



*Stephenson, Gracik & Co., P.C.*  
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA  
Gerald D. Gracik Jr., CPA  
James J. Gracik, CPA  
Donald W. Brannan, CPA  
Kyle E. Troyer, CPA  
Robert J. Morand, CPA

ALTERNATIVE EDUCATIONAL  
ACADEMY OF OGEMAW COUNTY  
WEST BRANCH, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED JUNE 30, 2016

INDEX

**AUDITORS' REPORT**

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 7
<b><u>BASIC FINANCIAL STATEMENTS</u></b>	
<b><u>GOVERNMENT-WIDE FINANCIAL STATEMENTS</u></b>	
STATEMENT OF NET POSITION	8
STATEMENT OF ACTIVITIES	9
<b><u>FUND FINANCIAL STATEMENTS</u></b>	
BALANCE SHEET - GOVERNMENTAL FUND	10
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES	11
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUND	12
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES	13
<b>NOTES TO FINANCIAL STATEMENTS</b>	14 - 21
<b><u>REQUIRED SUPPLEMENTARY INFORMATION</u></b>	
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND	22
<b><u>OTHER INFORMATION</u></b>	
<b><u>INDIVIDUAL FUND SCHEDULES</u></b>	
GENERAL FUND - DETAILS OF REVENUE COMPARED TO BUDGET	23
GENERAL FUND - DETAILS OF EXPENDITURES COMPARED TO BUDGET	24
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>	25 - 27



*Stephenson, Gracik & Co., P.C.*

Certified Public Accountants & Consultants

Alan J. Stephenson, CPA  
Gerald D. Gracik Jr., CPA  
James J. Gracik, CPA  
Donald W. Brannan, CPA  
Kyle E. Troyer, CPA  
Robert J. Morand, CPA

September 9, 2016

Independent Auditors' Report

Board of Education  
Alternative Educational Academy of Ogemaw County  
West Branch, Michigan

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the major fund of the Alternative Educational Academy of Ogemaw County, West Branch, Michigan, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the index.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

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

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

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

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Alternative Educational Academy of Ogemaw County, West Branch, Michigan, as of June 30, 2016, 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 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 Alternative Educational Academy of Ogemaw County's basic financial statements. The individual fund schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2016, on our consideration of the Alternative Educational Academy of Ogemaw County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Alternative Educational Academy of Ogemaw County's internal control over financial reporting and compliance.

*Stephenson, Grain & Co., P.C.*

# Alternative Educational Academy of Ogemaw County

West Branch, MI 48661

Telephone (989) 362-3006 Fax: (989) 362-9076

## *MANAGEMENT'S DISCUSSION AND ANALYSIS* *For the Fiscal Year Ended June 30, 2016*

As management of the Alternative Educational Academy of Ogemaw County, (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, 2016.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the past and current position of the Academy's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all of the Academy's revenues and expenditures by program for the Instruction and Support Services.

### FINANCIAL HIGHLIGHTS

Our financial statements provide these insights into the results of this year's operations. The 2015-2016 school year was the second full year for the Academy's operations. The overall condition of the funds and governmental activities during the 2015-2016 school year, resulted in an ending net position of \$542,378.

The assets of the Academy exceeded its liabilities at the close of the most recent fiscal year by \$542,378 (net position). The entire amount, \$542,378 (unrestricted net position) may be used to meet the Academy's ongoing obligations to students and creditors.

The Academy's total net position increased by \$358,522. This represents the degree to which ongoing revenues have surpassed ongoing expenses.

As of the close of the current fiscal year, the Academy's governmental fund reported ending fund balance of \$528,034. Of this amount \$525,109 is available for spending at the Academy's discretion (unassigned fund balance). This represents 121.4% of the total expenditures of these funds.

The General Fund fund balance had an increase in the current year of \$344,178 due to the State revenue sources exceeding the Academy expenses.

### USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the Alternative Educational Academy of Ogemaw County'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 the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

### Government-Wide Financial Statements

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

The *statement of net position* presents information on all of the Academy's assets and liabilities, with the difference between the two 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.

