

Michigan Online School

Financial Statements

June 30, 2020



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Michigan Online School
Members of the Board of Directors and Administration
June 30, 2020

Members of the Board of Directors

Ellen McGahey – President

Jennifer Lengyel – Vice President

Patricia Hansen – Secretary

William Graves - Treasurer

Kara Mounce – Director

Administration

Stephanie Hargens - Superintendent



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Independent Auditors' Report

Management and the Board of Directors
Michigan Online School
Gobles, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of Michigan Online School, as of and for the year ended June 30, 2020, 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.

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 Michigan Online School, as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2020 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.

Yeo & Yeo, P.C.

Kalamazoo, Michigan
October 15, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

Michigan Online School Management's Discussion and Analysis For the Year Ended June 30, 2020

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, 2020. 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.

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.

**Michigan Online School
Management's Discussion and Analysis
For the Year Ended June 30, 2020**

- 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, technology support, and administration. State aid and federal grants typically finance most of these services.

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.

**Michigan Online School
Management's Discussion and Analysis
For the Year Ended June 30, 2020**

Financial Analysis of the School as a Whole

The net position of the School as of June 30, 2020, was \$562,568. Figure A-1 below shows a breakdown of the net position.

Figure A-1 Statement of Net Position		
	2020	2019
Assets		
Cash	\$ 329,359	\$ 659,498
Due from other governmental units	620,964	800,730
Prepaid items	<u>4,145</u>	<u>2,000</u>
Total Assets	<u>954,468</u>	<u>1,462,228</u>
Liabilities		
Accounts Payable	339,821	830,278
Unearned revenue	<u>52,079</u>	<u>110,793</u>
Total liabilities	<u>\$ 391,900</u>	<u>\$ 941,071</u>
Total Net Position	<u>\$ 562,568</u>	<u>\$ 521,157</u>

**Michigan Online School
Management's Discussion and Analysis
For the Year Ended June 30, 2020**

Comments on Major Changes to Net Position

The net position of the School increased \$41,411 during the 2019-20 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 \$4,159,687.

**Figure A-2
Condensed Statement of Revenues, Expenditures and Changes in Fund Balances**

	2020	2019
Revenues	\$ 4,201,098	\$ 7,585,849
Expenses		
Instruction	1,299,987	1,296,496
Supporting services	2,858,387	3,123,995
Community Services	1,313	-
	<hr/>	<hr/>
Total Expenses	4,159,687	4,420,491
	<hr/>	<hr/>
Change in net position	41,411	3,165,358
Beginning Net Position	521,157	(2,644,201)
	<hr/>	<hr/>
Ending Net Position	<u>\$ 562,568</u>	<u>\$ 521,157</u>

**Michigan Online School
Management's Discussion and Analysis
For the Year Ended June 30, 2020**

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 \$41,411 during the 2019-20 year. The General Fund equity ended the year at \$562,568. The primary factors affecting the School's governmental funds' fund balance are listed below.

Factors Impacting Fund Equity

The School's final budget showed a fund equity increase of \$134,412. After June 30, 2020, a per-pupil reduction of \$175 was applied to the August 2020 state aid payments for the 2019-20 year for all Michigan schools receiving state aid. The reduction for Michigan Online School was \$81,944. The school deferred \$52,079 in budgeted At-Risk state revenue.

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.

Original budget to final budget

There was a 24% reduction (\$-1,353,621) in General Fund revenues from the original budget to the final budget.

- *State revenues* – Prior year adjustments accounted for \$252,978 of the decrease. The remainder of the decrease is attributed to lower realized student enrollment compared to the original budget.
- *Federal revenues* – Actual grant awards were \$40,188 higher than the preliminary grant award schedule indicated.

There was a 23% reduction (\$-1,256,379) in General Fund expenditures from the original budget to the final budget.

- This was due to lower actual enrollment during the school year. Instructional and support costs reduced in proportion to lower enrollment.

**Michigan Online School
Management's Discussion and Analysis
For the Year Ended June 30, 2020**

Final budget to actual

- There was a 3.5% difference (\$-147,927) between the final revenue budget and the actual revenue. As stated earlier, \$81,944 relates to a per-pupil reduction in funding by the State of Michigan and \$52,079 relates to deferral of At-Risk revenue. Most of the remainder of the difference, \$13,800, is attributed to reduced federal grant programming because of COVID-19.
- There was a 1.3% difference (\$-54,926) between the final expenditure budget and the actual expenditures. Final payment for management company services was \$22,083 lower than budget. Other business and central support costs were \$21,032 lower than budget. The remaining \$11,811 nets from lower final expenses in instruction and instructional support programming.

