

MICHIGAN EDUCATIONAL CHOICE CENTER

REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional
supplementary information)

JUNE 30, 2017

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October 30, 2017

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Michigan Educational Choice Center

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Michigan Educational Choice Center, 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.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund, of Michigan Educational Choice Center, 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.

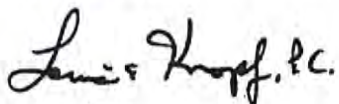
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Michigan Educational Choice Center's basic financial statements. The combining and individual non-major fund and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of 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, this information 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 October 30, 2017, on our consideration of the Michigan Educational Choice Center'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 Michigan Educational Choice Center'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 Michigan Educational Choice Center's internal control over financial reporting and compliance.



LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS



Lewis
& Knopf
CPAs, PC

MICHIGAN EDUCATIONAL CHOICE CENTER
MANAGEMENT DISCUSSION AND ANALYSIS

As management of Michigan Educational Choice Center, 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, 2017.

Financial Highlights

- * The assets of the Academy exceeded its liabilities at the close of the most recent fiscal year by \$27,328 (net position).
- * The Academy's total net position decreased by \$29,704. The decrease was primarily due to depreciation expense.
- * The general fund had an increase in fund balance of \$0. At the end of the year, unassigned fund balance for the general fund was \$100.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Academy financially as a whole. The Academy-Wide Financial Statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The financial statements then proceed to provide an increasingly detailed look at specific financial activities included in the fund financial statements. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements provide information about the Academy's most significant funds - the General Fund.

Reporting the Academy as a Whole

The Statement of Net Position and Statement of Activities - 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, which appear first in the Academy's financial statements, report information about the Academy as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities of the Academy using the accrual basis of accounting, which is similar to the accounting used by private-sector corporations. However, the Academy's goal is to provide services to our students, not to generate profits as private-sector corporations do. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

The statement of net position and the statement of activities present information about the following:

Governmental Activities - All of the Academy's basic services 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. These two statements report the Academy's net position and changes therein. The change in net position provides the reader a tool to assist in determining whether the Academy's financial health is improving or deteriorating. 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.

The government-wide financial statements can be found on pages 1 - 2 of this report.

MICHIGAN EDUCATIONAL CHOICE CENTER
MANAGEMENT DISCUSSION AND ANALYSIS

Reporting the Academy's Most Significant Funds

Fund Financial Statements - The fund financial statements provide detailed information about the most significant funds - not the Academy as a whole. The fund financial statements begin on page 3 and provide detailed information about the most significant funds. The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." The Academy's has one type of 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 asset is reported.

Governmental Funds - Most of the Academy's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Academy's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources available to spend in the near future to finance the Academy's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net position and the Statement of Activities) and governmental funds is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 3 and 4 of this report.

Additional Information - The notes to financial statements 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 financial statements can be found on pages 5 - 10 of this report.

SUMMARY OF NET POSITION:

The following table provides a summary of the Academy's net position as of June 30, 2017 and 2016.

	<u>NET POSITION SUMMARY</u>	
	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Other Assets	\$2,429,852	\$2,924,069
Capital Assets	<u>27,228</u>	<u>56,932</u>
<u>TOTAL ASSETS</u>	\$2,457,080	\$2,981,001
<u>LIABILITIES</u>		
Other Liabilities	2,429,752	2,923,969
<u>NET POSITION</u>		
Net Investment in Capital Assets	27,228	56,932
Unrestricted	<u>100</u>	<u>100</u>
<u>TOTAL NET POSITION</u>	<u>\$27,328</u>	<u>\$57,032</u>

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 3.

The results of this year's operations for the Academy as a whole are reported in the statement of activities (see table above), which shows the changes in net position for fiscal year 2017.

