

Ann Arbor Learning Community

Ann Arbor, Michigan

Audited Financial Statements

June 30, 2011

CROSKEY LANNI, PC
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

CONTENTS

	<u>Page</u>
Independent Auditor’s Report	i – ii
Management’s Discussion and Analysis	iii - ix
Basic Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Combined Balance Sheet – All Fund Types	3
Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Activities	4
Statement of Revenues, Expenditures and Changes in Fund Balance – All Governmental Fund Types	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	6
Statement of Fiduciary Net Assets	7
Notes to Financial Statements	8 - 17
Supplemental Information	
Independent Auditor’s Report on Supplemental Information	18
Budgetary Comparison Schedule – All Governmental Funds	19
Schedule of Revenues – All General Fund	20
Schedule of Expenditures – All General Fund	21 - 22
Independent Auditor’s Report of Compliance and on Internal Control Over Compliance Financial Reporting and on Other Matters Based on an Audit of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	23- 24

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Ann Arbor Learning Community

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ann Arbor Learning Community, as of and for the year ended June 30, 2011, which collectively comprise the Academy's basic financial statements listed in the table of contents. These financial statements are the responsibility of Ann Arbor Learning Community's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Ann Arbor Learning Community as of June 30, 2011, and the respective changes in financial position, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2011 on our consideration of Ann Arbor Learning Community's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages iii through ix, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Ann Arbor Learning Community's financial statements as a whole. The introductory section, combining and individual non major fund statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



Croskey Lanni, PC

September 1, 2011
Rochester, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Ann Arbor Learning Community's (Academy) annual financial report presents our discussion and analysis of the public school Academy's financial performance during the fiscal year that ended on June 30, 2011. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

