

**ESCUELA AVANCEMOS!
ACADEMY**

**Financial Report
with Supplemental Information
June 30, 2018**

ESCUELA AVANCEMOS! ACADEMY

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Wilkerson & Associate P.C.

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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, 2018, 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, 2018, 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 24, 2018, 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 24, 2018

**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, 2018, and have issued our report thereon dated August 24, 2018. 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 24, 2018

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, 2017 and 2018.

	Governmental Activities	
Assets	2018	2017
Current assets	\$ 621,790	\$605,164
Capital assets- net of accumulated depreciation	<u>9,925</u>	<u>23,331</u>
Total Assets	<u>631,715</u>	<u>628,495</u>
Liabilities		
Current Liabilities	164,911	304,904
<u>Net Position</u>		
Invested in capital assets	9,925	23,331
Non-spendable		71,643
Unrestricted	<u>456,879</u>	<u>228,617</u>
Total Net Position	<u>466,804</u>	<u>323,591</u>
Total Liabilities and Net Position	<u>\$ 631,715</u>	<u>\$628,495</u>

Net Position - The Academy's financial position increased from the prior period, based on an enrollment increase. The Academy's financial position remains stable. At year end, the Academy's net position increased by \$143,213. 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 \$9,925. 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!
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, 2018.

Table 2- Summary of the Statement of Activities

	Governmental Activities	
Revenues	2018	2017
Program Revenues:		
Operating Grants and Contributions	\$ 527,732	\$ 494,502
General Revenues:		
State foundation allowance	2,345,250	2,222,015
Other	48,669	60,311
Total revenue	<u>\$ 2,393,919</u>	<u>\$2,776,828</u>
Function/Program Expenses:		
Instruction	\$ 1,159,201	\$1,018,432
Support Services	1,592,091	1,605,076
Other services	13,740	
Depreciation	13,406	13,406
Total expenses	<u>\$ 2,778,438</u>	<u>\$2,623,508</u>
Increase in net position	<u>\$ 143,213</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 \$2,778,438. 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 \$527,732. We paid for the remaining "public benefit" portion of our governmental activities with \$2,393,919 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.

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 2017-2018 General Fund original budgets. Budgeted revenues decreased 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 2019 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 \$7,631 for fiscal year 2017-2018. The blended count for the 2017-2018 fiscal years is 10 percent and 90 percent of February 2017 and September 2018 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 2019 budget was adopted in June 2018, based on estimated number of students that will be enrolled in September 2018. 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 3% percent through the advertisement of Escuela Avancemos! and expansion of grades K-5.

ESCUELA AVANCEMOS
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities
	General Fund
Assets	
Cash	\$ 63,091
Due from other governmental units	558,699
Prepaid Expenses	
Capital assets, net of accumulated depreciation	9,925
Total assets	631,715
Liabilities	
Accounts payable	35,032
Notes payable	34,032
Accrued Wages	
Accrued Liabilities	95,847
Total liabilities	164,911
Net Position	
Net investment in capital assets	9,925
Unrestricted	456,879
Total net position	\$ 466,804

See accompanying notes to financial statements

**ESCUELA AVANCEMOS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

<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	\$ 1,159,201	\$ -	\$ 335,876	\$ (823,325)
Support services	1,605,831		178,116	(1,427,715)
Other financing uses	-		13,740	13,740
Depreciation (Unallocated)	13,406			(13,406)
Total governmental activities	<u>\$ 2,778,438</u>	<u>\$ -</u>	<u>\$ 527,732</u>	<u>(2,250,706)</u>
General revenues				
				2,345,250
State aid not restricted to specific purposes				24,316
Other revenue				24,353
Incoming transfers				<u>2,393,919</u>
Total general revenues				<u>2,393,919</u>
Change in Net Position				143,213
Net Position - Beginning of year(restated)				<u>323,591</u>
Net Position - End of year				<u>\$ 466,804</u>

See accompanying notes to financial statements

**ESCUELA AVANCEMOS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018**

ASSETS

	General Fund	Total Governmental Funds
Cash	63,091	63,091
Due from other governmental units	558,699	558,699
Total Current Assets	621,790	621,790
 Total assets and deferred outflows	 621,790	 621,790

LIABILITIES AND FUND BALANCES

Liabilities		
Accounts payable	35,032	35,032
Notes payable	34,032	34,032
Accrued liabilities	95,847	95,847
Total liabilities	164,911	164,911
 Fund Balances		
Non-Spendable Fund Balance:		
Unassigned fund balance	456,879	456,879
Total fund balances	456,879	456,879
Total liabilities and fund balances	621,790	621,790