MICHIGAN EDUCATIONAL CHOICE CENTER
MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS:

For the fiscal years ended June 30, 2017 and 2016, the Academy wide results of operations were:

<u>REVENUES</u>	<u>2017</u>	<u>2016</u>
<u>Program Revenue</u>		
Operating Grants	\$3,185,833	\$3,514,285
<u>General Revenues:</u>		
State Sources - Unrestricted	6,824,688	6,872,959
Other General Revenues	2,083	28,142
Total General Revenues	<u>\$6,826,771</u>	<u>\$6,901,101</u>
Total Revenues	<u>\$10,012,604</u>	<u>\$10,415,386</u>
<u>EXPENSES</u>		
Instruction	4,448,360	5,442,427
Support Services	5,503,009	4,949,282
Community Services	61,235	23,677
Depreciation - Unallocated	29,704	29,703
Total Expenses	<u>\$10,042,308</u>	<u>\$10,445,089</u>
<u>CHANGE IN NET POSITION</u>	<u>(\$29,704)</u>	<u>(\$29,703)</u>
<u>BEGINNING NET POSITION</u>	<u>57,032</u>	<u>86,735</u>
<u>ENDING NET POSITION</u>	<u>\$27,328</u>	<u>\$57,032</u>

The Academy's net position decreased by \$29,704 during the current fiscal year. The decrease in net position differs from the change in fund balances and a reconciliation appears on page 4.

MICHIGAN EDUCATIONAL CHOICE CENTER
MANAGEMENT DISCUSSION AND ANALYSIS

General Fund Budgeting and Operating Highlights

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

During the fiscal year ended June 30, 2017, the Academy amended the budget of the General Fund twice. 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 supplemental information of these financial statements.

The general fund actual revenue and other financing sources was \$10,012,604. That amount is more than the final budget estimate of \$9,361,716. The variance was \$650,888 or 7%. The variance was due to the availability of summer Title funds that were in question at the time of the budget approval.

The actual expenditures and other financing uses of the general fund were \$10,012,604, which is less than the final budget estimate of \$9,361,716. The variance was \$650,888 or 7%. The variance was due to the availability of the Title revenues above.

The general fund had total revenues of \$10,012,604 and total expenditures of \$10,012,604 with a net increase in fund balance of \$0 and an ending fund balance of \$100.

Capital Asset and Debt Administration

The Academy's investment in capital assets for its governmental activities as of June 30, 2017 amounted to \$27,228 (net of accumulated depreciation). This investment in capital assets included furniture and equipment. Capital assets at fiscal year-end included the following:

	Capital Assets (Net of Depreciation)	
	2017	2016
Furniture and Equipment	\$27,228	\$56,932

Additional information on the Academy's capital assets can be found in Note 4.

Economic Factors And Next Year's Budget

The following factors will affect the Academy in the future and were considered in preparing the Academy's budget for the 2017-18 fiscal year:

- * Foundation allowance of \$7,631.
- * Student enrollment decrease to 900 students.
- * State aid membership count based on 90% Fall count and 10% Spring Count.

The Michigan Educational Choice Center' 2017/2018 adopted budget is as follows:

<u>REVENUE</u>	\$9,700,000
<u>EXPENDITURES</u>	<u>9,700,000</u>
<u>NET (UNDER) BUDGET</u>	<u>\$0</u>

CONTACTING THE ACADEMY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

MICHIGAN EDUCATIONAL CHOICE CENTER
STATEMENT OF NET POSITION
JUNE 30, 2017

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	\$135
Due from Other Governmental Units	2,429,717
Capital Assets, Net of Accumulated Depreciation	<u>27,228</u>
<u>TOTAL ASSETS</u>	\$2,457,080
<u>LIABILITIES</u>	
Accrued Expenditures	2,429,752
<u>NET POSITION</u>	
Net Investment in Capital Assets	27,228
Unrestricted	<u>100</u>
<u>TOTAL NET POSITION</u>	<u><u>\$27,328</u></u>

See notes to the financial statements.

MICHIGAN EDUCATIONAL CHOICE CENTER
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

		Program Revenues	Governmental Activities
			Net (Expense)
<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Revenue & Change in Net Position</u>
Governmental Activities:			
Instruction	\$4,448,360	\$3,185,833	(\$1,262,527)
Support Services	5,503,009	0	(5,503,009)
Community Services	61,235	0	(61,235)
Depreciation - Unallocated	29,704	0	(29,704)
<u>TOTALS</u>	<u>\$10,042,308</u>	<u>\$3,185,833</u>	<u>(\$6,856,475)</u>
General Revenues:			
State Sources - Unrestricted			6,824,688
Other General Revenues			2,083
Total General Revenues			<u>\$6,826,771</u>
Change in Net Position			(\$29,704)
Net Position - Beginning of Year			<u>57,032</u>
<u>Net Position - End of Year</u>			<u>\$27,328</u>

See notes to the financial statements.