ALTERNATIVE EDUCATIONAL ACADEMY OF OGEMAW COUNTY  
West Branch, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2016

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.

Both of the government-wide financial statements distinguish functions of the Alternative Educational Academy of Ogemaw County that are principally supported by intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Academy include instruction and support services. The Academy does not currently have any business-type activities.

The government-wide financial statements can be found in the Statement of Net Position and the Statement of Activities.

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. All of these funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. The Academy does not currently have any proprietary funds or fiduciary funds.

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 an Academy'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 revenue, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Academy maintains one individual governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures and changes in fund balance for the General Fund, which is considered to be a major fund. Currently, the General Fund is the only fund of the Academy.

The Academy adopts annual appropriated budgets for its governmental fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with budgets.

The basic governmental fund financial statements can be found in the Balance Sheet – Governmental Fund and the Statement of Revenue, Expenditures and Changes in Fund Balance – Governmental Fund.

Notes to the 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.

ALTERNATIVE EDUCATIONAL ACADEMY OF OGEMAW COUNTY  
West Branch, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2016

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning budgetary information for the Academy's major fund. Required supplementary information can be found in the Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund.

Our auditors have provided assurance in their independent auditors' report, located immediately preceding this Management's Discussion and Analysis, that the Basic Financial Statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the Required Supplementary Information and the Other Information identified above. A user of this report should read the independent auditors' report carefully to ascertain the level of assurance being provided for each of the parts in the Financial Section.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Academy's net position was \$542,378 at June 30, 2016. That entire amount of \$542,378 is unrestricted. Our analysis below focuses on the net position (Table 1) and the change in net position (Table 2) of the Academy's governmental activities.

TABLE 1  
NET POSITION

	Governmental Activities	
	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Current Assets	\$ 570,204	\$ 208,989
Current Liabilities	<u>27,826</u>	<u>25,133</u>
<u>Net Position</u>		
Unrestricted	<u>\$ 542,378</u>	<u>\$ 183,856</u>

The \$542,378 in unrestricted net position of governmental activities represents the accumulated results of this year's operations. It means that if we had to pay off all of our bills *today*, we would have \$542,378 left.

The Academy's net position was \$542,378 at June 30, 2016, all of which is unrestricted. Day-to-day operations will be paid for by state aid and local revenues that will be received throughout the year.

ALTERNATIVE EDUCATIONAL ACADEMY OF OGEMAW COUNTY  
West Branch, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2016

TABLE 2  
CHANGES IN NET POSITION

	Governmental Activities	
	Year Ended June 30, 2016	Year Ended June 30, 2015
Revenues:		
Program Revenues:		
Operating Grants and Contributions	\$ 27,967	\$ 0
Capital Grants and Contributions	14,344	0
General Revenues and Special Items:		
State School Aid – Unrestricted	748,811	436,559
Special Item – Capital Contributions	<u>0</u>	<u>(10,925)</u>
Total Revenues and Special Items	<u>791,122</u>	<u>425,634</u>
Functions/Program Expenses:		
Instruction	59,348	35,423
Support Services	<u>373,252</u>	<u>206,355</u>
Total Functions/Program Expenses	<u>432,600</u>	<u>241,778</u>
Change in Net Position	358,522	183,856
Net position - beginning	<u>183,856</u>	<u>0</u>
Net position - ending	<u>\$ 542,378</u>	<u>\$ 183,856</u>

Governmental activities increased the Academy's net position by \$358,522.

As reported in our Statement of Activities, the cost of all of our governmental activities this year was \$432,600. Programs were primarily financed by unrestricted state aid \$748,811.

MAJOR GOVERNMENTAL FUND BUDGETING AND OPERATING HIGHLIGHTS

The Academy's budgets are prepared according to Michigan law. The only governmental fund for the Academy is the General Fund.

During the fiscal year ended June 30, 2016, the Academy amended the budgets of this major governmental fund two times.