Factors Bearing on the School's Future

- In March of 2020, the World Health Organization declared the outbreak of the coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States. COVID-19 has caused a significant negative impact of the world economy. The duration and impact of the COVID-19 on the School's revenue from federal and state sources finances as well as student enrollment and the ability to deliver programming remains unclear at this time. The School's governance and leadership teams are carefully monitoring the situation and evaluating its options as circumstances evolve.
- Beginning with the 2020-21 fiscal year, school management services will be provided by ACCEL Online Michigan, a subsidiary of ACCEL Schools, LLC.
- 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, other stakeholders 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.

BASIC FINANCIAL STATEMENTS

Michigan Online School
Statement of Net Position
June 30, 2020

	<u>Governmental Activities</u>
Assets	
Cash	\$ 329,359
Due from other governmental units	620,964
Prepaid items	<u>4,145</u>
Total assets	<u>954,468</u>
Liabilities	
Accounts payable	339,821
Unearned revenue	<u>52,079</u>
Total liabilities	<u>391,900</u>
Net Position	
Unrestricted	<u><u>\$ 562,568</u></u>

See Accompanying Notes to the Financial Statements

Michigan Online School
Statement of Activities
For the Year Ended June 30, 2020

	<u>Expenses</u>	<u>Program Revenues</u> Operating Grants and Contributions	<u>Net (Expense) Revenue and Changes in Net Position</u>
Functions/Programs			
Governmental activities			
Instruction	\$ 1,299,987	\$ 129,236	\$ (1,170,751)
Supporting services	2,858,387	352,787	(2,505,600)
Community services	<u>1,313</u>	<u>1,313</u>	<u>-</u>
Total governmental activities	<u>\$ 4,159,687</u>	<u>\$ 483,336</u>	<u>(3,676,351)</u>
General revenues			
State aid - unrestricted			3,716,332
Interest and investment earnings			<u>1,430</u>
Total general revenues			<u>3,717,762</u>
Change in net position			41,411
Net position - beginning			<u>521,157</u>
Net position - ending			<u>\$ 562,568</u>

See Accompanying Notes to the Financial Statements

Michigan Online School
Governmental Funds
Balance Sheet
June 30, 2020

	<u>General Fund</u>
Assets	
Cash	\$ 329,359
Due from other governmental units	620,964
Prepaid items	<u>4,145</u>
Total assets	<u>\$ 954,468</u>
Liabilities	
Accounts payable	\$ 339,821
Unearned revenue	<u>52,079</u>
Total liabilities	<u>391,900</u>
Fund Balance	
Non-spendable	
Prepaid items	4,145
Assigned for Board of Director discretionary spending	77,616
Assigned for curriculum materials	102,396
Unassigned	<u>378,411</u>
Total fund balance	<u>562,568</u>
Total liabilities and fund balance	<u>\$ 954,468</u>

See Accompanying Notes to the Financial Statements

Michigan Online School
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2020

	General Fund
Revenues	
Local sources	\$ 1,430
State sources	3,880,784
Federal sources	318,884
Total revenues	4,201,098
Expenditures	
Current	
Education	
Instruction	1,288,365
Supporting services	2,832,834
Community services	1,313
Capital outlay	37,175
Total expenditures	4,159,687
Excess of revenues over expenditures	41,411
Fund balance - beginning	521,157
Fund balance - ending	\$ 562,568

See Accompanying Notes to the Financial Statements

Michigan Online School
Notes to the Financial Statements
June 30, 2020

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Michigan Online School (the School) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the School's significant accounting policies:

Reporting Entity

The School is governed by an appointed five-member Board of Directors. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School's reporting entity, and which organizations are legally separate component units of the School. The School has no component units.

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

The School has entered into a contract with Gobles Public Schools to charter a public school academy through June 30, 2022. The contract requires the School to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. Gobles Public Schools is the fiscal agent for the School and is responsible for overseeing the School's compliance with the contract and all applicable laws. The School pays Gobles Public Schools three percent of the state aid foundation as administrative fees. The total administrative fees for the year to Gobles Public Schools was \$119,752.

