

**ESCUELA AVANCEMOS!
ACADEMY**

**Financial Report
with Supplemental Information
June 30, 2017**

ESCUELA AVANCEMOS! ACADEMY

CONTENTS

FINANCIAL STATEMENTS

Independent auditor's report	1 - 2
Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	3 - 4
Management's discussion and analysis	5 - 8

BASIC FINANCIAL STATEMENTS

Government-wide financial statements:	
Statement of net position	9
Statement of activities	10
Fund financial statements:	
Governmental funds:	
Balance sheet	11
Reconciliation of the governmental funds balance to the statement of net position	12
Statement of revenues, expenditures, and changes in fund balances	13
Reconciliation of the governmental funds statement of revenues, expenditures, and changes in fund balances to the statement of activities	14
Notes to financial statements	15 - 21

REQUIRED SUPPLEMENTAL INFORMATION

Budgetary comparison schedule - general fund	22
--	----

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

Board of Directors
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, 2017, 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, 2017, 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 November 1, 2017, 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

November 1, 2017

**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, 2017, and have issued our report thereon dated November 1, 2017. 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

November 1, 2017

Escuela Avancemos! Academy 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! Academy 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! Academy
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! Academy's net position as of June 30, 2017 and 2016

	Governmental Activities	
Assets	2016	2017
Current assets	\$ 762,131	\$605,164
Capital assets- net of accumulated depreciation	<u>36,737</u>	<u>23,331</u>
Total Assets	<u>798,868</u>	<u>628,495</u>
Liabilities		
Current Liabilities	400,049	304,904
<u>Net Position</u>		
Invested in capital assets	36,737	23,331
Non-spendable	298,322	71,643
Unrestricted	<u>63,760</u>	<u>228,617</u>
Total Net Position	<u>398,819</u>	<u>323,591</u>
Total Liabilities and Net Position	<u>\$ 798,868</u>	<u>\$628,495</u>

Net Position - The Academy's financial position decreased slightly from the prior period, based on prior period adjustments. The Academy's financial position remains stable. At year end, the Academy's net position increased by \$153,320. 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 \$23,331. 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.

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

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, 2017.

Table 2- Summary of the Statement of Activities

	Governmental Activities	
Revenues	2016	2017
Program Revenues:		
Operating Grants and Contributions	\$ 392,097	\$ 494,502
General Revenues:		
State foundation allowance	2,032,971	2,222,015
Other	39,620	60,311
Total revenue	<u>\$ 2,464,688</u>	<u>\$2,776,828</u>
Function/Program Expenses:		
Instruction	\$ 747,631	\$1,018,432
Support Services	1,441,550	1,605,076
Central services	78,964	
Depreciation	13,406	13,406
Total expenses	<u>\$ 2,281,551</u>	<u>\$2,623,508</u>
Increase in net position	<u>\$ 183,137</u>	<u>\$ 153,320</u>

Increase in Net Assets

As reported in the statement of activities, the cost of all of our governmental activities this year was \$2,623,508. 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 \$494,502. We paid for the remaining "public benefit" portion of our governmental activities with \$2,776,828 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.

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! Academy 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 2016-2017 General Fund original budgets. Budgeted revenues increased to represent actual amounts received in State Aid and Federal allocations.

Economic Factors Affecting Next Year's Budgets:

The Academy's administration considered many factors when setting the Academy's 2018 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 \$7,511 for fiscal year 2016-2017. The blended count for the 2016-2017 fiscal years is 10 percent and 90 percent of February 2016 and September 2017 student count, respectively. 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 2018 budget was adopted in June 2017, based on estimated number of students that will be enrolled in September 2017. 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 2018 fiscal year of approximately 10% percent through the advertisement of Escuela Avancemos! Academy and expansion of grades K-5.

Escuela Avancemos! Academy
Statement of Net Position - Governmental Activities
June 30, 2017

Assets

Assets

Cash and investments	\$ 13,927
Due from governmental units	519,594
Prepaid expenses	71,643
Total current assets	<u>605,164</u>

Capital Assets- Net of Accumulated Depreciation	<u>23,331</u>
--	---------------

Total assets and deferred outflows	<u>\$ 628,495</u>
------------------------------------	-------------------

Liabilities and Net Position

Liabilities

Accounts payable	32,335
Accrued payroll and related liabilities	156,956
Other accrued liabilities	56,768
Notes payable	58,845
Total Liabilities	<u>304,904</u>

Net Position

Invested in capital assets - net of related debt	23,331
Unrestricted	300,260
Total Net Position	<u>323,591</u>
Total liabilities, deferred inflows and net position	<u>\$ 628,495</u>

