

Michigan Online School

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2019

Michigan Online School

TABLE OF CONTENTS

Independent Auditor’s Report..... 1

Management’s Discussion and Analysis..... 3

Basic Financial Statements

 School-wide Financial Statements

 Statement of Net Position..... 7

 Statement of Activities 8

 Fund Financial Statements

 Governmental Funds

 Balance Sheet..... 9

 Statement of Revenues, Expenditures and Changes

 in Fund Balances..... 10

 Notes to Financial Statements 11

Required Supplementary Information

 Budgetary Comparison Schedule—General Fund..... 19

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Michigan Online School
Gobles, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of Michigan Online School (the School), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Board of Directors
Michigan Online School
Page 2

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 general fund of Michigan Online School as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and budgetary comparison information on pages 3 through 6 and 19 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2019, on our consideration of Michigan Online School’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Michigan Online School’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Michigan Online School’s internal control over financial reporting and compliance.



Muskegon, Michigan
October 24, 2019

Michigan Online School
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2019

This discussion and analysis of Michigan Online School's financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to provide, in layman's terms, a look at the School's performance and current position. We encourage readers to consider the information presented here in conjunction with the financial statements and the notes to the financial statements. Since this is Michigan Online School's first year of operations, there is no comparative information with the prior year.

GASB 34 (Governmental Accounting Standards Board's Statement No. 34) requires this information. GASB 34 requires the presentation of two basic types of financial statements; namely, School-wide Financial Statements and Fund Financial Statements.

Overview of the Financial Statements

This annual report consists of four parts: (1) the independent auditor's report, (2) management's discussion and analysis, (3) the basic financial statements, and (4) required supplementary information. The financial statements also include notes that explain some of the information in the statements and provide more detail data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the School's budget for the year.

School-wide Financial Statements

The school-wide statements provide a financial perspective of the School as a whole. These statements are on the "full accrual" basis of accounting and provide information about the School's overall financial status. They are used to help determine whether the School is better off or worse off as the result of the year's activities. There are two school-wide statements: the *Statement of Net Position* and the *Statement of Activities*.

The *Statement of Net Position* reports all of the School's assets, deferred inflows and outflows, and liabilities, both short-term and long-term, regardless if they are "currently available" or not. Capital assets and long-term obligations of the School are reported in this statement.

The *Statement of Activities* accounts for the current year's revenues and expenses regardless of when cash is received or paid. The intent of this statement is to summarize and simplify the information relative to funding received and expenditures made for School services.

The two school-wide statements report the School's net position and how they have changed. Net Position – the difference between the School's assets, deferred inflows and outflows, and liabilities – is one way to measure the School's financial health or position.

- Over time, increases or decreases in the School's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the School's overall health, one needs to consider additional non-financial factors such as the quality of the education provided.

In the school-wide statements, the School's activities are classified as *governmental activities*. This includes the School's basic services, such as regular and special education, transportation, and administration. State aid and federal grants typically finance most of these services.

Michigan Online School
MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Year Ended June 30, 2019

Fund Financial Statements

The fund financial statements focus on individual parts of the School, reporting the School's operations in more detail than the school-wide statements. The fund level statements are reported on a *modified accrual basis*. Only those assets that are "*measurable*" and "*currently available*" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the School's major instructional and instructional support activities are reported in the *General Fund*. The primary funding sources for the General Fund are typically from state foundation grant per student and state categorical funding for specific programs. The School has no other funds.

Financial Analysis of the School as a Whole

The net position of the School as of June 30, 2019, was approximately \$521,157. Figure A-1 below shows a condensed breakdown of the net position.

**Figure A-1
 Condensed Statement of Net Position**

	<u>2019</u>	<u>2018</u>
Governmental Activities		
Current assets	\$1,462,228	\$ 854,320
Total assets	<u>1,462,228</u>	<u>854,320</u>
Current liabilities	941,071	3,498,521
Total liabilities	<u>941,071</u>	<u>3,498,521</u>
Net position		
Unrestricted	521,157	(2,644,201)
Total net position	<u><u>\$ 521,157</u></u>	<u><u>\$ (2,644,201)</u></u>

Comments on Major Changes to Net Position

The net position of the School increased approximately \$3,165,358 during the 2018-2019 year. Figure A-2 on the following page shows the breakdown of this change. The Statement of Activities presented later in the school-wide financial statements, provides greater detail on the School's annual activity. The cost of the School's governmental activities for the year was approximately \$4,420,000.