School-wide Financial Statements

The School's basic financial statements include both school-wide (reporting for the school as a whole) and fund financial statements (reporting the School's major funds). The school-wide financial

statements categorize all nonfiduciary activities as either governmental or business type. All of the School's activities are classified as governmental activities.

The statement of net position presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School's net position is reported in three parts (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

The statement of activities reports both the gross and net cost of each of the School's functions. The functions are also supported by general government revenues (such as certain intergovernmental revenues). The statement of activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The School does not allocate indirect costs. In creating the school-wide financial statements the School has eliminated interfund transactions.

The school-wide focus is on the sustainability of the School as an entity and the change in the School's net position resulting from current year activities.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current

Michigan Online School
Notes to the Financial Statements
June 30, 2020

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.

Unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The School reports the following major governmental fund:

General Fund - The General Fund is used to record the general operations of the School pertaining to education and those operations not required to be provided for in other funds.

Assets, Liabilities and Net Position or Equity

Cash - Cash and cash equivalents include cash on hand and demand deposits.

Receivables and Payables - Generally, outstanding amounts owed between funds are classified as “due from/to other funds.” These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed, rather than when purchased.

Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the School follows the consumption method, and they therefore are capitalized as prepaid items in both school-wide and fund financial statements.

Fund Balance - In the fund financial statements, governmental funds report fund balance in the following categories:

Non-spendable - amounts that are not available in a spendable form.

Restricted - amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed - amounts that have been formally set aside by the Board of Directors for specific purposes. A fund balance commitment may be established, modified, or rescinded by a resolution of the Board of Directors.

Assigned – amounts intended to be used for specific purposes, as determined by the Board of Directors. The Board of Directors has granted the Superintendent the authority to assign funds. Residual amounts in governmental funds other than the General Fund are automatically assigned by their nature.

Unassigned - all other resources; the remaining fund balances after non-spendable, restrictions, commitments, and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School’s policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the School’s policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as well as deferred inflows and deferred outflows

Michigan Online School
Notes to the Financial Statements
June 30, 2020

of resources at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Adoption of New Accounting Standards

Statement No. 92, *Omnibus 2020* enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following: (1) The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports (2) Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan. (3) The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits. (4) The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements. (5) Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition. (6) Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers. (7) Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature. (8) Terminology used to refer to derivative instruments. Management has implemented the required portions of this Statement and will implement the remaining requirements as each Statement referenced becomes effective.

Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* provides a temporary relief to governments and other stakeholders in light of the COVID-19 pandemic and provides a

postponement of certain GASB Statements. This statement was effective upon issuance in May of 2020.

Upcoming Accounting and Reporting Changes

Statement No. 87, *Leases* increases the usefulness of the School's 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. A lessee will be required to recognize a lease liability and an intangible right-to-use a lease asset, and a lessor will be required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the School's leasing activities. The requirements of this Statement are effective for the fiscal year ending June 30, 2022.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. It requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reporting in a business-type activity or enterprise fund. Interest cost incurred before the end of a construction period should be recognized as an expenditure for financial statements prepared using the current financial resources measurement. The requirements of this Statement are effective for the fiscal year ending June 30, 2022.

Statement No. 91, *Conduit Debt Obligations* provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and

Michigan Online School
Notes to the Financial Statements
June 30, 2020

(3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This statement is effective for the year ending June 30, 2023.

Statement No. 93, *Replacement of Interbank Offered Rates* establishes accounting and financial reporting requirements related to the replacement of IBORs in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The requirements of this Statement apply to the financial statements of all state and local governments. The requirements of this Statement apply to the financial statements of all state and local governments. This statement is effective for the year ending June 30, 2022.

Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting

and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. This statement is effective for the year ending June 30, 2023.

The School is evaluating the impact that the above pronouncements will have on its financial reporting.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General Fund. All annual appropriations lapse at fiscal year end, thereby canceling all encumbrances. These appropriations are reestablished at the beginning of the year.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the School to have its budget in place by July 1. A school is not considered in violation of the law if reasonable procedures are in use by the School to detect violations.

Any revisions that alter the total expenditures of the fund must be approved by the Board of Directors.

Budgeted amounts are as originally adopted or as amended by the Board of Directors throughout the year.

Excess of Expenditures over Appropriations

The School did not have significant expenditure budget variances.