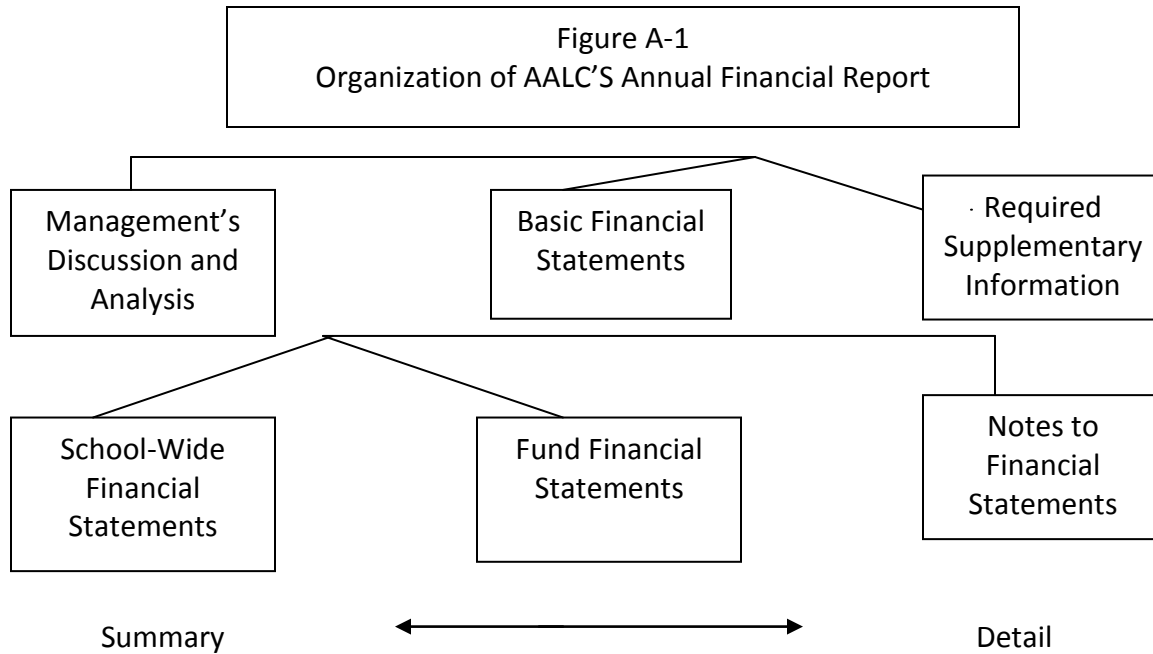
FINANCIAL HIGHLIGHTS

- ❖ Expenses increased by 4 percent while revenues increased by 3 percent between 2010 and 2011. Student enrollment stabilized at 270.04 (September 2010) and 269.04 (February 2011).
- ❖ The Academy's building continued to accommodate the student enrollment as well as provide opportunities for the Academy's and other organizations' activities.
- ❖ The Academy's outstanding liabilities increased by \$40,971.
- ❖ The year's capital outlay expenditures included technology equipment; instructional furniture; instruments and equipment for the music program; and magnetic (steel) posting boards in the instructional hallway.
- ❖ The Academy's net assets increased by \$101,984 as the expenses were managed within revenue and available fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy.

- ❖ The first two statements are Academy-wide financial statements that provide both short-term and long-term information about the Academy's overall financial status.
- ❖ The remaining statements are fund financial statements that focus on individual parts of the Academy, reporting the Academy's operations in more detail than the Academy-wide statements.
- ❖ The governmental funds statements tell how basic services like regular education were financed in the short-term as well as what remains for future spending.
- ❖ Fiduciary funds statements provide information about the financial relationships in which the Academy acts solely as an agent for the benefit of others.



The financial statements also include notes that explain some of the information in the statements and provide more detailed 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 Academy's budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

Figure A-2
Major Features of School-Wide and Fund Financial

Fund Financial Statements			
	School-Wide Statements	Government Funds	Fiduciary Funds
Scope	Entire school (except fiduciary funds)	The activities of the school that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the school administers resources on behalf of someone else, such as scholarship programs and student activities monies.
Required Financial Statements	*Statement of net assets *Statement of activities	*Balance sheet *Statement of revenues, expenditures and changes in fund balances	*Statement of fiduciary net assets *Statement of changes in fiduciary net assets.
Accounting basis and measurement focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources.	Accrual accounting and economic resources focus.
Type of asset/liability information	All assets and liabilities both financial and capital, short-term and long-term.	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets or long-term liabilities included.	All assets and liabilities, both short-term and long-term.
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable.	All additions and deductions during the year, regardless of when cash is received or paid.

Figure A-2 summarized the major features of the Academy's financial statements, including the portion of the Academy's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

SCHOOL-WIDE STATEMENTS

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the Academy's net assets and how they have changed. Net assets – the difference between the Academy's assets and liabilities, are one way to measure the Academy's financial health or position.

- ❖ Over time, increases or decreases in the Academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- ❖ To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy's enrollment, the condition of school buildings and other facilities, and the Academy's ability to be competitive with other public school academies and area school districts.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Academy's funds, focusing on its more significant or "major" funds – not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs:

- ❖ *Governmental activities* – Most of the school's basic services are included in the general fund, such as regular and special education and administration. State foundation aid finances most of these activities.

The school has two kinds of funds:

- ❖ *Governmental funds* – Most of the school's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the school's programs. Because this information does not encompass the additional long-term focus of the school-wide statements, we provide additional information with the governmental funds statements that explains the relationship (or differences) between them.
- ❖ *Fiduciary funds* – The school is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the school-wide financial statements because the school cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net assets - the Academy's combined net assets were higher on June 30, 2011 than they were the year before, increasing by \$101,984 to \$843,912. See Figure A – 3.

The total revenues increased by 3.5 percent to \$2,270,551. State aid foundation allowance included in revenue from state sources accounts for 86 percent of the Academy's total revenue.

The total cost of basic instruction increased by 3.7 percent to \$953,350. In the areas of added (student) needs and pupil support services, expenses increased by 1.9 percent. Total capital outlay expenses decreased 24 percent from 2009-10.

The change in the Academy's financial position is the product of a reduction in the per-pupil foundation allowance offset by federal stabilization funding and management of expenses within revenues.

The changing health of the Academy's finances results from an increase in expenses against a lesser increase in revenue. For this year foundation allowance was decreased by \$284 per pupil with a federal funding offset of \$114 (per pupil). The foundation allowance remained \$7,580 per pupil.

School Governmental

The improving financial performance of the Academy as a whole is reflected in its governmental fund as well. As the Academy completed the year, its governmental funds (general) reported a fund balance of \$729,224, an increase of \$99,783 over last year's ending fund balance of \$629,441.