Michigan Online School
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2019

Figure A-2

	2019	2018
Revenues	\$ 7,585,849	\$ -
Expenses		
Instruction	1,296,496	880,643
Support services	3,123,995	1,763,558
Total Expenses	4,420,491	2,644,201
Change in net position	3,165,358	(2,644,201)
Beginning net position	(2,644,201)	-
Ending net position	\$ 521,157	\$ (2,644,201)

Financial Analysis of the School's Funds

The financial performance of the School as a whole is reflected in its governmental funds as well. The governmental funds equity increased by approximately \$3,165,000 during the 2018-19 year. The General Fund equity ended the year at approximately \$521,157. The primary factors affecting the School's governmental funds' fund balance are listed below.

Factors Impacting Fund Equity

- Restoration of 2017-18 State Funding
 - On June 20, 2018, the ISD auditor informed the school of an adjustment of -448 students for the spring 2018 count. The net result was 0 student count for the 17-18 school year and consequently no state aid. The 17-18 fiscal year closed with an overpayment of state aid totaling \$2,332,346 and withheld payments for July 2018 and August 2018.
 - The school appealed the ISD auditor's adjustment to the Office of Fiscal Management.
 - On December 18, 2018, the school received notification that the appeal was granted.
 - In January 2019, the state reversed the 17-18 over payment and issued state aid payments for July 2018 and August 2018.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the Board of Directors approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. When the budget is prepared each year, several unknown factors exist. Estimates are used for such major items as student count, service provider contracts, state aid, staffing, utilities, and repairs. As a matter of practice, the School amends its budget periodically during the year. These revisions are made in order to deal with unexpected changes in revenues and expenditures. The following analysis describes the reasons for changes in the budget during the year and the differences in actual and budget figures.

Michigan Online School
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2019

Original budget to final budget

There was a 239% increase (\$4,409,768) in General Fund revenues from the original budget to the final budget.

- *State revenues* – Prior year adjustments accounted for \$3,417,009 of the increase. The remainder of the increase is attributed to student enrollment increase and state/federal categorical programming.

There was a 48% increase (\$1,442,751) in General Fund expenditures from the original budget to the final budget.

- Due to increased enrollment during the school year, instructional and operation costs were higher than originally budgeted.

Final budget to actual

There was a 0% difference (\$50) between the final revenue budget and the actual revenue.

- *State revenues* – the pupil count audit results were favorable and the School received prior years state aid

There was less than a 1% difference (\$17,040) between the final expenditure budget and the actual expenditures.

- *Board of Directors* – Actual costs for legal and audit services were lower than budgeted.

Factors Bearing on the School's Future

The adopted budget for the 2019-20 fiscal year projects an increase in the fund balance of approximately \$230,000.

The budget will be amended during the year to reflect updated foundation allowance information, actual student counts, changes to any legislation, and final staffing assignments.

Requests for Information

This financial report is designed to provide the School's taxpayers, parents, students, investors and creditors with a general overview of the School's finances, and to show how the School is accountable for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the Michigan Online School, 209 S. State Street, PO Box 408, Gobles, MI 49055 or by calling (269) 216-6972.