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, 2018**

Total Fund Balances - Governmental Funds \$ 456,879

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	\$ 69,887	
Accumulated depreciation	<u>(59,962)</u>	<u>9,925</u>

Total Net Position - Governmental Activities \$ 466,804

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, 2018**

	General Fund	Total Governmental Funds
Revenues		
Local sources	29,565	29,565
State sources	2,577,078	2,577,078
Federal sources	290,655	290,655
Incoming Transfers and Other Transaction	24,353	24,353
Total revenues	2,921,651	2,921,651
 Expenditures		
Current:		
Instruction	1,159,201	1,159,201
Support services:		
Pupil support services	109,125	109,125
Instructional staff services	97,805	97,805
General administration services	374,466	374,466
School administration services	254,525	254,525
Business services	39,193	39,193
Operations and maintenance	380,639	380,639
Transportation	301,133	301,133
Central	44,552	44,552
Community Services	4,393	4,393
Fund Modifications		
Total expenditures	2,765,032	2,765,032
 Excess (Deficiency) of Revenues Over Expenditures	 156,619	 156,619
 Net Change in Fund Balances	 156,619	 156,619
 Fund Balances - Beginning of Year	 300,260	 300,260
Fund Balances - End of Year	456,879	456,879

**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, 2018**

Total Net Change in Fund Balances - Governmental Funds	\$	156,619
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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	(13,406)		
Capital outlay	-		

Change in Net Position of Governmental Activities	\$	<u><u>143,213</u></u>
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See accompanying notes to financial statements

Notes to Financial Statements
June 30, 2018

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 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, 2018 to the Detroit Public Schools were approximately \$71,120.

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 \$266,397 for the year ended June 30, 2018.

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, 2018 (continued)

Notes to Financial Statements
June 30, 2018 (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

Escuela Avancemos!
Notes to Financial Statements
June 30, 2018 (continued)

\$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.

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

Escuela Avancemos!
Notes to Financial Statements
June 30, 2018 (continued)

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

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
Transportation	290,938	301,133	10,195
	<u>\$ 290,938</u>	<u>\$ 301,133</u>	<u>\$ 10,195</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!
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	\$ 468,724
Federal	89,975
	<u>\$ 558,699</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!
Notes to Financial Statements
June 30, 2018 {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. A third renewal extends the Lease through June 30, 2019. The Academy is responsible for insurance, repairs and maintenance of the building. The Academy incurred rent expense of \$97,426 for the year ended June 30, 2018.

NOTES-NOTES PAYABLE

The Academy borrowed \$300,000 at an interest rate of 5.0 percent. The borrowing was utilized for working capital. Interest paid during the school year was \$12,287. The outstanding balance as of June 30, 2018 was \$34,032.

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

On September 2018, the Academy borrowed \$310,000 at an interest rate of 5.3 percent. Subsequent events have been evaluated through August 24, 2018, 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, 2018

	Budgeted Amounts		Actual (GAAP Basis)	Variances Over/(Under)
	Original	Final		Final to Actual
Revenues				
Local revenues	\$ 51,490	\$ 29,808	\$ 29,565	\$ (243)
State program revenues	2,664,710	2,577,166	2,577,078	\$ (88)
Federal program revenues	276,363	299,849	290,655	\$ (9,194)
Other revenue	-	24,353	24,353	\$ -
Total revenues	\$ 2,992,563	\$ 2,931,176	\$ 2,921,651	\$ (9,525)
Expenditures				
Current				
Instructional services	1,201,302	1,165,554	1,159,201	6,353
Supporting services				
Pupil support services	146,500	112,313	109,125	3,188
Staff support services	11,979	104,054	97,805	6,249
General administration services	372,869	379,351	374,466	4,885
School administration services	390,470	289,579	254,525	35,054
Business services	36,095	69,953	39,193	30,760
Operations and maintenance	331,960	389,810	366,899	22,911
Transportation	260,380	290,938	301,133	(10,195)
Central	59,000	61,500	44,552	16,948
Community services	29,600	20,900	4,393	16,507
Fund Modifications	-	-	13,740	(13,740)
Total expenditures	\$ 2,840,154	\$ 2,883,952	\$ 2,765,032	\$ 118,920.00
Excess (Deficiency) of Revenues Over Expenditures				
	152,409	47,224	156,619	109,395
Other Financing Sources (Uses)				
Operating transfers - out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net Change in Fund Balance				
	\$ 152,409	\$ 47,224	\$ 156,619	\$ 109,395
Fund Balance - Beginning of year				
	362,082	300,260	300,260	-
Fund Balance - End of year				
	\$ 514,491	\$ 347,484	\$ 456,879	\$ 109,395

See accompanying notes to financial statements