General Fund Budgetary Analysis

Over the course of the year, the Academy revised the annual operating budget two times. These budget amendments fall into several categories:

- ❖ No amendments were passed or approved in the first quarter.
- ❖ An amendment in the second quarter decreased state revenue according to the State's reduction; increased federal revenue; increased payment from other public schools; and projected higher expenses for basic instruction, pupil support services, board of education, school administration, fiscal services, and operating building services.
- ❖ No amendments were passed or approved in the third quarter.
- ❖ One amendment was passed in the fourth quarter in June. This amendment increased local revenue; decreased federal revenue; increased payments from other public schools; increased special education, added needs, speech services, social work, pupil support services, improvement of instruction, supervision & direction of instruction, executive administration, school administration and fiscal services expenses; and reduced health services and board of education expenses.
- ❖ While the Academy's final budget anticipated revenue would exceed expenditures by \$8,871, the actual results for the year showed revenues over expenditures by \$99,783. For governmental fund revenue and expenditures, revenue exceeded expenses by \$16,479. Actual revenues were higher than budgeted in the final amendment, while actual total expenditures were less than budgeted.

Appendix A

Table A-3
AALC's Net Assets

	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 879,738	\$ 738,984
Deposit	20,000	20,000
Capital assets, net	<u>114,688</u>	<u>112,487</u>
Total assets	<u>1,014,426</u>	<u>871,471</u>
Current liabilities	<u>170,514</u>	<u>129,543</u>
Net assets:		
Invested in capital assets, net of related debt	114,688	112,487
Unrestricted	<u>729,224</u>	<u>629,441</u>
Total net assets	<u>\$ 843,912</u>	<u>\$ 741,928</u>

Table A-4
Changes in AALC's Net Assets

	<u>2011</u>	<u>2010</u>
Revenues:		
Program revenues:		
Federal and state operating grants	\$ 188,614	\$ 232,674
General revenues:		
State aid - unrestricted	1,962,059	1,892,574
Investment	1,832	2,304
ISD	93,632	66,649
Other	<u>23,729</u>	<u>9,005</u>
Total revenues	2,269,866	2,203,206
Expenses:		
Instruction	1,047,717	992,479
Support services	1,102,951	1,054,214
Unallocated depreciation	<u>17,214</u>	<u>15,037</u>
Total expenses	<u>2,167,882</u>	<u>2,061,730</u>
Change in net assets	<u>\$ 101,984</u>	<u>\$ 141,476</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of the year ended June 30, 2011, the Academy had invested \$114,688 in capital assets consisting primarily of computers, software, furniture and fixtures net of accumulated depreciation. This amount represents a net increase of \$2,202 from the beginning of the year. More detailed information about capital assets can be found in Note 5 to the financial statements. Total depreciation expense for the year was \$17,214.

The Academy's capital assets are as follows:

	2011		2010	
	Cost	Accumulated & Depreciated	Net Book Value	Net Book Value
Computer equipment	\$ 36,066	\$ 14,805	\$ 21,261	\$ 11,375
Furniture and equipment	144,857	51,430	93,427	101,112
Total	<u>\$ 180,923</u>	<u>\$ 66,235</u>	<u>\$ 114,688</u>	<u>\$ 112,487</u>

FACTORS BEARING ON THE SCHOOL'S FUTURE

At the time these financial statements were prepared and audited, the Academy was aware of existing circumstances that could significantly affect its financial health in the future.

- ❖ The 2010-2011 foundation allowance (state aid funding) from the State of Michigan remained stable at \$7,580 per student. The foundation allowance represents 86 percent of the total Academy revenue. With the 2010-11 reduction in revenue and recognizing the State's economic outlook, the Academy remains hopeful the foundation allowance will increase in future years.
- ❖ For 2010-2011 the Academy continued a personnel services agreement with a management company, so its employees are leased from the management company. The employer's retirement contribution remains 5 percent for salaried wages paid to the management company's employees. The management of expenses within revenue along with the student enrollment (state revenue) will allow for maintenance (without reduction) of salaried staff wages in 2011-2012.
- ❖ In 2010-11 the Academy's student enrollment remained stable. It is hoped there will be growth in future years' student enrollment, in order to maintain a high quality instructional program and setting despite revenue reduction.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy's office at:

