564,292
--	------------

Additional information on the Academy's capital assets can be found in Note 5.

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 2020-21 fiscal year:

- Student enrollment for the 2019-20 fiscal year was originally anticipated to be 312 students but a budget update noted a decline in enrollment to 249 students. Enrollment in the 2020-21 fiscal year is expected to be consistent with 249 students.

The Michigan Educational Choice Center's 2020-2021 adopted budget is as follows:

Revenue	\$ 3,207,107
Expenditures	<u>2,816,930</u>
Net Budget	<u><u>\$ 390,177</u></u>

Additionally, the Academy was awarded Elementary & Secondary School Emergency Relief (ESSER) funds for the 2020-21 fiscal year. The funds can be spent from July 1, 2020 through June 30, 2022.

During the 2019-20 fiscal year, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on businesses and communities. Subsequent to year-end, the Academy was informed that a decline in local tax revenue related to Casinos would have an impact on funding for the 2020-21 fiscal year. Management believes the Academy is taking actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated.

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, 2020**

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 531,443
Due from Other Governmental Units	550,350
Capital Assets, Net	564,292
Prepaid Expenses	66,453
Total Assets	1,712,538
LIABILITIES	
Accounts Payable	15,724
Accrued Expenses	192,327
Total Liabilities	208,051
NET POSITION	
Investment in Capital Assets	564,292
Restricted for Food Service	23,470
Unrestricted	916,725
TOTAL NET POSITION	\$ 1,504,487

See accompanying Notes to Basic Financial Statements.

**MICHIGAN EDUCATIONAL CHOICE CENTER
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020**

	Expenses	Program Revenues Operating Grants and Contributions	Governmental Activities Net (Expense) Revenue and Change in Net Position
Functions/Programs			
Governmental Activities:			
Instruction	\$ 1,040,376	\$ 639,105	\$ (401,271)
Support Services	1,788,876	160,991	(1,627,885)
Depreciation - Unallocated	105,473	-	(105,473)
Totals	\$ 2,934,725	\$ 800,096	(2,134,629)
General Revenues:			
State Sources			2,512,145
Other General Revenues			7,619
Total General Revenues			2,519,764
CHANGE IN NET POSITION			385,135
Net Position - Beginning of Year			1,119,352
NET POSITION - END OF YEAR			\$ 1,504,487

See accompanying Notes to Basic Financial Statements.

**MICHIGAN EDUCATIONAL CHOICE CENTER
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2020**

	General	Nonmajor Fund Food Service	Total
ASSETS			
Cash and Cash Equivalents	\$ 511,864	\$ 19,579	\$ 531,443
Due from Other Governmental Units	546,459	3,891	550,350
Prepaid Expenses	66,453	-	66,453
	<u>\$ 1,124,776</u>	<u>\$ 23,470</u>	<u>\$ 1,148,246</u>
TOTAL ASSETS			
	<u>\$ 1,124,776</u>	<u>\$ 23,470</u>	<u>\$ 1,148,246</u>
LIABILITIES			
Accounts Payable	\$ 15,724	\$ -	\$ 15,724
Accrued Expenditures	192,327	-	192,327
Total Liabilities	208,051	-	208,051
FUND BALANCES			
Nonspendable	66,453	-	66,453
Restricted For Food Service	-	23,470	23,470
Unassigned	850,272	-	850,272
Total Fund Balances	916,725	23,470	940,195
	<u>916,725</u>	<u>23,470</u>	<u>940,195</u>
TOTAL LIABILITIES AND FUND BALANCES			
	<u>\$ 1,124,776</u>	<u>\$ 23,470</u>	<u>\$ 1,148,246</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, 2020**

Total Governmental Fund Balances \$ 940,195

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental fund financial statements.

