

**ESCUELA AVANCEMOS!
ACADEMY**

**Financial Report
with Supplemental Information
June 30, 2020**

ESCUELA AVANCEMOS! ACADEMY

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Wilkerson & Associate P.C.

CERTIFIED PUBLIC ACCOUNTANTS

3 PARKLANE BLVD. SUITE 612
DEARBORN, MICHIGAN 48126
313-982-4340 FAX 313-982-4342

LARRY WILKERSON, C.P.A.
THOMAS E. WILKERSON, C.P.A.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Escuela Avancemos! Academy

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Escuela Avancemos! Academy, as of and for the year ended June 30,2020, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the 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, each major fund and the aggregate remaining fund information of Escuela Avancemos! Academy as of June 30,2020, and the respective changes in financial position for the year then ended in accordance with accounting principles accepted in the United States of America.

Members: A.I.C.P.A. and M.I.C.P.A.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information, as 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 Government Auditing 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 August 26,2020, on our consideration of Escuela Avancemos! Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering Escuela Avancemos! Academy's internal control over financial reporting and compliance.

Wilkerson & Associate PC

August 26,2020

Wilkerson & Associate P.C.

CERTIFIED PUBLIC ACCOUNTANTS

3 PARKLANE BLVD. SUITE 612
DEARBORN, MICHIGAN 48126
313-982-4340 FAX 313-982-4342

LARRY WILKERSON, C.P.A.
THOMAS E. WILKERSON, C.P.A.

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*

To the Board of Directors of
Escuela Avancemos ! Academy

We have audited the financial statements of Escuela Avancemos ! Academy as of and for the year ended June 30, 2020, and have issued our report thereon dated August 26, 2020. 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

Escuela Avancemos ! Academy is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Escuela Avancemos ! Academy's internal control over financial reporting as a basis for designing our auditing 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 Escuela Avancemos ! Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Escuela Avancemos ! Academy'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 misstatements on a timely basis. *A material weakness* is a deficiency, or 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.

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

Members: A.I.C.P.A. and M.I.C.P.A.

To the Board of Directors of
Escuela Avancemos ! Academy

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Escuela Avancemos!Academy'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 for the information and use of the Board of Directors, management and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Wilkerson & Associate PC

August 26, 2020

Escuela Avancemos!
Management's Discussion and Analysis

Escuela Avancemos! Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. Those statements are organized so the reader can understand Escuela Avancemos! financially as a whole. The government-wide financial statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. These fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the Academy's operation in more detail than the government-wide financial statements by providing information about the Academy's most significant fund- The General Fund- with all other presented in one column as non-major funds. The components of the annual report are as follows:

Management's Discussion and Analysis (MD&A)
(Required Supplementary Information)

Basic Financial Statements
Government-wide Financial Statements- Fund Financial Statements
Notes to the Basic Financial Statements
(Required Supplementary Information)
Budgetary Information for Major Fund

Reporting the Academy as a Whole- Government-Wide Financial Statements

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Academy's net assets- the difference between assets and liabilities, as reported in the statement of net assets- as one way to measure the Academy's financial position. Over time, increases or decreases in the Academy's net assets- as reported in the statement of activities -are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of education provided and the safety of the school, to assess the overall health of the Academy.

The statement of net assets and the statement of activities report the governmental activities for the Academy, which encompasses all of the Academy's services, including instruction, support services, and athletics. Unrestricted state aid (foundation allowance revenue) and state and federal grants finance most of these activities.

**Escuela Avancemos!
Management's Discussion and Analysis (Continued)**

Reporting the Academy's Governmental Fund – Fund Financial Statements

The Academy's fund financial statements provide detailed information about the General Fund not the Academy as a whole. The governmental funds of the Academy use the following accounting approach:

Governmental Funds- All of the Academy's services are reported in the governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of operations of the Academy and services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. We describe the relationship (or difference) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund reconciliations.

The School District as a Whole

As discussed above, the Statement of Net Assets provides information of the Academy as a whole. Table 1 provides a summary of Escuela Avancemos! net position as of June 30, 2019 and 2020.