3980 Research Park Dr., Ann Arbor, Michigan 48108

ANN ARBOR LEARNING COMMUNITY

STATEMENT OF NET ASSETS

JUNE 30, 2011

See Independent Auditor's Report

ASSETS

Current Assets

Cash and cash equivalents	\$ 492,175
Deposits	20,000
Due from other governmental units	385,799
Prepaid expenses	<u>1,764</u>
Total current assets	899,738

Capital Assets

At cost less accumulated depreciation \$66,235	<u>114,688</u>
Total assets	<u>\$ 1,014,426</u>

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 30,734
Deferred revenue	10,329
Deposits	820
Other accrued expenses	<u>128,631</u>
Total current liabilities	170,514

Net Assets

Invested in capital assets, net of related debt	114,688
Unrestricted	<u>729,224</u>
Total net assets	<u>843,912</u>
Total liabilities and net assets	<u>\$ 1,014,426</u>

See accompanying notes to financial statements



ANN ARBOR LEARNING COMMUNITY

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011
See Independent Auditor's Report

Functions	<u>Expenses</u>	<u>Program Revenues Operating Grants</u>	<u>Net (Expense) Revenues and Changes in Net Assets Government Type Activities</u>
Elementary school	\$ 762,137	\$ 35,337	\$ (726,800)
Middle school	191,213	-	(191,213)
Special education	85,409	84,969	(440)
Compensatory education	8,958	-	(8,958)
Pupil support services	164,168	153,839	(10,329)
Instructional staff support services	22,520	3,752	(18,768)
General administration	18,652	-	(18,652)
Executive administration	59,619	-	(59,619)
School administration	237,370	4,349	(233,021)
Business support services	35,089	-	(35,089)
Operations and maintenance	565,533	-	(565,533)
Unallocated depreciation	17,214	-	(17,214)
	<u>\$ 2,167,882</u>	<u>\$ 282,246</u>	<u>(1,885,636)</u>
General Purpose Revenues:			
State school aid - unrestricted			1,962,059
Gain (Loss) on disposal of assets			(685)
Miscellaneous revenues			<u>26,246</u>
Total general purpose revenues			<u>1,987,620</u>
Excess of revenues over expenses			101,984
Net assets - July 1, 2010			<u>741,928</u>
Net assets - June 30, 2011			<u>\$ 843,912</u>

See accompanying notes to financial statements

ANN ARBOR LEARNING COMMUNITY

COMBINED BALANCE SHEET – ALL FUND TYPES

JUNE 30, 2011

See Independent Auditor's Report

ASSETS

Assets

Cash and cash equivalents	\$ 492,175
Deposits	20,000
Due from other governmental units	385,799
Prepaid expenses	<u>1,764</u>
Total assets	<u>\$ 899,738</u>

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$ 30,734
Deferred revenue	10,329
Deposits	820
Other accrued expenses	<u>128,631</u>
Total liabilities	170,514

Fund Balance

Nonspendable	21,764
Unassigned	<u>707,460</u>
Total fund balance	<u>729,224</u>
Total liabilities and fund balance	<u>\$ 899,738</u>

See accompanying notes to financial statements



ANN ARBOR LEARNING COMMUNITY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS
OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2011
See Independent Auditor's Report

Amounts reported for governmental activities in the statement of net assets are different because:

Total Governmental Fund Balances	\$ 729,224
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$180,923 and the accumulated depreciation is \$66,235.	<u>114,688</u>
Net Assets of Governmental Activities	<u>\$ 843,912</u>

See accompanying notes to financial statements



ANN ARBOR LEARNING COMMUNITY

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE – ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2011
See Independent Auditor's Report

Revenues

Local sources	\$ 26,246
State sources	2,017,372
Federal sources	<u>133,301</u>
Total governmental fund revenues	2,176,919

Expenditures

Elementary school	762,137
Middle school	191,213
Special education	85,409
Compensatory education	8,958
Pupil support services	164,168
Instructional staff support services	22,520
General administration	18,652
Executive administration	59,619
School administration	237,370
Business support services	35,089
Operations and maintenance	565,533
Capital outlay	<u>20,100</u>
Total governmental fund expenditures	<u>2,170,768</u>