MICHIGAN EDUCATIONAL CHOICE CENTER
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	<u>General Fund</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	\$135
Due from Other Governmental Units	<u>2,429,717</u>
<u>TOTAL ASSETS</u>	<u>\$2,429,852</u>
<u>LIABILITIES</u>	
Accrued Expenditures	\$2,429,752
<u>FUND BALANCES</u>	
Unassigned	<u>100</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$2,429,852</u>

See notes to the financial statements.

MICHIGAN EDUCATIONAL CHOICE CENTER
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2017

Total Governmental Fund Balances:	\$100
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Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental resources and therefore are not reported as assets in governmental funds.

Capital Assets	\$148,516	
Less: Accumulated Depreciation	<u>(121,288)</u>	
Capital Assets, Net of Accumulated Depreciation		<u>27,228</u>

<u>TOTAL NET POSITION -</u>	
<u>GOVERNMENTAL ACTIVITIES</u>	<u><u>\$27,328</u></u>

MICHIGAN EDUCATIONAL CHOICE CENTER
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017

	<u>General Fund</u>
<u>REVENUES</u>	
Local Sources	\$2,083
State Sources	7,656,712
Federal Sources	<u>2,353,809</u>
Total Revenues	\$10,012,604
<u>EXPENDITURES</u>	
Instruction	4,448,360
Support Services	5,503,009
Community Services	<u>61,235</u>
Total Expenditures	<u>\$10,012,604</u>
Net Change in Fund Balance	\$0
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>100</u>
<u>FUND BALANCE - END OF YEAR</u>	<u><u>\$100</u></u>

See notes to the 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, 2017

Total net change in fund balances - governmental funds	\$0
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Amounts reported for governmental activities in the statement of
activities are different because:

Capital assets used in governmental activities are not financial resources and therefore
are not reported as assets in governmental funds.

Depreciation Expense	<u>(29,704)</u>
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<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	<u><u>(\$29,704)</u></u>
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MICHIGAN EDUCATIONAL CHOICE CENTER
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Michigan Educational Choice Center (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:

A) REPORTING ENTITY

The Academy was formed as a charter school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994.

The Academy operates three schools located in the metropolitan Detroit area providing education for approximately 918 students from kindergarten through grade eight.

On August 9, 2012, the Academy entered into a three-year contract expiring June 30, 2017 with the Education Achievement Authority to charter a public school academy. The Academy must undergo a reauthorization process to extend the charter beyond June 30, 2017. Management intends to fully pursue reauthorization. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the state constitution. The Educational Achievement Authority board of directors is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Educational Achievement Authority 3 percent of state aid as administrative fees. The total administrative fees for the year ended June 30, 2017 to the Education Achievement Authority were approximately \$231,764. The contract was renewed on July 1, 2015 for the same terms and expires on June 30, 2018. This contract was terminated and replaced with a contract with Detroit Public Schools Community District effective July 1, 2017 for 3 years.

Administrative Services - Michigan Educational Choice Center has entered into a management agreement with Performance Academies, LLC for an indefinite term commencing July 1, 2012. Under the terms of the management agreement, Performance Academies, LLC provides all the required labor, materials, and supervision necessary for the provision of educational services to the students, as well as the management, operation, and maintenance of the Academy. The contract with Performance Academies, LLC indicates that all funds, with the exception of 2 percent of the base state per pupil allocation, up to \$40,000, is remitted to the management company, which is to be retained by the Academy as a board reserve to be used by June 30 of each year for the Academy's benefit, for a purpose to be decided by the board of trustees, as defined in the agreement. At June 30, the board did not reserve such funds. All costs incurred in providing this educational program at the Academy are paid by Performance Academies, LLC. The contract with Performance Academies was terminated as of June 30, 2017 and replaced with a contract with Phalen Learning Academies effective July 1, 2017 through the date of the charter contract with DPSCD.

All of the liability balance at June 30, 2017 is owed to the management company.