	Governmental Activities	
Assets	2020	2019
Current assets	\$ 787,080	\$716,128
	<u>787,080</u>	<u>716,128</u>
Total Assets		
	<u>787,080</u>	<u>716,128</u>
Liabilities		
Current Liabilities	207,863	184,867
<u>Net Position</u>		
Unrestricted	<u>579,217</u>	<u>531,261</u>
Total Net Position	<u>579,217</u>	<u>531,261</u>
Total Liabilities and Net Position	<u>\$ 787,080</u>	<u>\$716,128</u>

Net Position - The Academy's financial position increased from the prior period, based on an enrollment increase, increase to the per pupil foundation and a substantial donation from the Detroit Children's Fund . The Academy's financial position remains stable. At year end, the Academy's net position increased by \$47,956. The above analysis focuses on the net position (see Table 1). The change in net position (see Table 2) of the Academy's governmental activities is discussed below. Capital assets, recorded at historical cost, net of depreciation, totaled \$0. The unrestricted net assets balance will enable the Academy to meet working capital and cash flow requirements as well as to provide for future uncertainties.

The results of this year's operations for the Academy as a whole are reported in the statement of activities, which shows the change in net position for fiscal year ended June 30, 2020.

Escuela Avancemos!
Management's Discussion and Analysis (Continued)

Table 2- Summary of the Statement of Activities

	Governmental Activities	
Revenues	2020	2019
Program Revenues:		
Operating Grants and Contributions	\$ 754,545	\$ 592,506
General Revenues:		
State foundation allowance	2,474,823	2,390,960
Other	221,657	5,771
Total revenue	\$ 3,451,025	\$2,989,237
Function/Program Expenses:		
Instruction	\$ 1,153,795	\$1,114,966
Support Services	2,162,717	1,798,112
Facility Acquisition	86,557	1,777
Depreciation	9,925	9,925
Total expenses	\$ 3,403,069	\$2,924,780
Increase in net position	\$ 47,956	\$ 64,457

Increase in Net Assets

As reported in the statement of activities, the cost of all of our governmental activities this year was \$3,403,069. Certain activities were partially funded from those who benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions of \$754,545. We paid for the remaining "public benefit" portion of our governmental activities with \$2,696,480 in state foundation allowance and with our other revenues.

As discussed above, the net cost shows the financial burden that was placed on the Academy by each of these functions. Since unrestricted state aid constitutes the vast majority of the Academy operating revenue sources, the board of directors and administration must annually evaluate the needs of the Academy and balance those needs with state-prescribed available unrestricted resources.

Capital Assets

There are no capital assets reported in the Statement of Net Assets or the Fund Statements. The Academy has adopted a \$5,000 threshold for the capitalization of assets and historical purchases have been fully depreciated. No capital assets were purchased in the 2019/20 fiscal year.

The Academy's Funds

As we noted earlier, the Academy uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Academy is being accountable for the resources the state and others provide to it and may provide insight into the Academy's overall financial health.

Escuela Avancemos! Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights:

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditure does not exceed appropriations. The final amendment to the budget was actually adopted just before year end. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in the required supplementary information of these financial statements.

There were revisions made to the 2019-2020 General Fund original budgets. Budgeted revenues decreased to reflect anticipated reductions in State Aid.

Economic Factors Affecting Next Year's Budgets:

The Academy's administration considered many factors when setting the Academy's 2021 fiscal year's budget. One of the most important factors affecting the budget is the Academy's student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. Currently the foundation allowance is \$8,111 for fiscal year 2019-2020 less \$175 per student for a net of \$7,936. The blended count for the 2020-2021 fiscal years is 75 percent of the 19/20 blended count and 25 percent of the 20/21 blended student count. This type of funding is based on parameters set by the Michigan Department of Education that schools must meet to receive performance based funding. The 2021 budget was adopted in June 2020, based on estimated number of students that will be enrolled in September 2020 rather than the 2019/2020 enrollment. As additional information becomes available the Academy will need to amend the budget. Approximately 85 percent of the total general fund revenue is from the foundation allowance. As a result, the Academy funding is heavily dependent on the state's ability to fund local school operations, thus the Academy is looking for an increase in student enrollment for the 2020/21 fiscal year of approximately 7% percent through the advertisement of Escuela Avancemos! and expansion of grades K-6 to K-7.