General Fund

The General Fund actual revenue was \$776,778. That amount is above the original budget estimate of \$537,143 but below the final amended budget of \$791,022. The variance between the actual revenues and the final budget was mostly the result of not receiving, and therefore not being able to recognize, the budgeted REAP grant revenues, within 60 days of year end.

The actual expenditures of the General Fund were \$432,600 which is below the original budget estimate of \$499,066 and below the final amended budget of \$499,388. The variance between the actual expenditures and the final amended budget was mainly due to about \$70,000 more being budgeted to Iosco RESA for purchased services than was actually expensed, offset by about \$8,000 more spent for capital outlay than actually budgeted for.



ALTERNATIVE EDUCATIONAL ACADEMY OF OGEMAW COUNTY  
West Branch, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2016

GOVERNMENTAL FUND EXPENDITURES

Total governmental fund expenditures amounted to \$432,600. The governmental funds had an increase in fund balance of \$344,178. The ending fund balance for all governmental funds was \$528,034 which represents 122.1% of current year expenditures. This fund balance will be used to cover unforeseen expenditures and hedge for future state aid foundation reductions.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Academy does not currently have any capital assets.

Long-Term Debt

The Academy does not currently have any debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

In 2015-16, the Alternative Educational Academy of Ogemaw County completed its second full-year of operations. The blended enrollment for the year was 100.97 FTEs. This was significantly higher than was anticipated causing the addition of an additional instructor and a half time secretary, as well as support from Iosco RESA in other administrative and business areas. The enrollment at the end of the year was 126 students.

Moving forward, the Academy anticipates that the enrollment will stabilize between 90-120 FTEs. The initial budget was built on 90 FTEs but will be revised once the actual enrollment is known. The Academy is now staffed with 4 full time instructors, a half time Social Worker, a half time secretary, and a half time administrator. The significant increase in staffing is based on the projected enrollment and the experiences that we have had with a similar alternative school.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Alternative Educational Academy of Ogemaw County's finances for all those with an interest in the Academy's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Dana McGrew, IRESA Superintendent  
Alternative Educational Academy of Ogemaw County  
27 N. Rempert Road  
Tawas City, MI 48763  
Office Telephone (989) 362-3006

ALTERNATIVE EDUCATIONAL ACADEMY OF OGEMAW COUNTY  
West Branch, Michigan

STATEMENT OF NET POSITION  
June 30, 2016

	<u>Governmental Activities</u>
<u>Assets</u>	
Receivables:	
Due from Other Governmental Units	\$ 567,279
Prepaid Expenses	<u>2,925</u>
Total Assets	<u>570,204</u>
 <u>Liabilities</u>	
Accounts Payable	2,625
Due to Other Governmental Units	4,238
Unearned At-Risk Revenue	<u>20,963</u>
Total Liabilities	<u>27,826</u>
 <u>Net Position</u>	
Unrestricted	<u>\$ 542,378</u>

The accompanying notes to financial statements are an integral part of this statement.

ALTERNATIVE EDUCATIONAL ACADEMY OF OGEMAW COUNTY  
West Branch, Michigan

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenue and Change in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Government Type Activities</u>
Instruction	\$ 59,348	\$ 0	\$ 27,967	\$ 14,344	\$ (17,037)
Support Services	<u>373,252</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(373,252)</u>
Total	<u>\$ 432,600</u>	<u>\$ 0</u>	<u>\$ 27,967</u>	<u>\$ 14,344</u>	(390,289)
General Revenues:					
State School Aid - Unrestricted					<u>748,811</u>
Change in net position					358,522
Net position - beginning					<u>183,856</u>
Net position - ending					<u>\$ 542,378</u>

The accompanying notes to financial statements are an integral part of this statement.