B) ACADEMY WIDE AND FUND FINANCIAL STATEMENTS

The Academy-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.

MICHIGAN EDUCATIONAL CHOICE CENTER
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) ACADEMY WIDE AND FUND FINANCIAL STATEMENTS (Continued)

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

Separate financial statements are provided for the governmental fund.

C) MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

Academy-wide Financial Statements - The Academy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

When an expense is incurred for purposes for which both restricted and unrestricted net position or fund balance are available, the Academy's policy is to first apply restricted resources. When an expense is incurred for purposes which amounts in any of the unrestricted fund balance classifications could be used, it is the Academy's policy to spend funds in this order: committed, assigned, and unassigned.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes unrestricted state aid.

Fund Financial Statements - 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. Revenue not meeting this definition is classified as a deferred inflow of resources. 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. Obligations with fixed maturities beyond 60 days that have not matured are recognized in the governmental fund upon their due date.

Unrestricted state aid and intergovernmental grants 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 Academy.

The Academy reports the following major governmental fund:

General Fund - The General Fund is the Academy's only operating fund. It accounts for all financial resources of the Academy.

MICHIGAN EDUCATIONAL CHOICE CENTER
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D) ASSETS, LIABILITIES, AND NET POSITION OR EQUITY

Cash - Cash includes cash on hand and demand deposits.

Receivables - All receivables are intergovernmental receivables and are shown net of an allowance for uncollectible amounts. The Academy considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Capital Assets - Capital assets, which include equipment, are reported in the applicable governmental column in the Academy-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$1,500 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 fair market 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.

Furniture and equipment are depreciated using the straight-line method over five years.

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The Academy does not have any of this type of item.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period (s) and so will not be recognized as an inflow of resources (revenue) until that time. The Academy does not have any of this type of item.

Fund Balance - Fund balance classifications comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in the governmental fund. Under this standard, the fund balance classifications are comprised of the following - nonspendable, restricted, committed, assigned, and unassigned.

In the fund financial statements, the governmental fund reports the following components of fund balance:

- * Nonspendable: Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- * Restricted: Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- * Committed: Amounts that have been formally set aside by the board of directors for use for specific purposes. Commitments are made and can be rescinded only via resolution of the board of directors.
- * Assigned: Intent to spend resources on specific purposes expressed by the board of directors
- * Unassigned: Amounts that do not fall into any other category above. 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.

The board of directors has not adopted a fund balance policy.

MICHIGAN EDUCATIONAL CHOICE CENTER
NOTES TO FINANCIAL STATEMENTS

2) DEPOSITS AND INVESTMENTS

As of June 30, 2017, the Academy had no investments.

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

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

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2017, \$0 of the Academy's bank balance of \$135 was exposed to custodial credit risk.

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

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

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

Fair value measurement. The District is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

The asset or liability's fair measurement level with the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The District does not have any investments subject to the fair value measurement.

MICHIGAN EDUCATIONAL CHOICE CENTER
NOTES TO FINANCIAL STATEMENTS

2) DEPOSITS AND INVESTMENTS (Continued)

The Academy's deposits consisted of the following:

Cash – Academy Wide	\$	135
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3) RECEIVABLES

Receivables at June 30, 2017, consist of accounts (fees), intergovernmental grants and interest. 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:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	\$ 1,397,188
Federal Grants	1,032,529
 <u>TOTAL GOVERNMENTAL ACTIVITIES</u>	 \$ 2,429,717

4) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	Balance Beginning	Additions	Deductions	Balance Ending
<u>GOVERNMENTAL ACTIVITIES</u>				
Furniture and Equipment	\$148,516	\$0	\$0	\$148,516
Less: Accumulated Depreciation				
Furniture and Equipment	(91,584)	(29,704)	0	(121,288)
 <u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	\$56,932	(\$29,704)	\$0	\$27,228

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

5) SHORT-TERM DEBT

The Academy has various options for short-term financing including tax anticipation notes, state aid anticipation notes and lines of credit. The Academy entered into no short-term financing arrangements during the fiscal year ended June 30, 2017.