ESCUELA AVANCEMOS
STATEMENT OF NET POSITION
JUNE 30, 2020

	Governmental Activities
	General Fund
Assets	
Cash	\$ 52,068
Due from other governmental units	709,128
Prepaid Expenses	9,500
Security Deposits	16,384
Total assets	787,080
Liabilities	
Accounts payable	71,310
Notes payable	80,730
Accrued wages	
Accrued Liabilities	55,823
Total liabilities	207,863
Net Position	
Unrestricted	579,217
Total net position	\$ 579,217

See accompanying notes to financial statements

**ESCUELA AVANCEMOS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expenses) Revenues and Changes in Net Position</u>
Governmental Activities				
Governmental activities:				
Instruction	\$ 1,153,795	\$ -	\$ 490,111	\$ (663,684)
Support services	2,162,717		264,434	(1,898,283)
Facility acquisition	86,557			(86,557)
Total governmental activities	<u>\$ 3,403,069</u>	<u>\$ -</u>	<u>\$ 754,545</u>	<u>(2,648,524)</u>
General revenues				
				2,474,823
				221,657
				<u>Incoming transfers</u>
				<u>2,696,480</u>
				Change in Net Position
				47,956
				<u>Net Position - Beginning of year</u>
				531,261
				<u>Net Position - End of year</u>
				<u>\$ 579,217</u>

See accompanying notes to financial statements

**ESCUELA AVANCEMOS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2020**

ASSETS

	General Fund	Total Governmental Funds
Cash	52,068	52,068
Due from other governmental units	709,128	709,128
Security Deposits	16,384	16,384
Prepaid Expenses	9,500	9,500
Total Current Assets	787,080	787,080
Total assets and deferred outflows	787,080	787,080

LIABILITIES AND FUND BALANCES

Liabilities		
Accounts payable	71,310	71,310
Notes payable	80,730	80,730
Deferred revenue	59,512	59,512
Accrued liabilities	55,823	55,823
Total liabilities	267,375	267,375
 Fund Balances		
Non-Spendable Fund Balance:		
Restricted fund balance	59,512	59,512
Unassigned fund balance	460,193	460,193
Total fund balances	519,705	519,705
Total liabilities and fund balances	787,080	787,080

See accompanying notes to financial statements

**ESCUELA AVANCEMOS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2020**

Total Fund Balances - Governmental Funds	\$ 519,705
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, not reported as assets in governmental funds

Cost of capital assets		
Accumulated depreciation		

Grants received in advance of services being performed or goods being purchased are not recognized in the funds.	59,512
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Total Net Position - Governmental Activities	\$ 579,217
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See accompanying notes to financial statements

ESCUELA AVANCEMOS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2020

	General Fund	Total Governmental Funds
Revenues		
Local sources	221,886	221,886
Intermediate sources		
State sources	2,746,520	2,746,520
Federal sources	430,382	430,382
Incoming Transfers and Other Transaction	1,021	1,021
Total revenues	3,399,809	3,399,809
Expenditures		
Current:		
Instruction	1,153,795	1,153,795
Support services:		
Pupil support services	87,439	87,439
Instructional staff services	155,695	155,695
General administration services	401,741	401,741
School administration services	406,214	406,214
Business services	94,677	94,677
Operations and maintenance	593,948	593,948
Transportation	248,728	248,728
Central	156,775	156,775
Community Services	17,500	17,500
Facility acquisition	86,557	86,557
Fund Modifications	0	0
Total expenditures	3,403,069	3,403,069
Excess (Deficiency) of Revenues Over Expenditures	-3,260	-3,260
Net Change in Fund Balances	-3,260	-3,260
Fund Balances - Beginning of Year	522,965	522,965
Fund Balances - End of Year	519,705	519,705

ESCUELA AVANCEMOS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

Total Net Change in Fund Balances - Governmental Funds	\$	(3,260)
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Amounts reported for governmental activities in the statement of activities are different because: -

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense				
Capital outlay	-			

Revenue is reported in the statement of activities when received: they are not reported in the funds until earned.

Current year deferred revenue		51,216
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Change in Net Position of Governmental Activities	\$	<u>47,956</u>
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See accompanying notes to financial statements

Notes to Financial Statements
June 30, 2020

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Escuela Avancemos! (the "Academy") conform to accounting principles accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy:

Reporting Entity

The Academy 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 Academy was established on July 1, 2012 as a Public School Academy. The Academy is located in the metropolitan Detroit area providing education for approximately 300 kindergarten through sixth grade students.