ALTERNATIVE EDUCATIONAL ACADEMY OF OGEMAW COUNTY  
West Branch, Michigan

BALANCE SHEET  
GOVERNMENTAL FUND  
June 30, 2016

	<u>General Fund</u>
<u>Assets</u>	
Receivables:	
Due from Other Governmental Units	\$ 567,279
Prepaid Expenses	<u>2,925</u>
Total Assets	<u>\$ 570,204</u>
<u>Liabilities</u>	
Accounts Payable	\$ 2,625
Due to Other Governmental Units	4,238
Unearned At-Risk Revenue	<u>20,963</u>
Total Liabilities	<u>27,826</u>
<u>Deferred Inflows of Resources</u>	
Unavailable Revenue - REAP Grant	<u>14,344</u>
<u>Fund Equity</u>	
Fund Balance:	
Nonspendable:	
Prepaid Expenses	2,925
Unassigned	<u>525,109</u>
Total Fund Equity	<u>528,034</u>
Total Liabilities, Deferred Inflows of Resources and Fund Equity	<u>\$ 570,204</u>

The accompanying notes to financial statements are an integral part of this statement.

ALTERNATIVE EDUCATIONAL ACADEMY OF OGEMAW COUNTY  
West Branch, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE  
TO NET POSITION OF GOVERNMENTAL ACTIVITIES  
June 30, 2016

Total governmental fund balance	\$ 528,034
Amounts reported for governmental activities in the statement of net position are different because:	
Other assets not available to pay for current period expenditures and, therefore, are deferred in the governmental fund:	
REAP Grant	<u>14,344</u>
Total net position - governmental activities	<u>\$ 542,378</u>

The accompanying notes to financial statements are an integral part of this statement.

ALTERNATIVE EDUCATIONAL ACADEMY OF OGEMAW COUNTY  
West Branch, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
For the Year Ended June 30, 2016

	<u>General Fund</u>
<u>Revenue</u>	
State Sources	\$ <u>776,778</u>
<u>Expenditures</u>	
Current:	
Instruction	39,878
Support Services	373,252
Capital Outlay	<u>19,470</u>
Total Expenditures	<u>432,600</u>
Excess of Revenue Over (Under) Expenditures	344,178
Fund Balance - Beginning of Year	<u>183,856</u>
Fund Balance - End of Year	<u>\$ <u>528,034</u></u>

The accompanying notes to financial statements are an integral part of this statement.

ALTERNATIVE EDUCATIONAL ACADEMY OF OGEMAW COUNTY  
West Branch, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND  
TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2016

Total net change in fund balances - governmental fund	\$ 344,178
Amounts reported for governmental activities in the statement of activities are different because:	
Receivables not currently available are reported as revenue when collected or when currently available in the fund financial statements but are recognized as revenue when earned in the government-wide statements:	
REAP Grant	<u>14,344</u>
Change in net assets of governmental activities	<u>\$ 358,522</u>

The accompanying notes to financial statements are an integral part of this statement.

ALTERNATIVE EDUCATIONAL ACADEMY OF OGEMAW COUNTY  
West Branch, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Alternative Educational Academy of Ogemaw County (Academy) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. The Academy is considered to be a local government unit. The following is a summary of the significant accounting policies:

A. Reporting Entity

Alternative Educational Academy of Ogemaw County was granted a contract to organize and operate a public school academy under the authority of COOR Intermediate School District, as granted by the State of Michigan. The Academy operates under a Board of Education (five members) represented by members selected by the Board of Trustees. The Board is responsible for adopting and amending budgets and for administering the school programs in accordance with governing laws.

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy's reporting entity applies all relevant GASB pronouncements for determining the various governmental organizations to be included in the reporting entity. Alternative Educational Academy of Ogemaw County's Board of Education (Board) is the primary government which has oversight responsibility and control over all activities related to public school education in the area served by the Alternative Educational Academy of Ogemaw County. The Board receives funding from local and state government sources and must comply with the requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements. The Board has separate legal standing and is fiscally independent of other governmental entities. As such, the Board has decision-making authority, the right to determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. The Board does not include any other component within its financial statements.

B. Fund Accounting

The Academy uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Academy functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the Academy are grouped into the governmental category.

Governmental Funds

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the Academy's major governmental fund:

General Fund - The General Fund is the general operating fund of the Academy. It is used to account for all financial resources except those required to be accounted for in another fund.