Michigan Online School
STATEMENT OF NET POSITION
June 30, 2019

	<u>Governmental activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 659,498
Due from other governmental units	800,730
Prepaid items	<u>2,000</u>
Total assets	1,462,228
 LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	830,278
Unearned revenue	<u>110,793</u>
Total liabilities	941,071
 NET POSITION	
Unrestricted	<u>521,157</u>
Total net position	<u><u>\$ 521,157</u></u>

The accompanying notes are an integral part of this statement

Michigan Online School
STATEMENT OF ACTIVITIES
For the year ended June 30, 2019

<i>Functions/Programs</i>	Expenses	Program Revenue Operating grants and contributions	Net (Expense) Revenue and Changes in Net Position Governmental activities
Governmental activities			
Instruction	\$ 1,296,496	\$ 448,265	\$ (848,231)
Support services	3,123,995	-	(3,123,995)
Total governmental activities	\$ 4,420,491	\$ 448,265	(3,972,226)
General revenues			
Grants and contributions not restricted to specific programs			7,136,506
Investment earnings			1,078
Total general revenues			7,137,584
Change in net position			3,165,358
Net position at beginning of year			(2,644,201)
Net position at end of year			\$ 521,157

The accompanying notes are an integral part of this statement

Michigan Online School
BALANCE SHEET
 Governmental Funds
 June 30, 2019

	General Fund
ASSETS	
Cash and cash equivalents	\$ 659,498
Due from other governmental units	800,730
Prepaid items	2,000
Total assets	\$ 1,462,228
 LIABILITIES	
Accounts payable	\$ 807,271
Due to other governmental units	23,007
Unearned revenue	110,793
Total liabilities	941,071
 FUND BALANCES	
Nonspendable - prepaid items	2,000
Unassigned	519,157
Total fund balances	521,157
Total liabilities and fund balances	\$ 1,462,228
 NET POSITION OF GOVERNMENTAL ACTIVITIES	 \$ 521,157

The accompanying notes are an integral part of this statement

Michigan Online School
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 Governmental Funds
 For the year ended June 30, 2019

	General Fund
REVENUES	
Local sources	
Investment earnings	\$ 1,078
State sources	7,550,927
Federal sources	33,844
	7,585,849
Total revenues	
EXPENDITURES	
Current	
Instruction	1,296,496
Support services	3,123,995
	4,420,491
Total expenditures	
Net change in fund balance	3,165,358
Fund balance at beginning of year	(2,644,201)
Fund balance at end of year	\$ 521,157
 CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	 \$ 3,165,358

The accompanying notes are an integral part of this statement

Michigan Online School
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Michigan Online School (School) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 more significant of the School's accounting policies are described below.

Reporting Entity

The School is governed by an appointed five member Board of Directors (Board), which has responsibility and control over all activities related to public school education within the School. The School receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities.

Generally accepted accounting principles require that if the School is considered to be financially accountable for other organizations, those organizations should be included as component units in the School's financial statements. Since no organizations met this criterion, none are included in the financial statements.

Basis of Presentation—Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the School. All fiduciary activities are reported only in the fund financial statements. Governmental activities normally are supported by intergovernmental revenues and other nonexchange transactions.

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

The fund financial statements provide information about the School's funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The School reports the following major governmental fund:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.

Michigan Online School
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

State and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end).

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation 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 Schools based on information supplied by the Schools. For the current fiscal year, the foundation allowance was based on pupil membership counts taken in February.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The state revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as due from other governmental units.

The School also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received and accrued, which are not expended by the close of the fiscal year are recorded as unearned revenue.

All other revenue items are considered to be measurable and available only when cash is received by the government.

Michigan Online School
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash and Investments

The School's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the School are reported at fair value (generally based on quoted market prices). Standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School intends to hold the investment until maturity.

State statutes authorize the School to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School's deposits and investments are in accordance with statutory authority.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out method. The cost of such inventories is recorded as expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts of net position to report as restricted and unrestricted in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the School's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumptions

Sometimes the School will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the School's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Michigan Online School
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the School's highest level of decision-making authority. The Board of Directors is the highest level of decision-making authority for the School that can, by formal action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by formal action remains in place until a similar action is taken (another formal action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the School for specific purposes but do not meet the criteria to be classified as committed. The Board of Directors may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Revenues and Expenditures/Expenses

Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted state aid, interest and other internally dedicated resources are reported as general revenues rather than as program revenues.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund. All annual appropriations lapse at year end.

Michigan Online School
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

Budgets and Budgetary Accounting—Continued

The School follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Management submits to the Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain comments.
3. Prior to July 1, the budget is legally adopted by Board of Directors resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the General Fund are noted in the required supplementary information section.
4. Formal budgetary integration is employed as a management control device during the year.