The Academy entered into a new five year contract with Central Michigan University as of 7/1/2019. The contract requires the Academy to act exclusively as a public school and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. Central Michigan University 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 Central Michigan University 3 percent of state aid as administrative fees. The total administrative fees for the year ended June 30, 2020 to the Central Michigan University were approximately \$74,003.

Administrative Services- The Academy entered into a management agreement effective through June 30, 2024 with Sanga Educational Partners Inc. for a fee of twelve percent of state aid. The Management Company is responsible for complete management, operation, administration and education of the Academy. The Academy subcontracts all employees from the management company and reimburses the management company for operating costs. The Academy incurred management fees totaling \$302,536 for the year ended June 30, 2020.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributors; and (3) capital grants and contributors. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all unrestricted state and federal aid.

Escuela Avancemos!
Notes to Financial Statements
June 30, 2020 (continued)

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

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 Academy.

The Academy reports the following major governmental fund:

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

Additionally, the Academy reports the following fund type:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

Special Revenue Funds are used to segregate, for administrative purposes, the transactions of particular activities from regular revenue and expenditure accounts. There are no Special Revenue Funds maintained by the Academy account for food services.

Assets, Liabilities and Net Assets or Equity

Cash and Investments – Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of twelve months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Accounts receivable are shown net of allowance for uncollectible amounts.

Prepaid Expenses- Prepaid expenses represent amount advanced to the Management Company for payment of Academy expenses.

Capital Assets- Capital assets, which include building improvements and furniture and equipment, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Costs of normal repair and

Escuela Avancemos!
Notes to Financial Statements
June 30, 2020 (continued)

maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure-type assets.

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position – Net position represents the difference between assets, deferred outflows, liabilities and deferred inflows. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Fund Equity – The Academy adopted GASB 54 as part of its fiscal year reporting. The intention of GASB 54 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.

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 into 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.

Non-spendable: Amounts that are not in spendable form or are legally or contractually required to be maintained intact

Restricted: Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose

Committed: Amounts that have been formally set aside by the Board of the Academy for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Board of the Academy

Assigned: Intent to spend resources on specific purposes expressed by the Board of the Academy or CEO, who is authorized by resolution approved by the Board of the Academy to make assignments

Unassigned: The residual classification of the General Fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

Comparative Data - Comparative data is not included in the Academy's financial statements.

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

Escuela Avancemos!
Notes to Financial Statements
June 30, 2020 (continued)

NOTE 2- STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information- Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year-end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The Academy increased budgeted amounts during the year in response to changes in enrollment and related revenues and expenditures.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures over Appropriations in Budgeted Funds – The Academy incurred expenditures in the General Fund in excess of budgeted amounts as shown below

	Final Budget	Actual	Total
Pupil Support	87,096	87,439	343
School Administration	392,860	406,214	13,354
Central Support	131,442	155,525	24,083
	\$ 611,398	\$ 649,178	\$ 37,780

NOTE 3 – DEPOSITS AND INVESTMENTS

State statutes and the Academy's investment policy authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan; the Academy is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, banker's 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. The Academy's deposits are in accordance with statutory authority.

The Academy has designated one bank for the deposit of its funds.

The Academy's cash and investments are subject to several types of risks, which are examined in more detail below:

Escuela Avancemos!
Notes to Financial Statements
June 30, 2018 {Continued}

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk of Bank Deposits – Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the Academy's deposits. At year end, the Academy's deposit balance was \$63,092 of bank deposits of which all were insured by FDIC.

Custodial Credit Risk of Investments- Custodial credit risk of investments 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 does not have an investment policy for custodial credit risk. The Academy does not have investments with custodial risk.

Interest Rate Risk- Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates.

Credit Risk – State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations.

At year end, the Academy had no investments.

Concentration of Credit Risk – The Academy places no limit on the amount the Academy may invest in any one issuer. The Academy does not have a policy to minimize concentration of credit risk.

Foreign Currency Risk- Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange. State law and the Academy's policy prohibit investment in foreign currency.

NOTE 4- RECEIVABLES AND DEFERRED REVENUE

Receivables as of year-end for the Academy's individual major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>
State of Michigan	\$ 467,951
Federal	241,177
	<u>\$ 709,128</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, deferred revenue was recorded in the amount of \$59,512 representing state funds that had not been expended.

