

Stephenson & Company, P.C.

Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Donald W. Brannan, CPA
Kyle E. Troyer, CPA
Robert J. Morand, CPA

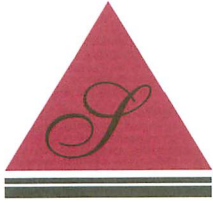
ALTERNATIVE EDUCATIONAL
ACADEMY OF IOSCO COUNTY
TAWAS CITY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED JUNE 30, 2017

INDEX

AUDITORS' REPORT

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 7
<u>BASIC FINANCIAL STATEMENTS</u>	
<u>GOVERNMENT-WIDE FINANCIAL STATEMENTS</u>	
STATEMENT OF NET POSITION	8
STATEMENT OF ACTIVITIES	9
<u>FUND FINANCIAL STATEMENTS</u>	
BALANCE SHEET - GOVERNMENTAL FUND	10
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUND	11
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES	12
NOTES TO FINANCIAL STATEMENTS	13 - 21
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND	22
<u>OTHER INFORMATION</u>	
<u>INDIVIDUAL FUND SCHEDULES</u>	
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 - 26
<u>DISTRICT PREPARED DOCUMENTS</u>	
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS	
CORRECTIVE ACTION PLAN	



Stephenson & Company, P.C.

Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Donald W. Brannan, CPA
Kyle E. Troyer, CPA
Robert J. Morand, CPA

September 29, 2017

Independent Auditors' Report

Board of Education
Alternative Educational Academy of Iosco County
Tawas City, 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 Iosco County, Tawas City, Michigan, 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 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 Iosco County, Tawas City, Michigan, 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 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 Iosco 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 29, 2017, on our consideration of the Alternative Educational Academy of Iosco 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 Iosco County's internal control over financial reporting and compliance.

Stephenson & Company, P.C.

Alternative Educational Academy of Iosco County

27 N. Rempert Road

Tawas City, MI 48763

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

MANAGEMENT'S DISCUSSION AND ANALYSIS *For the Fiscal Year Ended June 30, 2017*

As management of the Alternative Educational Academy of Iosco 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, 2017.

The management's discussion and analysis is provided at the beginning of the audit report 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 2016-2017 school year was the fifth full year for the Academy's operations. The overall condition of the funds and governmental activities during the 2016-2017 school year resulted in an ending Net Position of \$956,482.

The assets of the Academy exceeded its liabilities at the close of the most recent fiscal year by \$956,482 (net position). The entire amount, \$956,482 (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 \$244,516. This represents the degree to which ongoing revenues have surpassed ongoing expenses. Increasing the net position each year has been the trend of the Academy since inception, as the costs to operate are significantly less than the foundation allowance received each year.

As of the close of the current fiscal year, the Academy's governmental fund reported ending fund balance of \$956,482. Of this amount, \$912,087 is available for spending at the Academy's discretion (unassigned fund balance). This represents 145% of the total expenditures of these funds.

The General Fund fund balance had an increase in the current year of \$256,041 due to State and Federal revenue sources exceeding Academy expenses.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the Alternative Educational Academy of Iosco County 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 IOSCO COUNTY
Tawas City, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2017

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 Alternative Educational Academy of Iosco 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 IOSCO COUNTY
Tawas City, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2017

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 \$956,482 at June 30, 2017. That entire amount of \$956,482 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

	<u>Governmental Activities</u>	
	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Current Assets	\$ 1,020,476	\$ 756,981
Current Liabilities	<u>63,994</u>	<u>45,015</u>
<u>Net Position</u>		
Unrestricted	<u>\$ 956,482</u>	<u>\$ 711,966</u>

The \$956,482 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 \$956,482 left.