Michigan Online School
Notes to the Financial Statements
June 30, 2020

Note 3 - Deposits and Investments

The School's deposits and investments were reported in the basic financial statements in the following categories:

	Total Primary Government
Cash	\$ 329,359

The breakdown between deposits and investments for the School is as follows:

Deposits (checking and savings accounts)	\$ 329,359
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Interest rate risk - The School does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

Credit risk - State statutes and the School's investment policy authorize the School to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles.

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. The School does not have a deposit policy for custodial credit risk. As of year end, \$84,841 of the School's bank balance of \$334,841 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Note 4 - Unearned Revenue

Governmental funds report unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the components of unearned revenue are as follows:

	Unearned
Grant and categorical aid payments received prior to meeting all eligibility requirements	\$ 52,079

Note 5 - Operating Leases

The School leases office space at a cost of \$24,000 annually. If the School's charter was revoked the lease would be cancelable two year after that date. The future minimum lease payments for the lease is as follows:

Year ending June 30,		
2021	\$	24,000
2022		24,000
2023		10,000
Total	\$	58,000

Note 6 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be

Michigan Online School
Notes to the Financial Statements
June 30, 2020

determined at this time, although the School expects such amounts, if any, to be immaterial.

The School has a contract with a third party for services. The School has calculated the maximum fee under the arrangement to be approximately \$575,000. As of the report release, the company has only invoiced \$300,000 of these costs. The School does not deem it probable that the company will invoice more fees under this contract; however, the possibility of additional fees does exist.

Note 7 - Management Company

The School has a management agreement with Michigan Online Services, LLC. Under the terms of this agreement, Michigan Online Services, LLC provides a variety of services including management, curriculums, education programs and teacher training. The School is obligated to pay Michigan Online Services, LLC a fee of excess revenues over expenditures. The School retains from that amount 5% of total revenues and 2% of total state aid revenues that is assigned for Board of Directors discretionary. The total charged for these services amounted to approximately \$300,000 for the year ended June 30, 2020.

Additionally, Michigan Online Services, LLC will be reimbursed for all costs incurred and paid on behalf of the School. Such costs include, but are not limited to, salaries of Michigan Online Services' employees, costs related to curriculum, instructional materials, textbooks, library books, computers, software and supplies. Total management program, and administrative fee expense paid to Michigan Online Services, LLC for the year ended June 30, 2020 was approximately \$3,621,146.

Note 8 - Subsequent Event

As result of the global coronavirus pandemic of 2020, the financial picture for Michigan Schools have seen an unanticipated change. The duration and full effects of the outbreak are currently unknown, as the local and global picture continues to change frequently. To reduce the chance of spreading COVID-19; in March 2020, public schools were

closed for the remainder of the 2019-2020 school year. As a result of the pandemic, the State of Michigan encountered a revenue shortfall resulting in a revenue reduction for Schools of \$175 per pupil which reduced the state aid payment in August of 2020. Subsequent to year end, multiple new revenue sources were approved; including Public Act 123 of 2020 which provides Schools an approximate \$12.32 per pupil and Public Act 146 of 2020 which provides Schools \$350 per pupil. These new revenue streams approved after June 30, 2020 will be recognized in the fiscal year ended June 30, 2021 in accordance with reporting criteria established by the Governmental Accounting Standards Board. Additionally, the "Return to Learn" legislation passed subsequent to year end which modifies the per pupil foundation allowance calculation and allows flexibilities in the days and attendance requirements for Schools. Local schools are able to decide whether to provide instruction virtually or face to face for the 2020-2021 school year. Currently, it is not possible to estimate the full extent of any potential impacts to the School or to determine if any changes in fair values are other than temporary in nature. Accordingly, no adjustments to the financial statements were made as a result of these events.