The accompanying notes are an integral part of these financial statements

Escuela Avancemos! Academy
Statement of Activities
Year Ended June 30, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental Activities Net (Expenses) Revenues and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities				
Governmental activities:				
Instruction	\$ 1,018,432	\$ -	\$ 412,637	\$ (605,795)
Support services	1,605,076		81,865	(1,523,211)
Depreciation (Unallocated)	<u>13,406</u>			<u>(13,406)</u>
Total governmental activities	<u>\$ 2,636,914</u>	<u>\$ -</u>	<u>\$ 494,502</u>	<u>(2,142,412)</u>
General revenues				
				2,222,015
				<u>60,311</u>
				<u>2,282,326</u>
				Change in Net Position
				139,914
				<u>183,677</u>
				Net Position - End of year
				<u>323,591</u>

**Escuela Avancemos! Academy
Balance Sheet- Governmental Funds
June 30, 2017**

	<u>Governmental Funds</u>
	<u>General Fund</u>
Assets	
Cash and cash equivalents	\$ 13,927
Due from other governmental units	519,594
Prepaid expenses	71,643
Total assets	<u>\$ 605,164</u>
Liabilities	
Accounts payable	\$ 32,335
Accrued payroll and benefits	156,956
Other accrued liabilities	56,768
Notes payable	58,845
Total liabilities	<u>304,904</u>
Fund Balances	
Non-spendable	71,643
Unrestricted	228,617
Total fund balance	<u>300,260</u>
Total liabilities and fund balances	<u>\$ 605,164</u>

The accompanying notes are an integral part of these financial statements

Escuela Avancemos! Academy
Reconciliation of the Governmental
Fund Balance to Statement of Net Position of Governmental Activities
Year Ended June 30, 2017

Fund Balance -Total governmental funds \$ 300,260

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

Capital assets used in governmental activities are not financial resources and are not reported in governmental funds	Cost of capital assets	69,887	
	Accumulated depreciation	<u>(46,556)</u>	
			<u>23,331</u>

Total Net Position -Governmental activities \$ 323,591

The accompanying notes are an integral part of these financial statements

**Escuela Avancemos! Academy
Governmental Funds
Statement of Revenue, Expenditures, and Changes in Fund Balance
Year Ended June 30, 2017**

	<u>Governmental Funds</u> General Fund
Revenues	
Local sources	\$ 60,311
State sources	2,456,198
Federal sources	260,319
Total revenues	<u>2,776,828</u>
Expenditures	
Current	
Instruction services	
Basic programs	827,518
Added needs	190,914
Support services	
Pupil support	95,077
Instructional support	77,348
General administration	368,832
School administration	372,951
Business support services	25,532
Operation and maintenance	337,371
Pupil transportation and services	258,760
Central services	55,025
Community Services	14,180
Total expenditures	<u>2,623,508</u>
Excess of Revenue Over Expenditures	153,320
Fund Balances - Beginning of year (restated)	<u>146,940</u>
Fund Balances - End of year	<u>\$ 300,260</u>

The accompanying notes are an integral part of these financial statements

Escuela Avancemos! Academy

Reconciliation of the Statement of Revenue, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2017

Net Change in Fund Balance- Total governmental funds	\$ 153,320
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation or amortization: Depreciation and amortization expense	<u>(13,406)</u>
Change in Net Position of Governmental Activities	<u>\$ 139,914</u>

The accompanying notes are an integral part of these financial statements

Escuela Avancemos! Academy
Notes to Financial Statements
June 30, 2017

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Escuela Avancemos! Academy (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 200 kindergarten through fifth grade students.

On August 15, 2014, the Academy entered into a five year contract with the Detroit Public Schools to charter a Public School Academy. The contract requires the Academy to act exclusively as an authorizer and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. Detroit Public Schools 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 Detroit Public Schools 3 percent of state aid as administrative fees. The total administrative fees for the year ended June 30, 2016 to the Detroit Public Schools were approximately \$66,436.

Administrative Services- The Academy entered into a management agreement effective through August 31, 2012 with Sanga Educational Partners Inc. for a fee of ten percent of state aid. This agreement was extended through June 30, 2019 to correspond with the Charter Contract. 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 \$264,991 for the year ended June 30, 2017.

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! Academy
Notes to Financial Statements
June 30, 2017 {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.

The Special Revenue Funds are used to segregate, for administrative purposes, the transactions of particular activities from regular revenue and expenditure accounts. The 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 \$1,500 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 maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure-type assets.