The Academy's net position was \$956,482 at June 30, 2017, all of which was 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 IOSCO COUNTY
Tawas City, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2017

TABLE 2
CHANGES IN NET POSITION

	Governmental Activities	
	<u>Year Ended June 30, 2017</u>	<u>Year Ended June 30, 2016</u>
Revenue:		
Program Revenue:		
Operating Grants and Contributions	\$ 86,955	\$ 29,370
Capital Grants and Contributions	15,199	11,525
General Revenue:		
State School Aid – Unrestricted	769,105	784,483
Miscellaneous	<u>1,855</u>	<u>3,201</u>
Total Revenue	<u>873,114</u>	<u>828,579</u>
Functions/Program Expenses:		
Instruction	85,069	76,302
Support Services	<u>543,529</u>	<u>436,736</u>
Total Functions/Program Expenses	<u>628,598</u>	<u>513,038</u>
Change in Net Position	244,516	315,541
Net position - beginning	<u>711,966</u>	<u>396,425</u>
Net position - ending	<u>\$ 956,482</u>	<u>\$ 711,966</u>

Governmental activities increased the Academy's net position by \$244,516.

As reported in our Statement of Activities, the cost of all of our governmental activities this year was \$628,598. Certain programs were financed by unrestricted state aid (\$769,105).

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, 2017, the Academy amended the budgets of this major governmental fund two times.

General Fund

The General Fund actual revenue was \$884,639. That amount is over both the original and final budget estimates of \$763,545 and \$849,832, respectively. The variance between the actual revenues and the final budget was mostly the result of spending, and therefore being able to recognize, more At-Risk revenues than anticipated and receiving the REAP Grant, which was not budgeted for.

ALTERNATIVE EDUCATIONAL ACADEMY OF IOSCO COUNTY
Tawas City, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2017

The actual expenditures of the General Fund were \$628,598, which is below both the original budget estimate of \$783,175 and the final amended budget of \$706,573. The variance between the actual expenditures and the final amended budget was mostly the result of spending \$10,000 less for conferences and classes and \$38,000 less for Iosco RESA purchased services than what was budgeted, along with other smaller decreases.

GOVERNMENTAL FUND EXPENDITURES

Total governmental fund expenditures amounted to \$628,598. The governmental funds had an increase in fund balance of \$256,041. The ending fund balance for all governmental funds was \$956,482, which represents 152% 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 2016-17, the Alternative Educational Academy of Iosco County completed its fifth full-year of operations with an enrollment of 102.40 FTEs for the 2016-17 blended count, a decrease of about 3 from the prior year. We are pleased with this number as it continues to allow us to support the two sites in Iosco County that we operate. It is also allowing us to add another staff member. We are adding a School Success worker that we are contracting from NEMCSA.

Moving forward, the Academy anticipates that enrollment had stabilized at between 90-110 FTEs. The 2017-18 budget was built conservatively but will be revised once the actual enrollment is known. The Academy is now staffed with five full time instructors, half time social worker, half time administrator, full time secretary, and a full time school success worker. The fund equity is sufficient for the board to be able to look at a possible site addition or change in Tawas depending on the wishes of the board due to crowding at the current site.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Alternative Educational Academy of Iosco 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 Iosco County
27 N. Rempert Road
Tawas City, MI 48763
Office Telephone (989) 362-3006

ALTERNATIVE EDUCATIONAL ACADEMY OF IOSCO COUNTY
Tawas City, Michigan

STATEMENT OF NET POSITION
June 30, 2017

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and Cash Equivalents (Note 3)	\$ 27,007
Receivables:	
Due from Other Governmental Units	155,324
Due from Related Parties (Note 5)	835,090
Prepaid Items	<u>3,055</u>
 Total Assets	 <u>1,020,476</u>
<u>Liabilities</u>	
Accounts Payable	3,573
Unearned At-Risk Revenue	<u>60,421</u>
Total Liabilities	<u>63,994</u>
<u>Net Position</u>	
Unrestricted	\$ <u><u>956,482</u></u>