ALTERNATIVE EDUCATIONAL ACADEMY OF OGEMAW COUNTY  
West Branch, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation

Government-wide Financial Statements:

The statement of net position and the statement of activities display information about the Academy as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the Academy that are governmental and those that are considered business-type activities. The Academy does not currently have any business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Academy's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Academy, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Academy.

Net position is reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted assets are used first to fund appropriations before unrestricted assets are used.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Fund Financial Statements:

Fund financial statements report detailed information about the Academy. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenue, expenditures and changes in fund balance, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

ALTERNATIVE EDUCATIONAL ACADEMY OF OGEMAW COUNTY  
West Branch, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

**Revenues – Exchange and Non-exchange Transactions:**

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Academy, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements and donations. On an accrual basis, revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: grants, student fees and rentals.

**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 that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time.

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.

**Expenses/Expenditures:**

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

E. Cash and Cash Equivalents

For presentation on the financial statements, investments in cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Academy are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments. The Academy currently does not have any cash or cash equivalents.

ALTERNATIVE EDUCATIONAL ACADEMY OF OGEMAW COUNTY  
West Branch, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Due From Other Governmental Units

This represents amounts receivable from the State of Michigan and other governmental units for federal, state and local reimbursable programs.

G. Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the government-wide and fund financial statements.

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Academy does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Descriptions</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 - 50 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles and Buses	8 years

The Academy did not have any capital assets as of June 30, 2016.

I. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. In general, payments made within 60 days after year end are considered to have been made with current available financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that will be paid from governmental funds are recognized as a liability in the fund financial statements when they become due for payment.

ALTERNATIVE EDUCATIONAL ACADEMY OF OGEMAW COUNTY  
West Branch, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Net Position

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The Academy reports three categories of net position as follows:

Net investment in capital assets - consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows of resources related to those assets.

Restricted net position - net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws or buyers of the Academy's bonds. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted net position - consists of all other net position that does not meet the definition of the above two components and is available for general use by the Academy.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, management applies restricted net position first, unless a determination is made to use unrestricted net position. The Academy's policy concerning which to apply first varies with the intended use and legal requirements. Management typically makes this decision on a transactional basis at the incurrence of the expenditure.

K. Fund Balances

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form—pre-paid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal school board action—the Academy's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the school board removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

ALTERNATIVE EDUCATIONAL ACADEMY OF OGEMAW COUNTY  
West Branch, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Fund Balances (Continued)

Assigned fund balance. This classification reflects the amounts constrained by the Academy's "intent" to be used for specific purposes, but are neither restricted nor committed. The school board or personnel authorized by the school board have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, the Academy uses externally restricted resources first, then unrestricted resources—committed, assigned, and unassigned—in order as needed.

L. Foundation Revenue

The State of Michigan has adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the Academy. For the year ended June 30, 2016, the foundation allowance was based on the average of pupil membership counts taken in February 2015 and October of 2015.

M. State Categorical Revenue

The Academy also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

N. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended June 30, 2016.

O. Economic Dependency

The Academy received 100% of their revenue from the Michigan Department of Education. Due to the significance of this revenue source to the Academy, the Academy is considered to be economically dependent.

P. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

ALTERNATIVE EDUCATIONAL ACADEMY OF OGEMAW COUNTY  
West Branch, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Budgetary Policies and Data

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds and an informational study for Capital Project Funds of school districts prior to the expenditure of monies in a fiscal year in accordance with GAAP.

Alternative Educational Academy of Ogemaw County follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Academy's Chief Administrative Officer submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations.
4. Appropriations lapse at year-end and therefore cancel all encumbrances. These appropriations are re-established at the beginning of the following year.

NOTE 2 - EXCESS OF EXPENDITURES OVER APPROPRIATION IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Academy's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budget of the Academy for the general fund was adopted at the functional level.

During the year ended June 30, 2016, the Academy incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

<u>Fund/Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund/Capital Outlay	\$ 12,000	\$ 19,470	\$ 7,470

NOTE 3 - RISK MANAGEMENT

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions and natural disasters. The Academy participates in a pool of educational institutions within the State of Michigan for self-insuring property. The pool is considered a public entity risk pool. The Academy pays annual premiums to the pool for the insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The Academy has not been informed of any special assessments being required.