6) RELATED PARTY TRANSACTIONS

The Academy has entered into leases for its facilities with the Education Achievement Authority (EAA), the charter authorizer for the Academy, commencing on September 1, 2012 and expiring on June 30, 2017. Annual lease payments for each of the three school buildings are \$1 per year plus the lesser of (1) 2.50 percent of total annual State Aid revenue for non-Detroit resident students or (2) 10 percent of the square footage of the building times \$1 times 12 months, based on a pro-rata amount of non-Detroit resident students to total number of students on the premises. This ratio will be based on the fall pupil count. On July 1, 2017, the Academy's leases were rewritten to change the lessor to the Detroit Public Schools Community District and extended through June 30, 2018 with the same lease terms.

MICHIGAN EDUCATIONAL CHOICE CENTER
NOTES TO FINANCIAL STATEMENTS

6) RELATED PARTY TRANSACTIONS (Continued)

Total rent for the year was determined to be insignificant and the EAA has not charged the Academy a rental fee for the year ended June 30, 2017.

Within this agreement, the Academy may also use all assets in the building at no additional charge.

In addition to rent, the EAA has also provided services to the Academy for the year ended June 30, 2017 as follows:

Transportation	\$193,353
Utilities	<u>39,216</u>
<u>TOTAL</u>	<u><u>\$232,569</u></u>

7) RISK MANAGEMENT

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

8) SUBSEQUENT EVENTS

In August, 2017, the Academy borrowed \$1,750,000 at 3.75% on State Aid Anticipation Notes. The note proceeds will be used to meet cash flow needs for the 2017-2018 fiscal year.

REQUIRED SUPPLEMENTARY
INFORMATION

MICHIGAN EDUCATIONAL CHOICE CENTER
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>			<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
<u>REVENUES</u>				
Local Sources	\$10,000	\$5,000	\$2,083	(\$2,917)
State Sources	7,490,000	7,656,716	7,656,712	(4)
Federal Sources	2,200,000	1,700,000	2,353,809	653,809
Total Revenues	<u>\$9,700,000</u>	<u>\$9,361,716</u>	<u>\$10,012,604</u>	<u>\$650,888</u>
<u>EXPENDITURES</u>				
Basic Programs	2,955,000	2,800,000	2,603,747	196,253
Added Needs	<u>2,030,000</u>	<u>1,850,000</u>	<u>1,844,613</u>	<u>5,387</u>
Total Instruction	\$4,985,000	\$4,650,000	\$4,448,360	\$201,640
Student Services	370,000	525,000	551,217	(26,217)
Instructional Support	580,000	525,000	591,376	(66,376)
General Administration	1,435,950	1,240,716	2,223,499	(982,783)
School Administration	643,000	1,025,000	1,016,985	8,015
Business Administration	75,000	35,000	20,730	14,270
Operation & Maintenance of Plant	1,151,050	1,000,000	838,870	161,130
Transportation	300,000	250,000	193,353	56,647
Support Services - Other	150,000	90,000	66,979	23,021
Community Services	<u>10,000</u>	<u>21,000</u>	<u>61,235</u>	<u>(40,235)</u>
Total Expenditures	<u>\$9,700,000</u>	<u>\$9,361,716</u>	<u>\$10,012,604</u>	<u>(650,888)</u>
Net Change in Fund Balance	\$0	\$0	\$0	\$0
<u>FUND BALANCE - BEGINNING OF YEAR</u>			<u>100</u>	
<u>FUND BALANCE - END OF YEAR</u>			<u>\$100</u>	

MICHIGAN EDUCATIONAL CHOICE CENTER
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY INFORMATION

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

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

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

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

	GENERAL FUND		
	Final Budget	Actual	Variance With Final Budget
Student Services	\$525,000	\$551,217	(\$26,217)
Instructional Support	525,000	591,376	(66,376)
General Administration	1,240,716	2,223,499	(982,783)
Community Services	21,000	61,235	(40,235)