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

ALTERNATIVE EDUCATIONAL ACADEMY OF IOSCO COUNTY
Tawas City, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Instruction	\$ 85,069	\$ 0	\$ 86,955	\$ 15,199	\$ 17,085
Support Services	<u>543,529</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(543,529)</u>
Total	<u>\$ 628,598</u>	<u>\$ 0</u>	<u>\$ 86,955</u>	<u>\$ 15,199</u>	<u>(526,444)</u>
General Revenue:					
State School Aid - Unrestricted					769,105
Miscellaneous					<u>1,855</u>
Total General Revenue					<u>770,960</u>
Change in Net Position					244,516
Net Position - Beginning					<u>711,966</u>
Net Position - Ending					<u>\$ 956,482</u>

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

ALTERNATIVE EDUCATIONAL ACADEMY OF IOSCO COUNTY
Tawas City, Michigan

BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2017

	<u>General Fund</u>
<u>Assets</u>	
Cash and Cash Equivalents (Note 3)	\$ 27,007
Receivables:	
Due from Other Governmental Units	155,324
Due from Related Parties (Note 5)	835,090
Prepaid Items	<u>3,055</u>
Total Assets	<u>\$ 1,020,476</u>
<u>Liabilities</u>	
Accounts Payable	\$ 3,573
Unearned At-Risk Revenue	<u>60,421</u>
Total Liabilities	<u>63,994</u>
<u>Fund Equity</u>	
Fund Balance:	
Nonspendable:	
Prepaid Items	3,055
Assigned:	
2017/2018 Budgeted Expenditures	41,340
Unassigned	<u>912,087</u>
Total Fund Equity	<u>956,482</u>
Total Liabilities and Fund Equity	<u>\$ 1,020,476</u>

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

ALTERNATIVE EDUCATIONAL ACADEMY OF IOSCO COUNTY
Tawas City, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
For the Year Ended June 30, 2017

	<u>General Fund</u>
<u>Revenue</u>	
Local Sources	\$ 1,855
State Sources	856,060
Federal Sources	<u>26,724</u>
Total Revenue	<u>884,639</u>
<u>Expenditures</u>	
Current:	
Instruction	69,313
Support Services	542,446
Capital Outlay	<u>16,839</u>
Total Expenditures	<u>628,598</u>
Excess of Revenue Over (Under) Expenditures	256,041
Fund Balance - Beginning of Year	<u>700,441</u>
Fund Balance - End of Year	<u>\$ 956,482</u>

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

ALTERNATIVE EDUCATIONAL ACADEMY OF IOSCO COUNTY
Tawas City, 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, 2017

Total net change in fund balances - governmental fund	\$ 256,041
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>(11,525)</u>
Change in net position of governmental activities	\$ <u><u>244,516</u></u>

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

ALTERNATIVE EDUCATIONAL ACADEMY OF IOSCO COUNTY
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Alternative Educational Academy of Iosco 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 Iosco County was granted a contract to organize and operate a public school academy under the authority of Iosco Regional Educational Service Agency, 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 Iosco 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 Iosco 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.

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.

ALTERNATIVE EDUCATIONAL ACADEMY OF IOSCO COUNTY
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

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.

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.

ALTERNATIVE EDUCATIONAL ACADEMY OF IOSCO COUNTY
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

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.

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.

ALTERNATIVE EDUCATIONAL ACADEMY OF IOSCO COUNTY
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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</u> <u>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, 2017.

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 IOSCO COUNTY
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

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 IOSCO COUNTY
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

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, 2017, the foundation allowance was based on the average of pupil membership counts taken in February 2016 and October of 2016.

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 unearned 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, 2017.

O. Economic Dependency

The Academy received approximately 97% 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 IOSCO COUNTY
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

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 Iosco 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.

R. Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

NOTE 2 - NEW ACCOUNTING PRINCIPLES

For 2017, the Academy has implemented Governmental Accounting Standards Board (GASB) Statement Number 77, "Tax Abatement Disclosures". GASB Statement No. 77 requires governments to disclose certain information about tax abatement agreements made to foster economic development or otherwise benefit the government or its citizens.

The adoption of this standard did not have an impact on the amounts reported in these financial statements, as the Academy does not collect property taxes.