Excess (deficiency) of revenues over expenditures 6,151

Other Financing Sources (Uses)

Payments from (to) intermediate school district	<u>93,632</u>
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Excess (deficiency) of revenues and other financing sources over expenditures and other uses 99,783

Fund balance - July 1, 2010 629,441

Fund balance - June 30, 2011 \$ 729,224

See accompanying notes to financial statements



ANN ARBOR LEARNING COMMUNITY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011
See Independent Auditor's Report

Amounts reported for governmental activities in the statement of activities are different because:

Net Change in Fund Balances - Total Governmental Funds \$ 99,783

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation and amortization expense. This is the amount by which capital outlays exceeded depreciation and amortization in the current period

Capital outlay	\$ 20,100	
Depreciation and amortization expense	(17,214)	
Gain (loss) on disposal of assets	<u>(685)</u>	<u>2,201</u>

Change in Net Assets of Governmental Activities \$ 101,984

ANN ARBOR LEARNING COMMUNITY

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2011
See Independent Auditor's Report

ASSETS

	<u>Agency</u>
Cash and cash equivalents	<u>\$ 9,340</u>
Total assets	<u><u>\$ 9,340</u></u>

LIABILITIES

Due to student groups	<u>\$ 9,340</u>
Total liabilities	<u><u>\$ 9,340</u></u>

See accompanying notes to financial statements



ANN ARBOR LEARNING COMMUNITY

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
See Independent Auditor's Report

NOTE 1 – Summary of Significant Accounting Policies

The accounting policies of Ann Arbor Learning Community (the "Academy") conform to generally accepted accounting principles applicable to public school academies. The following is a summary of the significant accounting policies:

Reporting Entity

Ann Arbor Learning Community was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, on November 26, 1997, and began operation in September 1998.

In July 2008, the Academy entered into a five-year contract with the Eastern Michigan University's Board of Regents to charter a public school academy. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State constitution. The University's Board of Regents is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Eastern Michigan University's Board of Regents three percent of state aid as administrative fees. Total administrative fees paid for the year ended June 30, 2011 were approximately \$59,600.

In July 2009, the Academy entered into an agreement with MEP Services, LLC "MEP". This agreement shall be effective for the duration of the Academy's current authorizing contract with Eastern Michigan University. Under the terms of this agreement, MEP provides a variety of services including payroll and other human resource services. The Academy is obligated to pay MEP three and 6/10th of a percent of total gross wages paid to staff assigned to the Academy during the term of its contract. Such fee shall not be less than \$30,000 nor more than \$60,000 in any fiscal year. The total paid for these services amounted to approximately \$35,100 for the year ended June 30, 2011.

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 or financial relationships with the public school Academy. Based on application of criteria, the Academy does not contain component units.

Fund Financial Statements

Fund financial statements report detailed information about the Academy. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The Academy has elected to designate all of its funds as major.

ANN ARBOR LEARNING COMMUNITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

See Independent Auditor's Report

NOTE 1 - Summary of Significant Accounting Policies - Continued

Basis of Presentation – Fund Accounting

The accounts of the Academy are organized on the basis of funds. The operations of a fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report, into generic fund types in two broad fund categories.

Governmental Funds

A governmental fund is a fund through which most academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through a governmental fund.

General Fund - The general fund is used to record the general operations of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

School Service Fund - The school service fund is used to account for the food service program operations. The school service fund is a subsidiary operation and is an obligation of the general fund. Therefore any shortfall in the school service fund will be covered by an operating transfer from the general fund. The school service fund does not maintain its own assets and liabilities; accordingly, no balance sheet is presented for this fund.

Debt Service Fund - The debt service fund is used to record certain revenue and the payment of interest, principal and other expenditures on long-term debt.

Capital Projects Fund - The capital projects fund accounts for financial resources to be used for the acquisition, construction, or improvement of capital facilities.

Fiduciary Fund - The fiduciary fund is used to account for assets held by the Academy in a trustee capacity or as an agent. The agency fund is custodial in nature and does not involve the measurement of results of operations.