The Academy continues to carry commercial insurance, through its Authorizer, for other risks of loss. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage.

ALTERNATIVE EDUCATIONAL ACADEMY OF OGEMAW COUNTY  
West Branch, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2016

NOTE 4 - RELATED PARTY TRANSACTIONS

As of June 30, 2016, one of the Trustees of the Alternative Educational Academy of Ogemaw County Board of Education was also the Director of MiWorks. The Academy contracts with MiWorks for the use of their facilities. Total payments made to MiWorks amounts to \$24,000 during the 2015/2016 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION



ALTERNATIVE EDUCATIONAL ACADEMY OF OGEMAW COUNTY  
West Branch, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -  
 BUDGET AND ACTUAL  
 GENERAL FUND  
For the Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>				
Local Sources	\$ 0	\$ 14,344	\$ 0	\$ (14,344)
State Sources	<u>537,143</u>	<u>776,678</u>	<u>776,778</u>	<u>100</u>
Total Revenue	<u>537,143</u>	<u>791,022</u>	<u>776,778</u>	<u>(14,244)</u>
<u>Expenditures</u>				
Current:				
Instruction	51,614	51,388	39,878	11,510
Support Services	427,452	436,000	373,252	62,748
Capital Outlay	<u>20,000</u>	<u>12,000</u>	<u>19,470</u>	<u>(7,470)</u>
Total Expenditures	<u>499,066</u>	<u>499,388</u>	<u>432,600</u>	<u>66,788</u>
Excess of Revenue Over (Under) Expenditures	38,077	291,634	344,178	52,544
Fund Balances - Beginning of Year	<u>183,856</u>	<u>183,856</u>	<u>183,856</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 221,933</u>	<u>\$ 475,490</u>	<u>\$ 528,034</u>	<u>\$ 52,544</u>

INDIVIDUAL FUND SCHEDULES

ALTERNATIVE EDUCATIONAL ACADEMY OF OGEMAW COUNTY  
West Branch, Michigan

GENERAL FUND  
 DETAILS OF REVENUE COMPARED TO BUDGET  
For the Year Ended June 30, 2016

	<u>2016 Amended Budget</u>	<u>2016 Actual</u>	<u>2015 Actual</u>
<u>Local Sources</u>			
Other Local Sources	\$ <u>14,344</u>	\$ <u>0</u>	\$ <u>0</u>
<u>State Sources</u>			
State Aid Foundation Allowance	748,811	748,811	436,559
At Risk	<u>27,867</u>	<u>27,967</u>	<u>0</u>
Total State Sources	<u>776,678</u>	<u>776,778</u>	<u>436,559</u>
Total Revenue	\$ <u>791,022</u>	\$ <u>776,778</u>	\$ <u>436,559</u>

ALTERNATIVE EDUCATIONAL ACADEMY OF OGEMAW COUNTY  
West Branch, Michigan

GENERAL FUND  
 DETAILS OF EXPENDITURES COMPARED TO BUDGET  
For the Year Ended June 30, 2016

	<u>2016 Amended Budget</u>	<u>2016 Actual</u>	<u>2015 Actual</u>
<u>Instruction</u>			
Basic Programs:			
High School			
Purchased Services	\$ 43,388	\$ 36,361	\$ 15,376
Supplies, Materials and Other	7,000	3,467	1,834
Other Expenses	<u>1,000</u>	<u>50</u>	<u>301</u>
Total Instruction	<u>51,388</u>	<u>39,878</u>	<u>17,511</u>
<u>Support Services</u>			
Instructional Staff:			
Instruction Related Technology			
Purchased Services	<u>12,000</u>	<u>6,022</u>	<u>0</u>
General Administration:			
Board of Education			
Purchased Services	<u>12,000</u>	<u>10,290</u>	<u>0</u>
School Administration:			
Office of the Principal			
Purchased Services	288,000	228,469	113,949
Other Administration			
Purchased Services	114,000	124,303	88,051
Supplies, Materials and Other	<u>0</u>	<u>112</u>	<u>0</u>
Total School Administration	<u>402,000</u>	<u>352,884</u>	<u>202,000</u>
Transportation:			
Purchased Services	<u>10,000</u>	<u>4,056</u>	<u>4,355</u>
Total Support Services	<u>436,000</u>	<u>373,252</u>	<u>206,355</u>
<u>Capital Outlay</u>			
Instruction	<u>12,000</u>	<u>19,470</u>	<u>17,912</u>
<u>Special Item</u>			
Capital Contributions	<u>0</u>	<u>0</u>	<u>10,925</u>
Total Expenditures and Special Item	<u>\$ 499,388</u>	<u>\$ 432,600</u>	<u>\$ 252,703</u>