For 2018, the Academy will be required to implement GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". GASB Statement No. 75 improves accounting and financial reporting by state and local governments by establishing standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the Academy's deposits and investments were reported in the basic financial statements in the following categories:

Cash and Cash Equivalents \$ 27,007

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (Checking Accounts)	\$ <u>27,007</u>

ALTERNATIVE EDUCATIONAL ACADEMY OF IOSCO COUNTY
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

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.

Credit Risk

State law authorizes investments in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district.

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. Investments in U.S. Treasury securities and those other securities completely guaranteed by the Treasury as to payment of principal and interest may be purchased in any dollar amount or up to 100% of the available reserve.

Investments in other types of authorized securities may be made with the provision that no more than fifty percent of the total current investment portfolio consists of one type of security.

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 \$27,007 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 approved in the District's Investment policy which is in accordance with State 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.

ALTERNATIVE EDUCATIONAL ACADEMY OF IOSCO COUNTY
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 4 - 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.

NOTE 5 - RELATED PARTY TRANSACTIONS

The Academy entered into a contract with Iosco Regional Educational Service Agency on August 8, 2012 to operate a public school academy. The contract was renewed for the 2016-2017 school year and may be renewed at the end of the term by sole discretion of the Iosco Regional Educational Services Agency's Board if it determines that the Academy satisfies the following criteria:

1. The Academy demonstrates improved pupil academic achievement for all groups of pupils and meets the educational goals set forth in the Contract.
2. The Academy complies with the Contract and all applicable law.
3. The Academy meets generally accepted public sector accounting principles and demonstrates sound fiscal stewardship.
4. The Academy maintains adequate student enrollment sufficient to justify continued operation.

The Academy paid Iosco Regional Educational Service Agency a total of \$364,342 for Instructional and Support Services, \$90,000 for Business Management and Clerical Services and Program Support Services in the fiscal year ended June 30, 2017, and \$23,073 in Authorizer fees. The amount due to Iosco Regional Educational Service Agency at June 30, 2017 for services rendered and reimbursement of operating expenses was \$0. There was, however, an amount due from Iosco Regional Educational Service Agency at June 30, 2017 of \$835,090 for the money that Iosco Regional Educational Service Agency is holding for the Academy at year end.

REQUIRED SUPPLEMENTARY INFORMATION

ALTERNATIVE EDUCATIONAL ACADEMY OF IOSCO COUNTY
Tawas City, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL
 GENERAL FUND
For the Year Ended June 30, 2017

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Local Sources	\$ 0	\$ 0	\$ 1,855	\$ 1,855
State Sources	753,545	834,919	856,060	21,141
Federal Sources	<u>10,000</u>	<u>14,913</u>	<u>26,724</u>	<u>11,811</u>
Total Revenue	<u>763,545</u>	<u>849,832</u>	<u>884,639</u>	<u>34,807</u>
<u>Expenditures</u>				
Current:				
Instruction	128,275	106,573	69,313	37,260
Support Services	624,900	580,000	542,446	37,554
Capital Outlay	<u>30,000</u>	<u>20,000</u>	<u>16,839</u>	<u>3,161</u>
Total Expenditures	<u>783,175</u>	<u>706,573</u>	<u>628,598</u>	<u>77,975</u>
Excess of Revenue Over (Under) Expenditures	(19,630)	143,259	256,041	112,782
Fund Balances - Beginning of Year	<u>700,441</u>	<u>700,441</u>	<u>700,441</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 680,811</u>	<u>\$ 843,700</u>	<u>\$ 956,482</u>	<u>\$ 112,782</u>

INDIVIDUAL FUND SCHEDULES

ALTERNATIVE EDUCATIONAL ACADEMY OF IOSCO COUNTY
Tawas City, Michigan

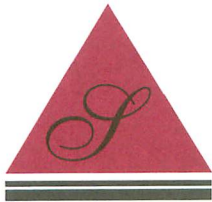
GENERAL FUND
DETAILS OF REVENUE COMPARED TO BUDGET
For the Year Ended June 30, 2017