Activity (Agency) Fund - The Academy presently maintains an activity fund to record the transactions of a student group for school and school-related purposes. The fund is segregated and held in trust for the students.

Governmental and agency funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

ANN ARBOR LEARNING COMMUNITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

See Independent Auditor's Report

NOTE 1 - Summary of Significant Accounting Policies– Continued

- a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. 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 Academy considers revenues to be available if they are collected within sixty days of the end of the current fiscal period.
- b. Payments for inventorial types of supplies, which are not significant at year end, are recorded as expenditures at the time of purchase.
- c. Principal and interest of general long-term debt are not recorded as expenditures until their due dates.
- d. The State of Michigan utilizes a foundation allowance funding approach, which provides for specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law. A major portion of the Academy's revenue is derived from this state aid. As such, the Academy is considered to be economically dependent on this aid. The Academy's existence is dependent upon qualification for such aid.

Government-Wide Financial Statements

The government-wide financial statements (i.e. the statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationships between the government-wide statements and the statements for governmental funds.

The government-wide Statement of Activities presents a comparison between expenses and program revenues for each segment of the business-type activities of the Academy and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. The Academy does not allocate indirect expenses to programs. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or function is self-financing or draws from the general revenues of the Academy.

ANN ARBOR LEARNING COMMUNITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

See Independent Auditor's Report

NOTE 1 - Summary of Significant Accounting Policies - Continued

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The Academy first utilizes restricted resources to finance qualifying activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government - wide financial statements.

Cash and Cash Equivalents

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition. The Academy reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and GASB No. 40, Deposit and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The 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 Academy intends to hold the investment until maturity. The Academy held no investments during the year ended June 30, 2011. State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, saving accounts, deposit accounts, and 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 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 Academy 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.

Receivables

Receivables at June 30, 2011 consist primarily of state school aid due from the State of Michigan and the federal government. All receivables are expected to be fully collected in July and August of 2011 and are considered current for the purposes of these financial statements.

Prepaid Assets

Payments made to vendors for services that will benefit periods beyond June 30, 2011, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

ANN ARBOR LEARNING COMMUNITY

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
See Independent Auditor's Report

NOTE 1 - Summary of Significant Accounting Policies-- Continued

Capital Assets and Depreciation

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions or retirements during the year. The Academy follows the policy of not capitalizing assets with a useful life of less than one year. The Academy does not possess any infrastructure assets.

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

Building and improvements	10 – 50 years
Furniture and equipment	5 – 15 years
Computers and software	3 – 10 years

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the non-current portion of capital leases that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws of regulations of other governments.

Fund Equity

The Academy has adopted GASB 54 as part of its fiscal year reporting. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the Academy's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on those resources.

ANN ARBOR LEARNING COMMUNITY

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
See Independent Auditor's Report

NOTE 1 - Summary of Significant Accounting Policies– Continued

Fund Equity

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. This category typically includes prepaid items and inventories.

In addition to nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- a. *Restricted fund balance* – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- b. *Committed fund balance* – amounts constrained to specific purposes by the Board; to be reported as committed, amounts cannot be used for any other purpose unless the Board takes action to remove or change the constraint.
- c. *Assigned fund balance* – amounts the Board intends to use for a specific purpose; intent can be expressed by the Board or by an official or committee to which the Board delegates the authority.
- d. *Unassigned fund balance* – amounts that are available for any purpose; these amounts are reported only in the general fund.

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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 - Stewardship, Compliance and Accountability

Annual budgets are adopted on a consistent basis 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 and encumbrances are not formally recorded.

ANN ARBOR LEARNING COMMUNITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

See Independent Auditor's Report

NOTE 2 - Stewardship, Compliance and Accountability - Continued

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 Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. The Academy is required by law to adopt general and school service fund budgets. During the year ended June 30, 2011 the budget was amended in a legally permissible manner. The Academy experienced expenditures in excess of the amounts appropriated within certain budgetary functions as detailed on page 19 to these financial statements for the year ended June 30, 2011.

NOTE 3 - Deposits and Investments

Interest Rate Risk

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

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2011, the Academy did not hold any investments.

Concentration of Credit Risk

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

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2011, approximately \$70,000 of the Academy's cash was exposed to custodial credit risk because it was uninsured. All cash balances were uncollateralized as of June 30, 2011.