Capital Assets	\$ 935,518	
Less: Accumulated Depreciation	<u>(371,226)</u>	
Capital Assets, Net of Accumulated Depreciation		<u>564,292</u>

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES **\$ 1,504,487**

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, 2020**

	General	Nonmajor Fund Food Service	Total
REVENUES			
Operating Grants and Contributions			
Federal Sources	\$ 663,948	\$ 143,684	\$ 807,632
General Revenues			
State Sources	2,512,145	17,307	2,529,452
Local Sources	7,619	-	7,619
Total Revenues	3,183,712	160,991	3,344,703
 EXPENDITURES			
Instruction	1,040,376	-	1,040,376
Support Services	1,662,577	126,299	1,788,876
Capital Outlay	98,913	11,222	110,135
Total Expenditures	2,801,866	137,521	2,939,387
 Excess of Revenues Over Expenditures	381,846	23,470	405,316
 NET CHANGE IN FUND BALANCES	381,846	23,470	405,316
 Fund Balances - Beginning of Year	534,879	-	534,879
 FUND BALANCES - END OF YEAR	\$ 916,725	\$ 23,470	\$ 940,195

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, 2020**

Total Net Change in Fund Balances - Governmental Funds	\$ 405,316
--	------------

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	110,135
Depreciation Expense	(105,473)

In the fund financial statements, revenues received after the period of availability (60 days) are reported as unavailable revenues; however, in the government-wide financial statements, revenues are recognized when earned. The change in unavailable funds is:

Unavailable Funds	<u>(24,843)</u>
-------------------	-----------------

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 385,135</u>
--	--------------------------

**MICHIGAN EDUCATIONAL CHOICE CENTER
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

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. In July 2018, the Academy entered into a new authorizer agreement with Central Michigan University (CMU) to be the fiscal agent for the school with the contract expiring June 30, 2023. The Academy pays CMU 3% of state aid received. The total fees for the year ended June 30, 2020 to CMU was approximately \$65,000.

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, 2020**

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 Academy's general fund and its food service special revenue fund. The Academy reports the general fund, which is the Academy's primary operating fund, as a major 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, 2020**

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.

Capital Assets – 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.

Leasehold improvements are depreciated using the straight-line method over 15 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.

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, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Position (Continued)

Fund Balance Policies (Continued)

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

Nonspendable – Amounts that are not in a spendable form (such as prepaid expenses) or are required to be maintained intact. The Academy had nonspendable fund balance of \$66,453 as of June 30, 2020.

Restricted – Amounts that are constrained for specific purposes by external parties (such as grantor or bondholders), through constitutional provisions, or by enabling legislation.

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 CASH AND CASH EQUIVALENTS

The Academy's cash and cash equivalents consisted of the following at June 30, 2020:

Cash - Academy Wide	<u>\$ 531,443</u>
---------------------	-------------------

Custodial credit risk is the risk that in the event of a financial institution failure, the Academy's deposits may not be returned to the Academy. Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for demand deposit accounts and \$250,000 for time deposit accounts. As of June 30, 2020, Academy deposits with financial institutions were in excess of federal depository insurance limits. No amounts were collateralized.

NOTE 3 RECEIVABLES

Receivables at June 30, 2020 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	\$ 417,380
Federal Grants	132,970
Total Governmental Activities	<u>\$ 550,350</u>

**MICHIGAN EDUCATIONAL CHOICE CENTER
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 4 CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2020 was as follows:

	Balance Beginning	Additions	Deductions	Balance Ending
Governmental Activities:				
Computers and Equipment	\$ 352,848	\$ 98,913	\$ -	\$ 451,761
Leasehold Improvements	472,535	11,222	-	483,757
Less: Accumulated Depreciation	<u>(265,753)</u>	<u>(105,473)</u>	-	<u>(371,226)</u>
Governmental Activities Capital Assets, Net	<u>\$ 559,630</u>	<u>\$ 4,662</u>	<u>\$ -</u>	<u>\$ 564,292</u>

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

NOTE 5 RELATED PARTY TRANSACTIONS

The Academy entered into a school management agreement with EVE commencing on July 1, 2017, and expiring on June 30, 2023. Under the agreement, EVE 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 is 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 EVE. Expenses to the management company for the year ended June 30, 2020 were \$331,793.