	<u>2017 Amended Budget</u>	<u>2017 Actual</u>	<u>2016 Actual</u>
<u>Local Sources</u>			
Other Local Sources	\$ <u>0</u>	\$ <u>1,855</u>	\$ <u>3,201</u>
<u>State Sources</u>			
State Aid Foundation Allowance	771,714	769,105	784,483
Special Education	0	40,669	0
At Risk	<u>63,205</u>	<u>46,286</u>	<u>29,370</u>
Total State Sources	<u>834,919</u>	<u>856,060</u>	<u>813,853</u>
<u>Federal Sources</u>			
Rural Education Achievement Program	<u>14,913</u>	<u>26,724</u>	<u>0</u>
Total Revenue	\$ <u><u>849,832</u></u>	\$ <u><u>884,639</u></u>	\$ <u><u>817,054</u></u>

ALTERNATIVE EDUCATIONAL ACADEMY OF IOSCO COUNTY
Tawas City, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2017

	2017 Amended Budget	2017 Actual	2016 Actual
<u>Instruction</u>			
Basic Programs:			
High School			
Purchased Services	\$ 90,573	\$ 60,744	\$ 59,110
Supplies, Materials and Other	15,000	8,569	5,778
Other Expenses	<u>1,000</u>	<u>0</u>	<u>1,058</u>
Total Instruction	<u>106,573</u>	<u>69,313</u>	<u>65,946</u>
<u>Support Services</u>			
Pupil Services:			
Psychological Services			
Supplies, Materials and Other	0	0	187
Social Work			
Supplies, Materials and Other	<u>0</u>	<u>0</u>	<u>1,457</u>
Total Pupil Services	<u>0</u>	<u>0</u>	<u>1,644</u>
Instructional Staff:			
Instruction Related Technology			
Purchased Services	<u>22,000</u>	<u>17,086</u>	<u>20,369</u>
General Administration:			
Board of Education			
Purchased Services	<u>10,000</u>	<u>8,695</u>	<u>9,060</u>
School Administration:			
Office of the Principal			
Purchased Services	<u>414,000</u>	<u>375,939</u>	<u>279,056</u>
Other Administration			
Purchased Services	119,000	130,906	109,285
Supplies, Materials and Other	<u>0</u>	<u>801</u>	<u>391</u>
	<u>119,000</u>	<u>131,707</u>	<u>109,676</u>
Total School Administration	<u>533,000</u>	<u>507,646</u>	<u>388,732</u>
Transportation:			
Purchased Services	<u>15,000</u>	<u>9,019</u>	<u>16,931</u>
Total Support Services	<u>580,000</u>	<u>542,446</u>	<u>436,736</u>
<u>Capital Outlay</u>			
Instruction	<u>20,000</u>	<u>16,839</u>	<u>10,356</u>
Total Expenditures	<u>\$ 706,573</u>	<u>\$ 628,598</u>	<u>\$ 513,038</u>



Stephenson & Company, P.C.

Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Donald W. Brannan, CPA
Kyle E. Troyer, CPA
Robert J. Morand, CPA

September 29, 2017

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 Iosco County
Tawas City, 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 Iosco County as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Alternative Educational Academy of Iosco County's basic financial statements and have issued our report thereon dated September 29, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Alternative Educational Academy of Iosco 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 Iosco County's internal control. Accordingly, we do not express an opinion on the effectiveness of the Alternative Educational Academy of Iosco 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 one deficiency in internal control that we consider to be a material weakness.

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 Iosco 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.

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 2017 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Alternative Educational Academy of Iosco 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 Iosco County's Response to the Finding

The Alternative Educational Academy of Iosco County's response to the finding identified in our audit is described above. The Alternative Educational Academy of Iosco County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 & Company, P.C.