Escuela Avancemos!
Notes to Financial Statements
June 30, 2018 {Continued}

NOTE 5- OPERATING LEASES

The Academy entered into an operating lease agreement with the Arch Diocese of Detroit on July 1, 2019 that expires on June 30, 2024. A second lease agreement with Innovative Modular Solutions provides a modular building on the property. The Academy is responsible for insurance, repairs and maintenance of the building. The Academy incurred rent expense of \$282,316 for the year ended June 30, 2020.

NOTES-NOTES PAYABLE

The Academy borrowed \$480,000 at an interest rate of 3.65 percent. The borrowing was utilized for working capital. Interest paid during the school year was \$8,842. The outstanding balance as of June 30, 2020 was \$80,730.

NOTE 7- DEFINED PENSION PLAN

The Academy did not participate in the Michigan Public School Employees' Retirement System (MPSERS). The Academy's employees are leased from Academy Management Company. Therefore, no pension plan disclosure is deemed necessary.

NOTE 8- LEASED EMPLOYEES

The Academy leases substantially its entire staff from its Sanga Educational Partners. Sanga Educational Partners (SEP) is responsible for providing personnel to the Academy and the Academy shall reimburse SEP for its payment of all such compensation as approved by the Board and provided for in the budget.

NOTE 9 – RISK MANAGEMENT

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The risk of employee injuries and medical benefits for employees of the management company is covered by insurance held by the employee leasing company. The Academy has purchased commercial insurance for all other claims.

NOTE 10- CONTINGENCIES

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds.

Escuela Avancemos!
Notes to Financial Statements
June 30, 2018 {Continued}

NOTE 11—SUBSEQUENT EVENTS

In September 2020, the Academy will close on a SAN loan in the amount of \$785,000 at an interest rate of 3.45 percent. The loan documents were fully executed on August 17, 2020. Subsequent events have been evaluated through August 26, 2020, which is the date the financial statements were available to be issued. Events occurring after the date have not been evaluated to determine whether a change in the financial statements would be required.

REQUIRED SUPPLEMENTAL INFORMATION

Escuela Avancemos
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2020

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances Over/(Under)</u>
	<u>Original</u>	<u>Final</u>		<u>Final to Actual</u>
Revenues				
Local revenues	\$ -	\$ 218,682	\$ 221,886	\$ (3,204)
State program revenues	2,814,237	2,657,815	2,746,520	\$ (88,705)
Federal program revenues	239,872	1,082,571	430,382	\$ 652,189
Other revenue		1,021	1,021	
		-		
Total revenues	3,054,109	3,960,089	3,399,809	560,280
Expenditures				
Current				
Instructional services	1,135,701	1,408,236	1,153,795	254,441
Supporting services				
Pupil support services	90,606	87,096	87,439	(343)
Staff support services	226,618	370,770	155,695	215,075
Other Educational media services	-	-	-	
General administration services	402,802	434,528	401,741	32,787
School administration services	325,113	392,860	406,214	(13,354)
Business services	69,600	122,400	94,677	27,723
Operations and maintenance	503,980	619,252	593,948	25,304
Transportation	267,938	381,219	248,728	132,491
Central	33,600	132,692	155,525	(22,833)
Other Support Services			1,250	
Community services	17,393	33,768	17,500	16,268
Other Financing Uses	86,557			
Facilities Acquisition		86,557	86,557	-
Fund Modifications	-		-	-
Total expenditures	3,159,908	4,069,378	3,403,069	667,559
Excess (Deficiency) of Revenues Over Expenditures	(105,799)	(109,289)	(3,260)	106,029
Other Financing Sources (Uses)				
Operating transfers - out				-
Total other financing sources (uses)	-	-	-	-
Net Change in Fund Balance	(105,799)	(109,289)	(3,260)	106,029
Fund Balance - Beginning of year	229,208	522,965	522,965	
Fund Balance - End of year	\$ 123,409	\$ 413,676	\$ 519,705	\$ 106,029

**ESCUELA AVANCEMOS! ACADEMY
REPORT TO THE BOARD OF DIRECTORS**

JUNE 30, 2020

Wilkerson & Associate P.C.