ANN ARBOR LEARNING COMMUNITY

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
See Independent Auditor's Report

NOTE 3 - Deposits and Investments - Continued

Custodial Credit Risk - Investments

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

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

Foreign Currency Risk

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

NOTE 4—Due From Other Governmental Units

Amounts due from other governmental units consist of the following:

Local sources	\$	8,037
State sources		367,974
Federal sources		<u>9,788</u>
Total	\$	<u><u>385,799</u></u>

NOTE 5 - Capital Assets

Capital asset activity of the Academy's governmental activities was as follows:

	<u>Balance</u>			<u>Balance</u>
	<u>July 01, 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2011</u>
Equipment	\$ 164,863	\$ 20,100	\$ 4,040	\$ 180,923
Less accumulated depreciation	<u>52,377</u>	<u>17,214</u>	<u>3,356</u>	<u>66,235</u>
Undepreciated cost	<u>\$ 112,486</u>	<u>\$ 2,886</u>	<u>\$ 684</u>	<u>\$ 114,688</u>

Depreciation and amortization expense was not charged to activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

ANN ARBOR LEARNING COMMUNITY

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
See Independent Auditor's Report

NOTE 6—Accrued Expenses

Accrued expenses may be summarized as follows:

Purchased services - payroll and benefits	\$ 114,705
University oversight fee	<u>13,926</u>
Total accrued expenses	<u>\$ 128,631</u>

NOTE 7—Operating Leases

Lease Information

	<u>Maturity Date</u>	<u>Approximate Payment</u>	<u>Other</u>
Facilities	February, 2015	\$38,000 monthly	Limited by an amount not to exceed 22% of per pupil state aid allocation.

The approximate amount of lease obligations coming due during the next four years are as follows:

2012	\$ 423,400
2013	431,900
2014	455,600
2015	461,700

NOTE 8 - Retirement Plan

All leased employees of the Academy are eligible to participate in a retirement plan established by "MEP" which qualifies under the provisions of Section 401(k) of the Internal Revenue Code. The employer will contribute 5% of the employee's salary. Eligible employees may contribute up to 15% of their salaries under the terms of this plan. Total Academy contributions amounted to approximately \$41,200 for the year ended June 30, 2011.

ANN ARBOR LEARNING COMMUNITY

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
See Independent Auditor's Report

NOTE 9 - Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

To the Board of Directors of Ann Arbor Learning Community

We have audited the accompanying financial statements of Academy for the year ended June 30, 2011. Our audit was made for the purpose of forming an opinion on the financial statements as a whole. The additional information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Academy. This information has been subjected to the procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements as a whole.



Croskey Lanni, PC

September 1, 2011
Rochester, Michigan

ANN ARBOR LEARNING COMMUNITY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE – ALL GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

See Independent Auditor's Report on Supplemental Information

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
Revenues			
Local sources	\$ 12,216	\$ 16,750	\$ 26,246
State sources	2,032,430	2,018,462	2,017,372
Federal sources	125,592	115,738	133,301
	<hr/>	<hr/>	<hr/>
Total governmental fund revenues	2,170,238	2,150,950	2,176,919
Expenditures			
Elementary school	770,580	796,554	762,137
Middle school	184,225	190,470	191,213
Special education	86,917	86,917	85,409
Compensatory education	5,234	9,316	8,958
Pupil support services	160,933	169,981	164,168
Instructional staff support services	17,090	22,588	22,520
General administration	21,897	19,137	18,652
Executive administration	59,977	59,782	59,619
School administration	230,760	243,785	237,370
Business support services	33,968	35,977	35,089
Operations and maintenance	566,556	579,848	565,533
Capital outlay	14,200	16,014	20,100
	<hr/>	<hr/>	<hr/>
Total governmental fund expenditures	2,152,337	2,230,369	2,170,768
Excess (deficiency) of revenues over expenditures	17,901	(79,419)	6,151
Other Financing Sources (Uses)			
Payments from (to) intermediate school district	73,760	88,290	93,632
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	73,760	88,290	93,632
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	91,661	8,871	99,783
Fund balance - July 1, 2010	629,441	629,441	629,441
	<hr/>	<hr/>	<hr/>
Fund balance - June 30, 2011	\$ 721,102	\$ 638,312	\$ 729,224
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