Escuela Avancemos! Academy
Notes to Financial Statements
June 30, 2017 (continued)

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 of 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! Academy
Notes to Financial Statements
June 30, 2017 (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
Basic Instruction	806,800	827,518	20,718
General Administration	32,600	35,185	2,585
Executive Administration	314,911	333,647	18,736
Operations and Maintenance	331,960	337,371	5,411
	<u>\$ 1,486,271</u>	<u>\$ 1,533,721</u>	<u>\$ 47,450</u>

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! Academy
Notes to Financial Statements
June 30, 2017 (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 \$28 of bank deposits of which 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	\$ 446,834
Federal	72,760
	<u>\$ 519,594</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, there was no deferred revenue.

Escuela Avancemos! Academy
Notes to Financial Statements
June 30, 2017 (continued)

NOTE 5- OPERATING LEASES

The Academy entered into an operating lease agreement with School District of City of Detroit on August 1, 2012 that expired on July 31, 2015. The Lease was renewed for an additional period ending July 31, 2018. The Academy is responsible for insurance, repairs and maintenance of the building. The Academy incurred rent expense of \$85,433 for the year ended June 30, 2017.

NOTES-NOTES PAYABLE

The Academy borrowed \$350,000 at an interest rate of 3.25 percent. The borrowing was utilized for working capital. Interest paid during the school year was \$1,758. The outstanding balance as of June 30, 2017 was \$58,845.

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! Academy
Notes to Financial Statements
June 30, 2017 {Continued}

NOTE11-SUBSEQUENTEVENTS

In September 2017, the Academy borrowed \$310,000 at an interest rate of 5.00 percent. Subsequent events have been evaluated through November 1, 2017, 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.

NOTE12 - RESTATEMENT OF BEGINNING NET POSITION

The restatement of the beginning of the year of general net position is as follows:

Balance as previously stated June 30, 2016	Net Position \$398,819
Adjustment to Incorrect Calculation of Prior Year Prepaid Expense	(188,725)
Adjustment to Incorrect Calculation of Prior Year Accounts Payable	(26,417)
NET POSITION AS RESTATED JUNE 30 2016	\$183,677

Required Supplemental Information

Escuela Avancemos! Academy
Required Supplemental Information
Budget Comparison Schedule - General Fund
June 30, 2016

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 53,040	\$ 64,490	\$ 60,311	\$ (4,179)
State sources	2,417,429	2,456,129	2,456,198	69
Federal sources	219,093	250,117	260,320	10,203
	<u>2,180,312</u>	<u>2,770,736</u>	<u>2,776,828</u>	<u>6,092</u>
Total revenue				
Expenditures				
Instruction:				
Basic programs	703,012	806,800	827,518	20,718
Added needs	<u>235,136</u>	<u>184,897</u>	<u>190,911</u>	<u>6,014</u>
Total instruction	938,148	991,697	1,018,429	(26,732)
Support services:				
Pupil support	102,973	125,500	95,078	(30,422)
Instructional	51,042	99,174	77,349	(21,825)
General administration	340,538	347,511	368,832	21,321
School administration	389,784	389,470	372,951	(16,519)
Business support services	76,000	36,095	25,533	(10,562)
Operation and maintenance	348,745	331,960	337,371	5,411
Pupil transportation and services	304,008	260,380	258,760	(1,620)
Central services	88,600	59,000	55,026	(3,974)
Community services	<u>5,000</u>	<u>4,600</u>	<u>14,180</u>	<u>(9,580)</u>
Total support services	1,706,689	1,653,690	1,605,079	(48,611)
Total expenditures	<u>2,644,837</u>	<u>2,645,387</u>	<u>2,623,508</u>	<u>(21,879)</u>
Excess of Revenue Over Expenditures	44,725	125,349	153,320	27,971
Fund Balance - July 1, 2016	<u>272,272</u>	<u>362,082</u>	<u>146,940</u>	<u>(215,142)</u>
Fund Balance- June 30, 2017	<u>\$ 316,997</u>	<u>\$ 487,431</u>	<u>\$ 300,260</u>	<u>\$ (187,171)</u>

Escuela Avancemos! Academy
Required Supplemental Information
Budget Comparison Schedule - General Fund
June 30, 2017