Alternative Educational Academy of Iosco County

27 N. Rempert Road

Tawas City, MI 48763

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

Summary Schedule of Prior Year Audit Findings:

Financial Statement Preparation

Finding: Academy personnel prepare financial information to assess the operations and financial condition of the Academy. However, the Academy relies on their Independent Audit Firm to assist in reporting the annual financial report in accordance with GAAP.

Year of Initial Occurrence: June 30, 2013

Status: This situation still exists. The Academy understands the risk of having the auditors prepare the financial statements and has determined to accept this risk as they feel the benefit outweighs the risk itself. However, the Academy mitigates this risk by striving to not have any adjusting journal entries proposed by the auditor at year end. In addition, the Academy will utilize 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. The contracted Business Office staff will attend trainings to further reduce the reliance on auditors to prepare financial statements.

General Ledger Activity

Finding: 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.

Year of Initial Occurrence: June 30, 2015

Status: This situation has been corrected.

Alternative Educational Academy of Iosco County

27 N. Rempert Road

Tawas City, MI 48763

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

Corrective Action Plan

2016-2017 Fiscal Year

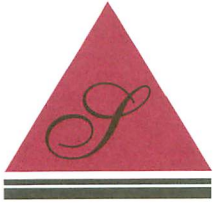
Financial Statement Preparation Controls

Condition : Academy personnel prepare financial information to assess the operations and financial condition of the Academy. However, the Academy relies on their Independent Audit Firm to assist in reporting the annual financial report in accordance with GAAP.

Corrective Action: The Academy understands the risk of having the auditors prepare the financial statements and has determined to accept this risk as we feel the benefit outweighs the risk itself. The Academy mitigates this risk by striving to not have any adjusting journal entries proposed by the auditor at year end and by using the GASB 34 Model to assist with the required disclosures for the district's financial statements. The Business Manager receives and reviews the PPC Governmental Disclosure Checklist as part of the reviewing and approval process for their financial statements. The Business Manager along with other Business Office personnel will attend workshops and trainings to be better prepared to minimize the risks caused by this finding and to reduce the reliance on auditors to prepare financial statements.

Contact Person Responsible for Corrective Action: Contracted Business Manager Dina Schmidt

Anticipated Completion Date: Ongoing, with annual review by Contracted Business Manager and Auditor.



Stephenson & Company, P.C.

Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Donald W. Brannan, CPA
Kyle E. Troyer, CPA
Robert J. Morand, CPA

September 29, 2017

Management and the Board
Alternative Education Academy of Iosco County
Tawas City, MI 48763

We have audited the financial statements of the governmental activities and the major fund of the Alternative Educational Academy of Iosco County for the year ended June 30, 2017. 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 13, 2017. 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 29, 2017. 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 & Company, 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 13, 2017, 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 the Alternative Educational Academy of Losco 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 Alternative Educational Academy of Losco 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 13, 2017.

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 the Alternative Educational Academy of Losco County are described in Note 1 to the financial statements. As described in Note 2 to the financial statements, Alternative Educational Academy of Losco County changed accounting policies related to tax abatements by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 77, "Tax Abatement Disclosures", in 2017. In the current year, no related disclosures were required for the Alternative Educational Academy of Losco County. The application of existing policies was not changed during 2017. We noted no transactions entered into by the government 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. Management has corrected all such misstatements, including those considered to be material, either individually or in the aggregate, to the financial statements taken as a whole.

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 29, 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 Alternative Educational Academy of Losco 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 Losco 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 Management's Discussion and Analysis and the Budgetary Comparison Schedule, 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 Financial Statements, 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 Iosco County as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Alternative Educational Academy of Iosco 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 the Alternative Educational Academy of Iosco County's internal control. Accordingly, we do not express an opinion on the effectiveness of the Alternative Educational Academy of Iosco 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 a deficiency in internal control that we consider to be a material weakness.

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 Iosco County's financial statements. However, if at any point in the audit we as auditors are part of the Alternative Educational Academy of Iosco County's control system for producing reliable financial statements, auditing standards indicate that the Alternative Education Academy of Iosco 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.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with various Academy 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
General Ledger Activity	X			