ANN ARBOR LEARNING COMMUNITY
SCHEDULE OF REVENUES – ALL GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011
 See Independent Auditor’s Report on Supplemental Information

Local Sources

Earnings on investments	\$ 1,833
Other local revenues	24,413
	26,246
Total local sources	26,246

State Sources

At risk	7,113
Special education	48,200
State aid	1,962,059
	2,017,372
Total state sources	2,017,372

Federal Sources

ARRA stabilization funds	30,728
IDEA and ARRA IDEA	98,822
Title II A	3,751
	133,301
Total federal sources	133,301
Total governmental fund revenues	\$ 2,176,919

ANN ARBOR LEARNING COMMUNITY
 SCHEDULE OF EXPENDITURES – ALL GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2011
 See Independent Auditor’s Report on Supplemental Information

Elementary School

Purchased services	\$	724,620
Repairs and maintenance		6,343
Rentals		3,075
Supplies and materials		23,773
Non-depreciable capital assets		2,229
Other expenditures		<u>2,097</u>
Total elementary school		762,137

Middle School

Purchased services		177,903
Repairs and maintenance		2,041
Rentals		1,485
Supplies and materials		7,790
Non-depreciable capital assets		619
Other expenditures		<u>1,375</u>
Total middle school		191,213

Special Education

Purchased services		84,652
Supplies and materials		<u>757</u>
Total special education		85,409

Compensatory Education

Purchased services		8,958
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Pupil Support Services

Health services		13,039
Speech pathology and audiology		17,080
Social work services		58,475
Teacher consultant		45,485
Other pupil services		<u>30,089</u>
Total pupil support services		164,168

ANN ARBOR LEARNING COMMUNITY

SCHEDULE OF EXPENDITURES – ALL GOVERNMENTAL FUNDS - Continued FOR THE YEAR ENDED JUNE 30, 2011

See Independent Auditor's Report on Supplemental Information

Instructional Staff Support Services

Purchased services 22,520

General Administration

Purchased services 18,648

Other expenditures 4

Total general administration 18,652

Executive Administration

University oversight 59,619

School Administration

Purchased services 222,253

Repairs and maintenance 3,189

Rentals 3,767

Supplies and materials 2,814

Non-depreciable capital assets 776

Other expenditures 4,571

Total school administration 237,370

Business Support Services

Purchased services 35,089

Operations and Maintenance

Purchased services 59,761

Repairs and maintenance 39,804

Rentals 415,111

Supplies and materials 49,996

Non-depreciable capital assets 788

Other expenditures 73

Total operations and maintenance 565,533

Capital Outlay

20,100

Total governmental fund expenditures \$ 2,170,768

INDEPENDENT AUDITOR'S REPORT OF COMPLIANCE AND 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

**To the Board of Directors
of Ann Arbor Learning Community**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ann Arbor Learning Community as of and for the year ended June 30, 2011, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated September 1, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ann Arbor Learning Community's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinions on the effectiveness of Ann Arbor Learning Community's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Ann Arbor Learning Community's internal control over financial reporting.

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 controls 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance

As part of obtaining reasonable assurance about whether Ann Arbor Learning Community's financial statements are free of 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*.

This report is intended solely for the information and use of management, the board of directors, the Michigan Department of Education, and others within the entity and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in blue ink that reads "Crosby Lanni, PC". The signature is written in a cursive style.

Croskey Lanni, PC

September 1, 2011
Rochester, Michigan

September 1, 2011

To the School Board and Management of
Ann Arbor Learning Community

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Ann Arbor Learning Community for the year ended June 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you. 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 Ann Arbor Learning Community are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during June 30, 2011. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of depreciation is based on management's best judgment of the useful lives of the assets. We evaluated the key factors and assumptions used to develop the depreciable lives in determining that it is reasonable in relation to the financial statements taken as a whole.

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 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 each opinion unit's financial statements taken as a whole.

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 auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 1, 2011.

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 Ann Arbor Learning Community'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 Ann Arbor Learning Community's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Audit Committee, the Board of Directors, and management of Ann Arbor Learning Community and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Croskey Lanni, PC