REQUIRED SUPPLEMENTARY INFORMATION

Michigan Online School
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2020

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
Revenues				
Local sources	\$ 1,000	\$ 1,450	\$ 1,430	\$ (20)
State sources	5,409,070	4,014,811	3,880,784	(134,027)
Federal sources	292,576	332,764	318,884	(13,880)
Total revenues	<u>5,702,646</u>	<u>4,349,025</u>	<u>4,201,098</u>	<u>(147,927)</u>
Expenditures				
Instruction				
Basic programs	1,171,499	1,170,165	1,164,814	(5,351)
Added needs	449,330	123,551	123,551	-
Supporting services				
Pupil	1,456,712	606,763	602,018	(4,745)
Instructional staff	613,095	260,628	260,623	(5)
General administration	332,713	1,031,564	994,202	(37,362)
School administration	521,926	337,184	337,106	(78)
Business	252,881	231,537	228,046	(3,491)
Operations and maintenance	30,515	57,566	56,183	(1,383)
Pupil transportation services	-	241	-	(241)
Central	496,929	356,913	354,656	(2,257)
Community services	-	1,326	1,313	(13)
Capital outlay	145,392	37,175	37,175	-
Total expenditures	<u>5,470,992</u>	<u>4,214,613</u>	<u>4,159,687</u>	<u>(54,926)</u>
Excess of revenues over expenditures	231,654	134,412	41,411	(93,001)
Fund balance - beginning	<u>521,157</u>	<u>521,157</u>	<u>521,157</u>	<u>-</u>
Fund balance - ending	<u>\$ 752,811</u>	<u>\$ 655,569</u>	<u>\$ 562,568</u>	<u>\$ (93,001)</u>

OTHER REPORT



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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditors' Report

Management and the 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 *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Michigan Online School as of and for the year ended June 30, 2020, 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 15, 2020.

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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Michigan 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.



Kalamazoo, Michigan
October 15, 2020



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October 15, 2020

Management and the Board of Directors
Michigan Online School
Gobles, Michigan

We have completed our audit of the financial statements of the governmental activities and each major fund of Michigan Online School as of and for the year ended June 30, 2020, and have issued our report dated October 15, 2020. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit.

Our communication includes the following appendices:

- I. Auditors' Communication of Significant Matters with Those Charged with Governance
- II. Matters for Management's Consideration

Matters for management's consideration are not required to be communicated but we believe are valuable for management.

We discussed these matters with various personnel in the School during the audit and with management. We would also be pleased to meet with you to discuss these matters at your convenience.

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

Yeo & Yeo, P.C.

Kalamazoo, Michigan

Appendix I

Auditors' Communication of Significant Matters with Those Charged with Governance

Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America 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 engagement letter dated June 29, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School are described in Note 1 of the financial statements. The School has adopted the following Governmental Accounting Standards Board Statements effective June 30, 2020:

- Statement No. 92, *Omnibus 2020* enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following: (1) The effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports (2) Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan. (3) The applicability of Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits. (4) The applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements. (5) Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition. (6) Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers. (7) Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature. (8) Terminology used to refer to derivative instruments.
- Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* provides a temporary relief to governments and other stakeholders in light of the COVID-19 pandemic and provides a postponement of certain GASB Statements.

We noted no transactions entered into by the School during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statement 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. There were no significant estimates in the financial statements.

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

Accounting Standards and Regulatory Updates

Accounting Standards

The Governmental Accounting Standards Board has released additional Statements. Details regarding these Statements are described in Note 1 of the financial statements.

The School is evaluating the impact the above pronouncements will have on its financial reporting.

Regulatory and Other Updates

FER Extended Time Notification

The 2019-20 Final Expenditure Report (FER) due date is November 29, 2020. This report should reconcile to the Single Audit Report and the LEA's financial records. LEAs should verify that the figures on the report are a true and accurate representation of expenditures for each project. LEAs experiencing extenuating circumstances will be allowed to request additional time for submission prior to November 21, 2020, to the Office of Educational Supports Financial Unit at OFSFinancial-Unit@michigan.gov. Extension time is available if needed, but will not exceed December 31, 2020. Your timely submission of these reports helps ensure carryover funds are available for program implementation for the current school year.

District Guide to School-Level Expenditure Reporting Under the Every Student Succeeds Act (ESSA)

The federal Every Student Succeeds Act (ESSA) contains a new requirement that all local public schools (local education agencies and public school academies) publish actual per-pupil expenditures by individual school building. MDE has recently published a District Guide to School-Level Expenditure Reporting under the Every Student Succeeds Act to assist schools in communication planning around this data that will be posted on the Michigan School Data website no later than June 30, 2020. This guide is intended to support school-level personnel communicating with principals, educators, community members, and media on the reporting requirement and school-level spending information. Schools are encouraged to continue to scrutinize reporting results at the building level and use building codes when applicable to properly allocate expenses to avoid future questions resulting from this data being available to the public.