# *Stephenson, Gracik & Co., P.C.*

Certified Public Accountants & Consultants

Alan J. Stephenson, CPA  
Gerald D. Gracik Jr., CPA  
James J. Gracik, CPA  
Donald W. Brannan, CPA  
Kyle E. Troyer, CPA  
Robert J. Morand, CPA

September 9, 2016

## 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 Education  
Alternative Educational Academy of Ogemaw County  
West Branch, 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 the major fund of the Alternative Educational Academy of Ogemaw County as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Alternative Educational Academy of Ogemaw County's basic financial statements and have issued our report thereon dated September 9, 2016.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Alternative Educational Academy of Ogemaw County'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 the Alternative Educational Academy of Ogemaw County's internal control. Accordingly, we do not express an opinion on the effectiveness of the Alternative Educational Academy of Ogemaw County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described below to be a material weakness.

### Financial Statement Preparation Controls

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of Alternative Educational Academy of Ogemaw County's financial statements. However, if at any point in the audit we as auditors are part of the Academy's control system for producing reliable financial statements, auditing standards indicate that the Academy has a control deficiency. If Management is not able to prepare financial statements, including disclosures, and the auditors are contracted to prepare these statements, this is considered a control deficiency. We recommend that Management and those charged with governance evaluate and document their decision on the costs and benefits of whether to contract for this service with our firm.

- 25 -

View of Responsible Officials

The Academy understands the risk of having the auditors prepare the financial statements and has determined to accept this risk as they feel the benefits outweigh the risk. However, the Academy mitigates the risk by striving to not have any adjusting journal entries proposed by the auditor at year end and by using the 2005 Governmental Accounting, Auditing and Financial Reporting - Using the GASB 34 Model (commonly known as the "Blue Book"), to assist with the disclosures required for the financial statements. In addition, the 2016 PPC Governmental Disclosure Checklist is received and reviewed by the Academy's Accountant as part of reviewing and approving their financial statements to assist in ensuring that all required disclosures are properly included in the financial statements.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described below to be a significant deficiency.

General Ledger Activity

During our fieldwork, we noted various improper postings of disbursements to the Academy. The Academy's management company records all activity through excel and in one account in the company's accounting software and is responsible for more than one Academy. These activities resulted in the Academy being charged for expenses that were not true obligations of the Academy and also not being charged for all the Academy's true obligations. We recommend that the management company of the Academy implement a procedure to have the Academy's Director review all invoices and verify that the correct Academy is being charged.

View of Responsible Officials

The Management Company understands the risk of running the Academy's activity through excel and is therefore now in the process of incorporating the Academy's finances into QuickBooks.