NOTE 6 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.

During the fiscal year, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. Subsequent to year end, the COVID-19 pandemic continues to have significant effects on businesses and communities. Specific to the Academy, COVID-19 may impact various parts of its 2021 operations and financial results, including, but not limited to, declines in enrollment, loss of revenues, costs for increased use of technology, and potential shortages of personnel. Management believes the Academy is taking actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

**MICHIGAN EDUCATIONAL CHOICE CENTER
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 7 LEASES

During 2019, the Academy commenced a lease with the Archdiocese of Detroit, Michigan. The terms of the leases called for monthly payments of $1/12^{\text{th}}$ of 10% of any and all amounts of money actually received by the Academy with respect to, or for the benefit for, any student at the premises. Total lease expense incurred under terms of the lease was approximately \$134,597 for 2020.

The Academy also entered into operating leases for office equipment in November 2018 and 2019, with monthly rent payments of \$2,166 and \$1,899, respectively. Total lease expense incurred under the terms of the lease was approximately \$24,000 for 2020.

REQUIRED SUPPLEMENTARY INFORMATION

**MICHIGAN EDUCATIONAL CHOICE CENTER
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2020
(SEE INDEPENDENT AUDITORS' REPORT)**

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Local Sources	\$ -	\$ 3,419	\$ 7,619	\$ 4,200
State Sources	3,145,888	2,393,973	2,512,145	118,172
Federal Sources	602,400	765,005	663,948	(101,057)
Other Income	-	22,728	-	(22,728)
Total Revenues	<u>3,748,288</u>	<u>3,185,125</u>	<u>3,183,712</u>	<u>(1,413)</u>
EXPENDITURES				
Basic Programs	1,079,843	664,415	670,244	(5,829)
Added Needs	<u>335,181</u>	<u>351,322</u>	<u>370,132</u>	<u>(18,810)</u>
Total Instruction	1,415,024	1,015,737	1,040,376	(24,639)
Student Services	216,796	255,774	245,010	10,764
Instructional Support	174,844	311,602	257,562	54,040
General Administration	638,880	543,122	437,148	105,974
School Administration	336,479	194,967	190,770	4,197
Fiscal Services	74,848	31,964	28,819	3,145
Operating and Maintenance	661,711	310,000	310,492	(492)
Transportation	10,300	3,630	3,630	-
Support Services - Other	54,739	11,343	17,938	(6,595)
Community Services	4,661	3,163	3,161	2
Prior Period Adjustment	-	-	168,047	(168,047)
Total Support Services	<u>2,173,258</u>	<u>1,665,565</u>	<u>1,662,577</u>	<u>2,988</u>
Capital Outlay	<u>16,000</u>	<u>16,000</u>	<u>98,913</u>	<u>(82,913)</u>
Total Expenditures	<u>3,604,282</u>	<u>2,697,302</u>	<u>2,801,866</u>	<u>(104,564)</u>
Excess of Revenues Over Expenditures	<u>144,006</u>	<u>487,823</u>	<u>381,846</u>	<u>(105,977)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 144,006</u>	<u>\$ 487,823</u>	<u>381,846</u>	<u>\$ (105,977)</u>
Fund Balance - Beginning of Year			<u>534,879</u>	
FUND BALANCE - END OF YEAR			<u>\$ 916,725</u>	

See accompanying Note to Required Supplementary Information.

**MICHIGAN EDUCATIONAL CHOICE CENTER
 NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2020
 (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 and Food Service Special Revenue 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 variances that exceeded the budgeted amounts.

	Final Budget	Actual	Variance with Final Budget
General Fund			
Basic Programs	\$ 664,415	\$ 670,244	\$ (5,829)
Added Needs	351,322	370,132	(18,810)
Operating and Maintenance	310,000	310,492	(492)
Support Services - Other	11,343	17,938	(6,595)
Prior Period Adjustment	-	168,047	(168,047)
Capital Outlay	16,000	98,913	(82,913)
Food Service Fund			
Food Service	119,628	137,521	(17,893)

OTHER SUPPLEMENTARY INFORMATION

**MICHIGAN EDUCATIONAL CHOICE CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2020
(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, 2019	Current Year Expenditures	Adjustments and Transfers	Current Year Cash/ Payments In-Kind Received	Accrued Revenue June 30, 2020	Passed Through to Subrecipients
U.S. Department of Agriculture										
Pass-Through Michigan Department of Education:										
Child Nutrition Cluster										
Noncash Assistance (Commodities):										
National School Lunch Program										
Bonus Commodities 2019-20										
	10.555	N/A	\$ 6,371	\$ -	\$ -	\$ 6,371	\$ -	\$ 6,371	\$ -	\$ -
Cash Assistance:										
National School Lunch Program 2018-19										
	10.555	191960/191980	117,862	102,444	6,234	15,418	-	21,652	-	-
SFSP COVID19 Program 2019-20										
	10.555	200902	12,935	-	-	12,935	-	9,044	3,891	-
National School Lunch Program 2019-20										
	10.555	201960-201980	69,850	-	-	69,849	-	69,850	-	-
Total National School Lunch Program										
			207,018	102,444	6,234	104,573	-	106,917	3,891	-
National School Breakfast Program 2018-19										
	10.553	191970	33,349	28,093	1,982	5,255	-	7,237	-	-
National School Breakfast Program 2019-20										
	10.553	201970	22,634	-	-	22,634	-	22,634	-	-
Total National School Breakfast Program										
			55,983	28,093	1,982	27,889	-	29,871	-	-
Total Child Nutrition Cluster										
			263,001	130,537	8,216	132,462	-	136,788	3,891	-
Food Equipment Grant Program 2019-20										
	10.579	1871991	11,686	-	-	11,222	-	11,222	-	-
Total U.S. Department of Agriculture										
			274,687	130,537	8,216	143,684	-	148,010	3,891	-
U.S. Department of Education										
Pass-Through Michigan Department of Education:										
Title I Grants To Local Education Agencies										
	84.010									
ESEA Title I - Regular (18-19)										
		191530-1819	529,347	440,794	69,617	2,634	-	72,251	-	-
ESEA Title I - Regular (19-20)										
		201530-1920	502,880	-	-	373,997	-	328,485	45,512	-
Total Title I Grants To Local Education Agencies										
			1,032,227	440,794	69,617	376,631	-	400,736	45,512	-
Pass-Through Michigan Department of Education:										
Title IV Grants to Local Education Agencies										
	84.424									
ESEA Title IV - Regular (18-19)										
		190750-1819	39,277	25,256	810	-	-	810	-	-
ESEA Title IV - Regular (19-20)										
		200750-1920	46,677	-	-	11,827	-	11,581	246	-
Total Title IV Grants To Local Education Agencies										
			85,954	25,256	810	11,827	-	12,391	246	-
Pass-Through Michigan Department of Education:										
Improving Teacher Quality State Grants										
	84.367									
Supporting Effective Instruction (18-19)										
		190520-1819	148,913	59,545	8,255	1,939	-	10,194	-	-
Supporting Effective Instruction (19-20)										
		200520-1920	98,001	-	-	90,765	-	83,339	7,426	-
Total State Grants										
			246,914	59,545	8,255	92,704	-	93,533	7,426	-
Total Pass-Through Michigan Department of Education										
			1,365,095	525,595	78,682	481,162	-	506,660	53,184	-
Pass-Through Wayne County RESA:										
Special Education Cluster: Special Education Grants to States										
	84.027									
IDEA Flow Through (18-19)										
		191450-1819	70,878	70,878	70,878	-	-	70,878	-	-
IDEA Flow Through (19-20)										
		201450-1920	157,942	-	-	157,943	-	82,048	75,895	-
Total Pass-Through Wayne County RESA										
			228,820	70,878	70,878	157,943	-	152,926	75,895	-
Total Federal Awards										
			<u>\$ 1,868,602</u>	<u>\$ 727,010</u>	<u>\$ 157,776</u>	<u>\$ 782,789</u>	<u>\$ -</u>	<u>\$ 807,596</u>	<u>\$ 132,970</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, 2020
(SEE INDEPENDENT AUDITORS' REPORT)**

FEDERAL REVENUE RECOGNIZED FOR THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	<u>\$ 782,789</u>
FEDERAL REVENUE RECOGNIZED PER THE BASIC FINANCIAL STATEMENTS	
General Fund	\$ 663,948
Food Service Fund	143,684
Prior Year Unavailable Revenues Received Subsequent to Period of Availability	<u>(24,843)</u>
Total Federal Revenue	<u>\$ 782,789</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, 2020
(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 (the Academy) for the year ended June 30, 2020.

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 the Academy, it is not intended to and does not present the financial position or changes in net position of the Academy.

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 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 RECONCILIATION OF CASH RECEIPTS

Accrued revenue according to the Grant Auditor's Report indicates that cash received for project 201530-1920 was \$373,997; however, due to cash in transit, the Academy had only received \$328,485 as of year-end. The remaining \$45,512 is included in accrued revenue as of June 30, 2020. Similarly, this timing difference also occurred for projects 200520-1920, 201450-1920, and 200750-1920 which indicated that \$90,765, \$157,943, and \$11,827, respectively, was paid but the Academy had only received \$83,339, \$82,048, and \$11,581, respectively. The remaining \$7,426, \$75,895, and \$246, respectively, are included in accrued revenue as of June 30, 2020.

NOTE 5 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, 2020
(SEE INDEPENDENT AUDITORS' REPORT)**

Current Payments per the Grant Auditors' Report:

Cash Management System	\$	506,660
Add: Grants Passed Through Wayne County RESA Special Education Grants (CFDA 84.027)		152,926
Add: Grants Passed Through Michigan Department of Education (CFDA 10.553 & 10.555)		<u>148,010</u>
Total Current Year Receipts per Schedule of Expenditures of Federal Awards	\$	<u><u>807,596</u></u>

Current Payments per the Grant Auditors' Report:

Cash Management System	\$	506,660
Add: Grants Passed Through Wayne County RESA Special Education Grants (CFDA 84.027)		152,926
Add: Grants Passed Through Michigan Department of Education (CFDA 10.553 & 10.555)		<u>148,010</u>
Total Current Year Receipts per Schedule of Expenditures of Federal Awards	\$	<u><u>807,596</u></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, 2020, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated October 29, 2020.

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 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 not identify any deficiencies in internal controls.

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*.

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.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Indianapolis, Indiana
October 29, 2020



**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 the Academy's major federal program for the year ended June 30, 2020. The Academy's major federal program is 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 the Academy's major federal program 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 its major federal program for the year ended June 30, 2020.

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 or significant deficiencies.

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

Indianapolis, Indiana
October 29, 2020

**MICHIGAN EDUCATIONAL CHOICE CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2020
(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? _____ yes x none reported
3. Noncompliance material to financial statements noted? _____ yes x no

Federal Awards

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

Identification of Major Federal Program

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?

_____ yes x no

**MICHIGAN EDUCATIONAL CHOICE CENTER
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED JUNE 30, 2020
(SEE INDEPENDENT AUDITORS' REPORT)**

Section II – *Financial Statement Findings*

Our audit did not disclose any matters that are required to be reported in accordance with *Government Auditing Standards*.

Section III – *Findings and Questioned Costs – Major Federal Programs*

Our audit did not disclose any matters required to be reported in accordance with 2CFR 200.516(a).