CERTIFIED PUBLIC ACCOUNTANTS

3 PARKLANE BLVD. SUITE 612
DEARBORN, MICHIGAN 48126
313-982-4340 FAX 313-982-4342

LARRY WILKERSON, C.P.A.
THOMAS E. WILKERSON, C.P.A.

To the Board of Directors of
Escuela Avancemos! Academy

We have recently completed our audit of the basic financial statements of Escuela Avancemos! Academy (the "Academy") as of and for the year ended June 30, 2020. In addition to our audit report, we are providing the following required audit communication, recommendations, and informational items which impact the Academy:

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Results of Audit	2-5
Recommendations	6
Informational Items	6-7

We are grateful for the opportunity to be of service to Escuela Avancemos! Academy. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Wilkerson & Associate PC

August 26, 2020

Members: A.I.C.P.A. and M.I.C.P.A.

To the Board of Directors
Escuela Avancemos! Academy
August 26, 2020

Results of the Audit

We have audited the financial statements of Escuela Avancemos! Academy (the “Academy”) as of and for the year ended June 30, 2020 and have issued our report thereon dated August 26, 2020. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated January 31, 2020, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Academy. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Our audit of the Academy’s financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of the Academy’s compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated August 26, 2020 regarding our consideration of the Academy’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

To the Board of Directors
Escuela Avancemos! Academy
August 26, 2020

We are also obligated to communicate certain matters related to our audit of those responsible for the governance of the Academy, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* require disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters during the preliminary audit phase.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter. We will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Academy 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 the year ended June 30, 2020.

We noted no transactions entered into by the Academy during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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. There were no significant estimates included in this year's financial statements.

To the Board of Directors
Escuela Avancemos! Academy
August 26, 2020

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statements disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive disclosures included in the financial statements.

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. There were no such misstatements identified.

Disagreements with Management

For the purpose 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 statement 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 as of the date of the audit report.

Management Consultants 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 consultant involves application of an accounting principle to the Academy'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.

To the Board of Directors
Escuela Avancemos! Academy
August 26, 2020

Other Audit Findings or Issues

In the normal course of our professional association with the Academy, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Academy, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the Academy's auditors.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the Academy's financial statements and report does not extend beyond the financial statements. We do not have an obligation to determine whether or not such information is properly stated. However, we read the management's discussion and analysis and budgetary comparison schedule and nothing came to our attention that caused us to believe that such information, or its manner of presentation is materially inconsistent with the information or manner of its presentation in the financial statements.

In addition to the comments and recommendations in this letter, our observations and comments regarding the Academy's internal controls, including any significant deficiencies or material weaknesses that we identified, have been reported to you in the 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*.

This information is intended solely for the use of the board of directors and management of Escuela Avancemos! Academy and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Wilkerson & Associate PC

Larry D. Wilkerson, CPA

Escuela Avancemos! Academy
August 26, 2020

Recommendations

ESCUELA AVANCEMOS! ACADEMY RECOMMENDATIONS

As a result of auditing standards required to be implemented last year, the audit continues to require a strong emphasis to be placed on the Academy's internal control systems. The primary goal of internal controls is to provide a reasonable (as opposed to absolute) protection to the Academy and its assets and financial information. During this year's audit process, we noted no items that required management to make changes; therefore, no recommendations are made for this year.

Informational Items

ESCUELA AVANCEMOS! ACADEMY

August 26, 2020

GASB Statement No. 87 – Leases

This statement is effective for the first time in the School District's June 30, 2022 financial statements. The statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows or outflows of resources based on payment provisions of the lease. The statement was issued to improve accounting and financial reporting for leases by governments. The statement establishes a single model for lease accounting for both lessees and lessors based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The School District will have to identify and analyze all significant lease contracts to determine the lease asset and lease liability or deferred inflow or outflow of resources that will be required to be recognized upon implementation of the standard.

Lessee Accounting under GASB 87

A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the maximum lease term per the lease contract is 12 months or less, or it transfers ownership of the underlying asset. The lease liability is measured at the present value of lease payments expected to be made during the lease term (less any lease incentives). The right-to-use asset is measured at the amount of initial measurement of the lease liability, plus any payments made to the lessor at or before commencement of the lease term and certain direct costs incurred to place the leased asset in service. The lessee should reduce the lease liability as payments are made and recognize an outflow of resources (i.e., expense) for interest on the liability. The lease asset should be amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.