The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2019.

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2019, the School had no investments.

Interest rate risk

The School does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk

State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School has no investment policy that would further limit its investment choices.

Concentration of credit risk

The School does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the School investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits

In the case of deposits, this is the risk that in the event of a bank failure, the School's deposits may not be returned to it. As of June 30, 2019, \$417,070 of the School's bank balance of \$667,070 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Michigan Online School
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE C—DEPOSITS AND INVESTMENTS—Continued

Custodial credit risk - investments

The School does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the School will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk

The School is not authorized to invest in investments which have this type of risk.

NOTE D—COMMITMENTS AND CONTINGENCIES

Grant Programs

The School participates in grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School expects such amounts, if any, to be immaterial.

NOTE E—OTHER INFORMATION

Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School carries commercial insurance for risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2019 or any of the prior three years.

Employee Services Agreement

The School leases its employees from an employee leasing company and is not required to have these School employees covered by MPSERS. Expenditures for employee costs such as salaries and wages, payroll taxes, and benefits under the management services agreements have been recorded and reported in conformance with the State of Michigan's standard chart of accounts.

Management Services Agreement

The School entered into a management agreement, effective September 1, 2018, for the provision of educational and administrative services. The agreement expires on June 30, 2022. For the year ended June 30, 2019, management fee expense was approximately \$3,527,000.

Michigan Online School
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE F—UPCOMING ACCOUNTING PRONOUNCEMENT

GASB Statement 87—*Leases* was issued by the GASB in June 2017 and will be effective for the School's 2021 fiscal year. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

REQUIRED SUPPLEMENTARY INFORMATION

Michigan Online School
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
 General Fund
 For the year ended June 30, 2019

	<u>Budgeted amounts</u>		<u>Actual</u>	<u>Variance with final budget- positive (negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local sources	\$ -	\$ 1,076	\$ 1,078	\$ 2
State sources	3,176,131	7,550,930	7,550,927	(3)
Federal sources	-	33,893	33,844	(49)
Total revenues	3,176,131	7,585,899	7,585,849	(50)
EXPENDITURES				
Instruction				
Basic programs	758,335	1,052,078	1,052,077	1
Added needs	266,000	244,419	244,419	-
Support services				
Pupil	35,700	389,441	389,441	-
Instructional staff	346,491	382,495	382,492	3
General administration	179,684	355,434	336,855	18,579
School administration	481,080	627,731	627,729	2
Business	83,189	235,826	235,612	214
Operations and maintenance	65,890	85,743	85,743	-
Central	778,411	1,064,364	1,066,123	(1,759)
Total expenditures	2,994,780	4,437,531	4,420,491	17,040
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 181,351</u>	<u>\$ 3,148,368</u>	3,165,358	<u>\$ 16,990</u>
Fund balance at beginning of year			<u>(2,644,201)</u>	
Fund balance at end of year			<u>\$ 521,157</u>	

Board of Directors
Michigan Online School
Gobles, Michigan

We have audited the financial statements of the governmental activities and the general fund of Michigan Online School for the year ended June 30, 2019. 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 to you during our conference on September 8, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Michigan Online School are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2019. We noted no transactions entered into by the entity 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. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

BRICKLEY DELONG

Board of Directors
Michigan Online School
Page 2

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 24, 2019.

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

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of Michigan Online School and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink that reads "Brickley DeLong, P.C." The signature is written in a cursive, flowing style.

Muskegon, Michigan
October 24, 2019

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Michigan Online School
Gobles, 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 the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Michigan Online School as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Michigan Online School's basic financial statements, and have issued our report thereon dated October 24, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Michigan Online School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Michigan Online School's internal control. Accordingly, we do not express an opinion on the effectiveness of Michigan Online School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Board of Directors
Michigan Online School
Page 2

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Muskegon, Michigan
October 24, 2019

Michigan Online School
SCHEDULE OF FINDINGS AND RESPONSES
For the year ended June 30, 2019

COMPLIANCE

NONE

SIGNIFICANT DEFICIENCIES

NONE