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 53,040	\$ 64,490	\$ 60,311	\$ (4,179)
State sources	2,417,429	2,456,129	2,456,198	69
Federal sources	219,093	250,117	260,320	10,203
	<u>2,180,312</u>	<u>2,770,736</u>	<u>2,776,828</u>	<u>6,092</u>
Total revenue				
Expenditures				
Instruction:				
Basic programs	703,012	806,800	827,518	20,718
Added needs	<u>235,136</u>	<u>184,897</u>	<u>190,911</u>	<u>6,014</u>
Total instruction	938,148	991,697	1,018,429	(26,732)
Support services:				
Pupil support	102,973	125,500	95,078	(30,422)
Instructional	51,042	99,174	77,349	(21,825)
General administration	340,538	347,511	368,832	21,321
School administration	389,784	389,470	372,951	(16,519)
Business support services	76,000	36,095	25,533	(10,562)
Operation and maintenance	348,745	331,960	337,371	5,411
Pupil transportation and services	304,008	260,380	258,760	(1,620)
Central services	88,600	59,000	55,026	(3,974)
Community services	<u>5,000</u>	<u>4,600</u>	<u>14,180</u>	<u>(9,580)</u>
Total support services	1,706,689	1,653,690	1,605,079	(48,611)
Total expenditures	<u>2,644,837</u>	<u>2,645,387</u>	<u>2,623,508</u>	<u>(21,879)</u>
Excess of Revenue Over Expenditures	44,725	125,349	153,320	27,971
Fund Balance - July 1, 2016	<u>272,272</u>	<u>362,082</u>	<u>146,940</u>	<u>(215,142)</u>
Fund Balance- June 30, 2017	<u>\$ 316,997</u>	<u>\$ 487,431</u>	<u>\$ 300,260</u>	<u>\$ (187,171)</u>

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

JUNE 30, 2017

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
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, 2017. In addition to our audit report, we are providing the following required audit communication, recommendations, and informational items which impact the Academy:

	<u>Page(s)</u>
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

November 1, 2017

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

To the Board of Directors
Escuela Avancemos ! Academy
November 1, 2017

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, 2017 and have issued our report thereon dated November 1, 2017. 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 February 28, 2017, 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 November 1, 2017 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
November 1, 2017

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, 2017.

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
November 1, 2017

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
November 1, 2017

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

To the Board of Directors
Escuela Avancemos ! Academy
November 1, 2017

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 the following:

Audit Timing: The Academy has to commit to starting the annual audit earlier than the current year to make certain that there is enough time to file audit report and submit the FID on or before November 1st each year:

We recommend that in the future you engage an auditor before year-end to conduct a preliminary audit. Also, engage the auditor to start before October 15th to allow time for the fieldwork , review and proper financial report preparation time, to ensure that audit is filed timely.

Informational Items

ESCUELA AVANCEMOS ! ACADEMY

Cybersecurity and data backup best practices

The Academy's data is critically important. There are thousands of ways data can be compromised. It is vitally important that all employees and staff have proper knowledge on what is safe to click on and what is not. It is equally important that a proper data backup solution is in place in the event a Academy's information is targeted by malware or a fraudulent email attack. A School's vital information is always a moment away from being compromised. Encouraging and educating all staff to pay attention to what they click on and what they do is the first step in keeping information safe.

Having a proper data backup solution in place can mean the difference between a Academy's surviving a cyber-attack or losing valuable data and time. Every School should know the answer to two questions when looking at data backup solutions.

1. Does your School understand the difference between a backup and disaster recovery?

Management often assumes that simply backing up files is “good enough”. Backing up files is something all Schools should do. However, it's important to remember that restoring files and emails is one thing, but recovering and restoring all School's data in the event of a disaster is another.

2. How long can my School survive a network outage?

Many Schools assume that they are properly backing up their network but often are those backups tested. Internally managed backups are more susceptible to lack of testing. Management often believes they have successful backups but in the moment of a disaster, they find out that their last successful backup was months ago. Test backups often to make sure files can be recovered when needed.

EARLY WARNING INDICATORS

Early Warning Legislation was enacted July 7, 2015 to address districts and Public School Academies with early warning indicators of financial stress. This legislation included five legislative bills that address any district or PSA with a general fund balance of less than 5% of the general fund revenue in either of the two most recent fiscal years. These schools are required to send budgetary assumptions to the Center for Educational Performance and Information (CEPI). The MDE and Department of Treasury analyze and review this information in an effort to make determinations of potential financial stress. The Office of State Aid and School Finance worked collaboratively with the Department of Treasury to help those districts identified as being in financial stress either through an administrative review conducted by the school district's ISD or the academy's authorizer or through increased reporting to the Department of Treasury. The goal is to prevent districts or academies from going into a budget deficit.