ADDITIONAL SUPPLEMENTARY
INFORMATION

MICHIGAN EDUCATIONAL CHOICE CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass- Through Project Number	Approved Grant Award Amount	Accrued (Deferred) Revenue July 1, 2016	Prior Year Expenditures	Current Year Cash Expenditures	Adjustments Prior Years	Current Year Cash/ Payments In Kind Received	Accrued (Deferred) Revenue June 30, 2017
<u>U.S. DEPARTMENT OF EDUCATION</u>									
Passed Through Michigan Department of Education:									
Title I Grants to Local Education Agencies	84.010								
ESEA Title I - Regular (15-16)		161530-1516	\$2,122,293	\$674,936	\$1,884,762	\$148,469	\$0	\$823,405	\$0
ESEA Title I - Regular (16-17)		171530-1617	1,183,041	0	0	1,647,769	0	848,445	799,324
Total Title I Grants to Local Education Agencies			\$3,305,334	\$674,936	\$1,884,762	\$1,796,238	\$0	\$1,671,850	\$799,324
Improving Teacher Quality	84.367								
Improving Teacher Quality (15-16)		160520-1516	321,177	116,288	224,858	43,546	0	159,834	0
Improving Teacher Quality (16-17)		170520-1617	132,070	0	0	259,067	0	90,156	168,911
Total Improving Teacher Quality			\$453,247	\$116,288	\$224,858	\$302,613	\$0	\$249,990	\$168,911
Total Passed Through Michigan Department of Education			\$3,758,581	\$791,224	\$2,109,620	\$2,098,851	\$0	\$1,921,840	\$968,235
Passed Through Wayne County RESA:									
Special Education - Grants to States	84.027								
IDEA Flow Through (15-16)		161450-1516	220,800	27,994	220,800	0	0	27,994	0
IDEA Flow Through (16-17)		171450-1617	254,958	0	0	254,958	0	190,664	64,294
Total Passed Through Wayne County RESA			\$475,758	\$27,994	\$220,800	\$254,958	\$0	\$218,658	\$64,294
<u>TOTAL FEDERAL AWARDS</u>			\$4,234,339	\$819,218	\$2,330,420	\$2,353,809	\$0	\$2,140,498	\$1,032,529

MICHIGAN EDUCATIONAL CHOICE CENTER
NOTES/RECONCILIATION TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017

FEDERAL REVENUE RECOGNIZED FOR THE SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS

\$2,353,809

FEDERAL REVENUE RECOGNIZED PER THE GENERAL
PURPOSE FINANCIAL STATEMENTS

General Fund

\$2,353,809

TOTAL

\$2,353,809

- 1) Basis of Presentation - The accompanying schedule of expenditures of federal awards includes the federal grant activity of Michigan Educational Choice Center for the year ended June 30, 2017.

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

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

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

- 3) 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 15 of this report.
- 4) The District 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, 2017

Current Payments Per the Grant Auditor's Report	
Cash Management System	\$1,921,840
<u>Add:</u> Grants Passed Through Wayne County RESA	
Special Education Grants (CFDA 84.027)	<u>218,658</u>
<u>TOTAL CURRENT YEAR RECEIPTS PER SCHEDULE OF</u> <u>EXPENDITURES OF FEDERAL AWARDS</u>	<u><u>\$2,140,498</u></u>



October 30, 2017

**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 Auditor's Report

To the Board of Education of
Michigan Educational Choice Center

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 Michigan Educational Choice Center, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Michigan Educational Choice Center's basic financial statements, and have issued our report thereon dated October 30, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Michigan Educational Choice Center'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 Michigan Educational Choice Center's internal control. Accordingly, we do not express an opinion on the effectiveness of Michigan Educational Choice Center'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.

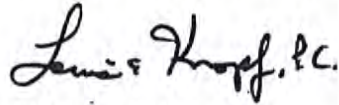
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Michigan Educational Choice Center'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*.

Michigan Educational Choice Center
Page 2
October 30, 2017

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.



LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS



October 30, 2017

**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM; REPORT ON INTERNAL CONTROL
OVER COMPLIANCE; and REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

Independent Auditor's Report

To the Board of Education of
Michigan Educational Choice Center

Report on Compliance for Each Major Federal Program

We have audited Michigan Educational Choice Center's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Michigan Educational Choice Center's major federal programs for the year ended June 30, 2017. Michigan Educational Choice Center's major federal programs are identified in the summary of auditor's 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.

Auditor's Responsibility

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

Opinion on Each Major Federal Program

In our opinion, Michigan Educational Choice Center, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-001. Our opinion on each major federal program is not modified with respect to these matters.