Financial Accounting Guidance During the COVID-19 Pandemic

Michigan Department of Education (MDE) has issued guidance about financial accounting for transactions related to the COVID19 pandemic, school closures, and implementation of a Continuity of Learning and COVID19 Response Plan. This guidance is updated regularly and can be found using this link: https://www.michigan.gov/documents/mde/COVID-19_Accounting_Guidance_691616_7.pdf

FID Changes for 2020 and Beyond

Expenditure object code requirements submitted through the FID will be changing. The system currently allows for two-digit detail. This is being changed to require three digits. The 2019-20 submission will generate warnings for data that doesn't comply with the three-digit detail. Take note of the warnings in order to correct them prior to the 2020-21 submission. If the data is not in compliance for the 2021 submission, error codes will be generated. The goal of this change is to potentially reduce or streamline other program specific reporting. There will also be a new error check to ensure that any buildings that have an enrollment greater than zero should have expenditures reported.

ESSER and CARES Act Accounting

As LEAs are recognizing Elementary and Secondary School Emergency Relief (ESSER) fund in revenues and expenditures, a new account code should be used. The new major class code of 414 should be used with a suffix of 0250. Expenditures should be reported under the new grant code 796. Most function codes are allowable, but the grant guidance should be referred to when determining the allowable uses of funds. MDE's guidance on what the funds can be used for can be found in the guidance memo located at https://www.michigan.gov/documents/mde/ESSER_guidance_688430_7.pdf

Special Education Compliance Information

The excess cost requirement testing is being implemented for 2019-20 as a pilot test. This will be completed in fall of 2020. Due to the test being in the pilot phase, any schools that do not meet the requirement will be made aware for informational purposes only, and a formal violation will not be triggered at this time. Maintenance of Effort includes a test for compliance and a test for eligibility. The compliance testing piece went live on March 17, 2020 for the 2018-19 period, it is anticipated that all 56 ISDs will meet compliance under at least one of the four methods to calculate. The 2020-21 eligibility testing went live on June 1, 2020. These tests are being conducted at the ISD level. It is important for all LEAs to verify they are submitting accurate information to the ISD in order to have accurate data in these calculations.

Starting in fiscal year 2021, the IDEA Flowthrough and Preschool funds will move from a 27-month grant application to 15-month grant application period. Any unspent funds will be carried over to the next grant award. Additionally, there will be no IFRs starting in fiscal year 2021. Final expenditure reports will be done in CMS and final school level expenditure reports will be done in MEGS+. Starting with fiscal year 2022, grant applications will be done in NexSys, the new grants management system. It will contain both grant applications and payments.

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 that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial, and communicate them to the appropriate level of management. There were no known misstatements detected as a result of audit procedures that were more than trivial.

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.

There were no known uncorrected misstatements that were more than trivial.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditors' report. We are pleased to report we had no such disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other 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 School'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 School'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 Reports

Other information that is required to be reported to you is included in the 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*. Please read all information included in that report to ensure you are aware of relevant information.

Report on Required Supplementary Information

With respect to the required supplementary information accompanying the financial statements, which includes management's discussion and analysis, and budgetary comparison information, we 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 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.

Appendix II

Matters for Management's Consideration

In planning and performing our audit of the financial statements of Michigan Online School as of and for the year ended June 30, 2020, we considered the School's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

However, during our audit we became aware of a matter for management's consideration that is an opportunity for strengthening internal controls and ensuring compliance with regulations. This letter does not affect our report dated October 15, 2020, on the financial statements of Michigan Online School. Our comment and recommendation regarding this matter is:

Federal Procedures and Investment Policy

During our audit, we noted that the organization's written procedure specific to the federal awards needs to be updated to comply with the federal Uniform Guidance. We recommend that management review the requirements under the Uniform Guidance and implement the prescribed written procedures. These procedures should specifically encompass written procedures for financial management systems, payments, allowable costs, period of performance, matching or cost sharing, program income, procurement, equipment and real property, supplies, copyrights, subawards to debarred and suspended parties, monitoring and reporting program performance, financial reporting, retention and access requirements for records, cash management, conflict of interest and federal timekeeping. The manual should be detailed and specific to the School and include such items as what reports are due, how to compile information needed for the reports and how to file them, usernames and passwords for various websites, etc. The manual will aid any individuals that are new to the School in the event of changeover in the business office. Additionally, we also noted that the School does not have a formal investment policy. We recommend that the School develop and adopt a written investment policy.