**Compliance and Other Matters**

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

**The Alternative Educational Academy of Ogemaw County's Response to Findings**

The Alternative Educational Academy of Ogemaw County's responses to the findings identified in our audit are described above. The Alternative Educational Academy of Ogemaw County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Board of Education  
Alternative Educational Academy of Ogemaw County  
September 9, 2016  
Page Three

**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 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.

*Stephenson, Grubb & Co., P.C.*



*Stephenson, Gracik & Co., P.C.*  
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA  
Gerald D. Gracik Jr., CPA  
James J. Gracik, CPA  
Donald W. Brannan, CPA  
Kyle E. Troyer, CPA  
Robert J. Morand, CPA

September 9, 2016

Management and the Board Education  
Alternative Educational Academy of Ogemaw County  
West Branch, Michigan

We have audited the financial statements of the governmental activities, and the major fund of Alternative Educational Academy of Ogemaw County for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, 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 July 7, 2016. Professional standards also require that we communicate to you the following information related to our audit. The appendices to this letter set forth those communications as follows:

I Communication with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel of the Academy during the audit and met with management on August 5, 2016. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Education, others within the Academy and the Michigan Department of Education and are not intended to be, and should not be, used by anyone other than those specified parties.

Very truly yours,

*Stephenson, Gracik & Co., P.C.*



## **APPENDIX I COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

### **Our Responsibilities under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards***

As stated in our engagement letter dated July 7, 2016, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we will consider the internal control of Alternative Educational Academy of Ogemaw County. Such considerations are solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will also perform tests of the Alternative Educational Academy of Ogemaw County's compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit.

### **Planned Scope and Timing of the Audit**

We performed the audit as outlined in our engagement letter related to planning matters dated July 7, 2016.

### **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 Alternative Educational Academy of Ogemaw County are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2016. We noted no transactions entered into by the governmental unit 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 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. A summary of the adjusted misstatements was provided to management on August 5, 2016 and management has corrected all such misstatements.

**APPENDIX I  
COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

**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 September 9, 2016.

**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 Alternative Educational Academy of Ogemaw County'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 Alternative Educational Academy of Ogemaw County'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 the Management's Discussion and Analysis and the Budgetary Comparison Information, which are required supplementary information (RSI) that supplements 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 Individual Fund Schedules, 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.

## **APPENDIX II MANAGEMENT COMMENTS**

In planning and performing our audit of the financial statements of the governmental activities, and the major fund of the Alternative Educational Academy of Ogemaw County as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered Alternative Educational Academy of Ogemaw County's internal control over financial reporting (internal control) as a basis for designing 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 Alternative Educational Academy of Ogemaw County's internal control. Accordingly, we do not express an opinion on the effectiveness of Alternative Educational Academy of Ogemaw County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiency in internal control to be a material weakness:

### **FINANCIAL STATEMENT PREPARATION CONTROLS**

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of Alternative Educational Academy of Ogemaw County's financial statements. However, if at any point in the audit we as auditors are part of the Alternative Educational Academy of Ogemaw County's control system for producing reliable financial statements, auditing standards indicate that the Alternative Educational Academy of Ogemaw County has a control deficiency. If Management is not able to prepare financial statements, including disclosures, and the auditors are contracted to prepare these statements, this is considered a control deficiency. We recommend that Management and those charged with governance evaluate and document their decision on the costs and benefits of whether to contract for this service with our firm.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in internal control to be a significant deficiency:

### **GENERAL LEDGER ACTIVITY**

During our fieldwork, we noted various improper postings of disbursements to the Academy. The Academy's management company records all activity through excel and in one account in the company's accounting software and is also responsible for more than one Academy. These activities resulted in the Academy being charged for expenses that were not true obligations of the Academy and also not being charged for all of the Academy's true obligations. We recommend that the management company of the Academy implement a procedure to have the Academy's Director review all invoices and verify that the correct Academy is being charged. We would like to note that as of the audit fieldwork date, the management company was in the process of incorporating the Academy's finances into QuickBooks. We commend management on this decision and believe that this will help mitigate the need for material journal entries being needed during the audit.

**APPENDIX II  
MANAGEMENT COMMENTS**

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various governmental unit personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

**STATUS OF PRIOR YEAR COMMENTS**

We have reviewed the status of comments and recommendations made in the prior year. The status of prior year comments is as follows:

<u>Comment</u>	<u>Implemented/ Situation Corrected</u>	<u>Management Decision To Not Implement</u>	<u>Progress Made</u>	<u>Situation Still Exists</u>
Financial Statement Preparation Controls				X
IT Inventory			X	
General Ledger Activity				X