Michigan Educational Choice Center's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Michigan Educational Choice Center's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response and corrective action plan.

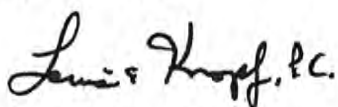
Report on Internal Control over Compliance

Management of Michigan Educational Choice Center 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 Michigan Educational Choice Center'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 Michigan Educational Choice Center'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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2017-001 that we consider to be 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.



LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS



Lewis
& Knopf
CPAs, PC

MICHIGAN EDUCATIONAL CHOICE CENTER
SUMMARY OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency (ies) identified? ☐ Yes ☒ No

Noncompliance material to financial statements noted?

☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency (ies) identified? ☒ Yes ☐ None reported

Type of auditor’s report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516 (a)?

☒ Yes ☐ No

Identification of major programs:

CFDA Number(s)
84.010

Name of Federal Program or Cluster
Title I

Dollar threshold use to distinguish between type A and type B programs:

\$ 750,000.00

Auditee qualified as low-risk auditee?

☒ Yes ☐ No

SECTION II – FINANCIAL STATEMENT FINDINGS

There were no findings for the current year.

MICHIGAN EDUCATIONAL CHOICE CENTER
SUMMARY OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2017-001 (Repeat Finding)

Program Name & CFDA No. – Title 1 CFDA 84.010

Pass-through Entity – Michigan Department of Education

Finding Type – Noncompliance and significant deficiency

Criteria – LEA's with allocations of more than \$500,000 or more must reserve at least 1% of their allocation for parental involvement activities.

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

Context - School District should have spent \$16,443 but only \$13,670 was spent.

Cause - District did not have sufficient parental involvement for the 2016-17 grant.

Recommendation - Management should appropriately plan, budget and spend the necessary parental activities.

MECC

Michigan Educational Choice Center

10/25/17

Management Response/Corrective Action Plan- Parent Involvement

Parent involvement programs were provided as scheduled until June, but several were scheduled for the summer months. Due to the transition of management companies and sponsors, these summer programs were unable to be completed. The new management company, Phalen Leadership Academies, will provide parent involvement programs as necessary to expend the full allocation in FY18.

Cordially,



Toby Pinkerton
Treasurer for MECC, FY17

MICHIGAN EDUCATIONAL CHOICE CENTER
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2016-001

Program Name & CFDA No. – Title 1 CFDA 84.010

Pass-through Entity – Michigan Department of Education

Finding Type – Noncompliance and significant deficiency

Criteria – LEA's with allocations of more than \$500,000 or more must reserve at least 1% of their allocation for parental involvement activities.

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

Context - School District should have spent \$18,848 but only \$6,555 was spent.

Cause - District did not have sufficient parental involvement for the 2015-16 grant.

Recommendation - Management should appropriately plan, budget and spend the necessary parental activities.

MECC

Michigan Educational Choice Center

10/25/17

Management Response/Corrective Action Plan- Parent Involvement Prior Year

In FY17 the Michigan Educational Choice Center implemented several new parent involvement programs that were held after school and on weekends. The new Title Coordinator helped oversee these activities, which were well attended and successful. Unfortunately, due to the transition of management companies and sponsors, some summer programs were unable to be completed. The new management company, Phalen Leadership Academies, will provide parent involvement programs as necessary to expend the full allocation in FY18.

Cordially,



Toby Pinkerton
Treasurer for MECC, FY17



October 30, 2017

To the Board of Education of
Michigan Educational Choice Center

We have audited the financial statements of the governmental activities and major fund of Michigan Educational Choice Center for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 5, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Michigan Educational Choice Center are described in Note 1 to the financial statements. We noted no transactions entered into by the Academy during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Academy's financial statements were:

Management's determination of the estimated life span of the capital assets:

We evaluated the key factors and assumptions used by management to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 30, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Academy's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

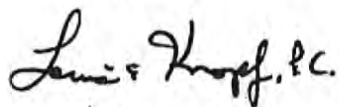
We applied certain limited procedures to required supplementary information (RSI) which are required and supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the other supplementary information, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Board of Education and management of Michigan Educational Choice Center and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS