

BENTON HARBOR CHARTER SCHOOL ACADEMY

REPORT ON FINANCIAL STATEMENTS
(with required supplementary and
additional supplementary information)

YEAR ENDED JUNE 30, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Benton Harbor Charter School Academy

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Benton Harbor Charter School Academy, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Benton Harbor Charter School 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 audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Benton Harbor Charter School Academy as of June 30, 2019 and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Benton Harbor Charter School Academy basic financial statements. The additional supplementary information, as identified in the table of contents, including the schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The additional supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The additional supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2019 our consideration of Benton Harbor Charter School 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Benton Harbor Charter School Academy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Benton Harbor Charter School Academy's internal control over financial reporting and compliance.

Manes Costeiran PC

September 25, 2019

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Benton Harbor Charter School Academy (the Academy) annual financial report presents our discussion and analysis of the Academy’s financial performance during the fiscal year that ended on June 30, 2019. Please read it in conjunction with the Academy’s financial statements, which immediately follow this section.

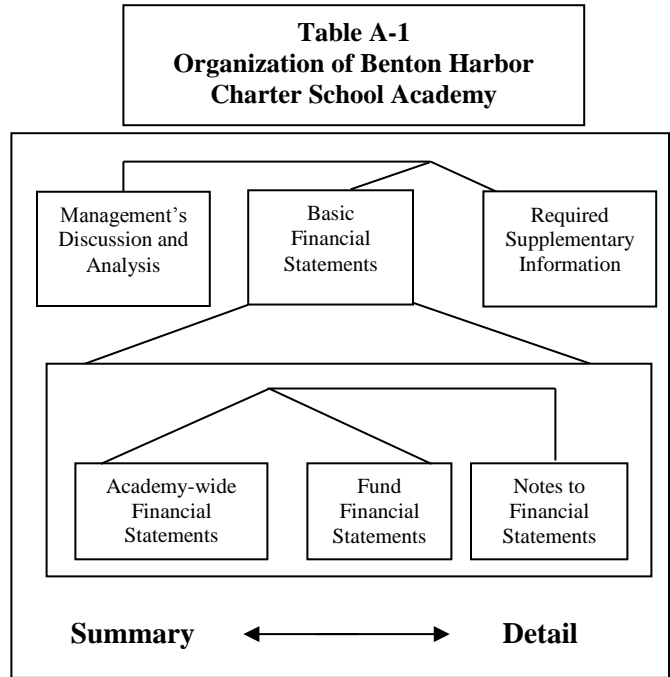
Financial Highlights

- The Academy had a decrease in fund balance in the general fund of \$8,865 compared to a budgeted decrease of \$98,430. This gives the Academy a fund balance in the general fund of \$753,352.
- The Academy retired \$185,000 in long-term obligations during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are *Academy-wide financial statements* that provide both *short-term* and *long-term* information about the Academy’s *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the Academy, reporting the Academy’s operations *in more detail* than the Academy-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term* as well as what remains for future spending.



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy’s budget for the year. Table A-1 shows how the various parts of the annual report are arranged and related to one another.

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

Table A-2 Major Features of the Academy-wide and Fund Financial Statements		
	Academy-wide statements	Governmental funds
Scope	Entire Academy	The activities of the Academy that are not proprietary or fiduciary, such as special education and building maintenance
Required financial statements	* Statement of net position * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable

Academy-wide statements

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

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

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

Governmental activities - The Academy's basic services are included in here, such as regular education and special education, transportation and administration. State foundation aid finances most of these activities.

Fund financial statements

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

- Some funds are required by state law and by obligation agreements.
- The Academy establishes other funds to control and manage money for particular purposes (like repaying its long-term obligations) or to show that it is properly using certain revenues (like food services).

All of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or difference) between them.

Financial analysis of the Academy as a whole

Net position - the Academy's combined net position of \$1,003,262 increased by \$89,997 during the year, (see Figures A-3 and A-4).

The total general and program revenues increased by 12.4% to \$5,739,118. State aid foundation allowance included in revenue from state sources accounts for 70% of the Academy's general and program revenues in 2019.

The total cost of instruction increased by 16.8% to \$2,293,004. Total support service increased 15.6% to \$2,207,800.

Figure A-3
Benton Harbor Charter School Academy Net Position

	2019	2018
Current and other	\$ 2,297,063	\$ 2,334,308
Capital assets	4,346,443	4,444,209
Total assets	<u>6,643,506</u>	<u>6,778,517</u>
Other liabilities	805,244	845,252
Long-term obligations outstanding	4,835,000	5,020,000
Total liabilities	<u>5,640,244</u>	<u>5,865,252</u>
Net position:		
Net investment in capital assets	(488,557)	(575,791)
Restricted for debt service	847,764	822,573
Restricted for capital projects	51,203	50,366
Unrestricted	592,852	616,117
Total net position	<u>\$ 1,003,262</u>	<u>\$ 913,265</u>

Figure A-4
Changes in Benton Harbor Charter School Academy's Net Position

	2019	2018
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 1,625,848	\$ 1,338,710
General revenues:		
State aid - unrestricted	4,007,236	3,617,948
Investment income	15,474	6,615
Other	90,560	143,155
Total general revenues	<u>4,113,270</u>	<u>3,767,718</u>
Total revenues	<u>5,739,118</u>	<u>5,106,428</u>
Expenses:		
Instruction	2,293,004	1,963,905
Support services	2,207,800	1,909,852
Community service	47,496	17,869
Food service	459,364	458,022
Interest and fees	403,079	412,087
Unallocated depreciation	238,378	210,444
Total expenses	<u>5,649,121</u>	<u>4,972,179</u>
Change in net position	<u>\$ 89,997</u>	<u>\$ 134,249</u>

Financial analysis of the Academy's funds

The financial operation of the Academy is considered stable. The fund balance at June 30, 2019 is \$753,352 in the general fund. There was a 12.9% increase in general fund revenue. There was an 11.6% increase in expenditures for instructional programs and an increase of 15.6% in expenditures for support services.

General fund budgetary highlights

Final budget vs. Actual

<u>Fiscal year</u>	<u>Final budget</u>	<u>Final actual</u>
Revenues		
2018 - 2019	<u>\$ 5,310,291</u>	<u>\$ 5,295,615</u>
Expenditures		
2018 - 2019	<u>\$ 4,799,851</u>	<u>\$ 4,688,912</u>

The Academy's final general fund revenues were less than the final budget by \$14,676. This variance was primarily a result of unspent grant funds at the end of the year.

The Academy's actual expenditures were less than final budget by \$110,939. This difference was primarily due to decreases caused by unspent grant funds and successful budget monitoring.

Original vs. Final budget

The Uniform Budget Act of the State of Michigan requires that the local Board of Directors approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice Benton Harbor Charter School Academy amends its budget periodically as needed during the school year. For fiscal year 2019 the budget was amended prior to June 30, 2019.

Revenues

Total revenues original budget	\$ 5,191,337
Total revenues final budget	<u>5,310,291</u>
Increase in budgeted revenues	<u>\$ 118,954</u>

Expenditures

The Academy's budget for expenditures changed as follows during the year.

Total expenditures original budget	\$ 4,674,373
Total expenditures final budget	<u>4,799,851</u>
Increase in budgeted expenditures	<u>\$ 125,478</u>

Capital asset and obligation administration

Capital assets

By the end of the year ended June 30, 2019, the Academy had invested \$4,346,443 in capital assets consisting primarily of land, buildings and improvements, equipment and furniture net of accumulated depreciation. This amount represents a net decrease in capital assets of \$97,766 from the beginning of the year. More detailed information about capital assets can be found in Note 3 to the financial statements. Total depreciation expense for the year was \$238,378.

The Academy's capital assets are as follows:

Figure A-5				
Benton Harbor Charter School Academy's Capital Assets				
	2019			2018
	Cost	Accumulated depreciation	Net book value	Net book value
Building	\$ 4,092,117	\$ 1,523,796	\$ 2,568,321	\$ 2,639,122
Furniture and equipment	256,004	193,205	62,799	77,495
Vehicles	48,100	48,100	-	-
Technology	797,599	582,276	215,323	227,592
Land	1,500,000	-	1,500,000	1,500,000
Total	<u>\$ 6,693,820</u>	<u>\$ 2,347,377</u>	<u>\$ 4,346,443</u>	<u>\$ 4,444,209</u>

Debt administration

The Academy financed its facilities acquisition by issuing Certificates of Participation. A summary of long-term debt service activities is as follows:

	<u>2019</u>	<u>2018</u>
Governmental activities:		
Certificates of participation	<u>\$ 4,835,000</u>	<u>\$ 5,020,000</u>

The Academy repaid \$185,000 of long-term obligation in 2019. See Note 6 to the financial statements.

Economic factors bearing on the Academy's future

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

- The Academy has adopted a general fund budget for 2019/2020 in which expenditures exceed revenues by \$222,230.

Contacting the Academy's financial management

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy's management company, Choice Schools Associates, LLC, at 5251 Clyde Park Avenue SW, Michigan, 49509. Phone (616) 785-8440.

BASIC FINANCIAL STATEMENTS

**BENTON HARBOR CHARTER SCHOOL ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2019**

	<u>Governmental activities</u>
ASSETS:	
Cash and cash equivalents	\$ 290,681
Accounts receivable	5,705
Intergovernmental receivable	1,162,505
Prepays	8,556
Restricted investments	829,616
Capital assets not being depreciated	1,500,000
Capital assets, net of accumulated depreciation	<u>2,846,443</u>
TOTAL ASSETS	<u>6,643,506</u>
LIABILITIES:	
Accounts payable	120,808
Accrued interest	64,198
Accrued salaries and related items	232,459
Other accrued expenses	25,216
Unearned revenues	196,788
Note payable	165,775
Noncurrent liabilities:	
Due within one year	200,000
Due in more than one year	<u>4,635,000</u>
TOTAL LIABILITIES	<u>5,640,244</u>
NET POSITION:	
Net investment in capital assets	(488,557)
Restricted for debt service	847,764
Restricted for capital projects	51,203
Unrestricted	<u>592,852</u>
TOTAL NET POSITION	<u><u>\$ 1,003,262</u></u>

**BENTON HARBOR CHARTER SCHOOL ACADEMY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net position
Governmental activities:				
Instruction	\$ 2,293,004	\$ -	\$ 889,679	\$ (1,403,325)
Support services	2,207,800	-	275,969	(1,931,831)
Community service	47,496	-	31,680	(15,816)
Food services	459,364	-	428,520	(30,844)
Interest and fees	403,079	-	-	(403,079)
Unallocated depreciation	238,378	-	-	(238,378)
Total governmental activities	<u>\$ 5,649,121</u>	<u>\$ -</u>	<u>\$ 1,625,848</u>	<u>(4,023,273)</u>
General revenues:				
Investment earnings				15,474
State sources - unrestricted				4,007,236
Local sources				55,920
ISD sources				<u>34,640</u>
Total general revenues				<u>4,113,270</u>
CHANGE IN NET POSITION				89,997
NET POSITION, beginning of year				<u>913,265</u>
NET POSITION, end of year				<u>\$ 1,003,262</u>

**BENTON HARBOR CHARTER SCHOOL ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019**

	General fund	Debt service fund	Total nonmajor funds	Total governmental funds
ASSETS				
ASSETS:				
Cash and cash equivalents	\$ 290,681	\$ -	\$ -	\$ 290,681
Restricted investments	-	778,413	51,203	829,616
Receivables:				
Accounts receivable	5,705	-	-	5,705
Intergovernmental receivable	1,162,505	-	-	1,162,505
Due from other funds	26,951	-	-	26,951
Prepays	8,556	-	-	8,556
TOTAL ASSETS	\$ 1,494,398	\$ 778,413	\$ 51,203	\$ 2,324,014
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 120,808	\$ -	\$ -	\$ 120,808
Accrued salaries and related items	232,459	-	-	232,459
Other accrued expenses	25,216	-	-	25,216
Unearned revenue	196,788	-	-	196,788
Due to other funds	-	26,951	-	26,951
Note payable	165,775	-	-	165,775
TOTAL LIABILITIES	741,046	26,951	-	767,997

See notes to financial statements.

	<u>General fund</u>	<u>Debt service fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
FUND BALANCES:				
Nonspendable:				
Prepays	\$ 8,556	\$ -	\$ -	\$ 8,556
Restricted:				
Debt service	160,500	751,462	-	911,962
Capital projects	-	-	51,203	51,203
Assigned for subsequent year expenditures	222,230	-	-	222,230
Unassigned	362,066	-	-	362,066
TOTAL FUND BALANCES	<u>753,352</u>	<u>751,462</u>	<u>51,203</u>	<u>1,556,017</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,494,398</u>	<u>\$ 778,413</u>	<u>\$ 51,203</u>	<u>\$ 2,324,014</u>
Total governmental fund balances				\$ 1,556,017
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 are not reported in the funds:				
The cost of the capital assets is			\$ 6,693,820	
Accumulated depreciation is			<u>(2,347,377)</u>	
				4,346,443
Long-term liabilities are not due and payable in the current period and are not reported in the funds:				
Certificates of participation				(4,835,000)
Accrued interest is not included as a liability in government funds, it is recorded when paid				<u>(64,198)</u>
Net position of governmental activities				<u>\$ 1,003,262</u>

See notes to financial statements.

BENTON HARBOR CHARTER SCHOOL ACADEMY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2019

	<u>General fund</u>	<u>Debt service fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
REVENUES:				
Local sources:				
Investment income	\$ 491	\$ 14,146	\$ 837	\$ 15,474
Other	55,920	-	-	55,920
Total local sources	56,411	14,146	837	71,394
State sources	4,848,349	-	7,990	4,856,339
Federal sources	357,973	-	420,530	778,503
Intermediate sources	32,882	-	-	32,882
Total revenues	5,295,615	14,146	429,357	5,739,118
EXPENDITURES:				
Instruction:				
Basic programs	1,836,096	-	-	1,836,096
Added needs	515,340	-	-	515,340
Total instruction	2,351,436	-	-	2,351,436
Support services:				
Pupil	49,057	-	-	49,057
Instructional staff	281,432	-	-	281,432
General administration	690,930	-	-	690,930
School administration	397,725	-	-	397,725
Business	27,712	-	-	27,712
Operation and maintenance	450,064	-	-	450,064

See notes to financial statements.

	General fund	Debt service fund	Total nonmajor funds	Total governmental funds
EXPENDITURES (Concluded):				
Support services (Concluded):				
Pupil transportation services	\$ 302,256	\$ -	\$ -	\$ 302,256
Central support services	82,541	-	-	82,541
Athletics	2,319	-	-	2,319
Total support services	<u>2,284,036</u>	<u>-</u>	<u>-</u>	<u>2,284,036</u>
Community service	47,496	-	-	47,496
Capital outlay	5,944	-	-	5,944
Food service	-	-	459,364	459,364
Debt service:				
Principal retirement	-	185,000	-	185,000
Interest and fiscal charges	-	405,469	-	405,469
Total expenditures	<u>4,688,912</u>	<u>590,469</u>	<u>459,364</u>	<u>5,738,745</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>606,703</u>	<u>(576,323)</u>	<u>(30,007)</u>	<u>373</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	584,724	30,844	615,568
Transfers out	(615,568)	-	-	(615,568)
Total other financing sources (uses)	<u>(615,568)</u>	<u>584,724</u>	<u>30,844</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(8,865)	8,401	837	373
FUND BALANCES:				
Beginning of year	762,217	743,061	50,366	1,555,644
End of year	<u>\$ 753,352</u>	<u>\$ 751,462</u>	<u>\$ 51,203</u>	<u>\$ 1,556,017</u>

See notes to financial statements.

**BENTON HARBOR CHARTER SCHOOL ACADEMY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019**

Net change in fund balances total governmental funds	\$ 373
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	(238,378)
Capital outlay	140,612
Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:	
Accrued interest payable, beginning of the year	66,588
Accrued interest payable, end of the year	(64,198)
Repayments of principal on long-term obligations are expenditures in the governmental funds, but not in the statement of activities (where they are reductions of liabilities):	
Principal retirement - long-term obligations	185,000
Change in net position of governmental activities	\$ 89,997

**BENTON HARBOR CHARTER SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Academy. The Academy currently does not have fiduciary activities. *Governmental activities* normally are supported by intergovernmental revenues.

B. Reporting Entity

Benton Harbor Charter School Academy (the “Academy”) is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Ferris State University is the authorizing governing body for the Academy and has contracted with the Academy to charter the public school through June 2024. Board members are approved by the authorizing governing body and have decision making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. The Academy receives funding from local, state, and federal sources and must comply with all of the requirements of these funding source entities. However, the Academy is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. In addition, the Academy’s reporting entity does not contain any component units as defined in Governmental Accounting Standards Board (GASB) Statements.

C. Basis of Presentation - Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds.

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

D. Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the Academy’s funds. Separate statements for each fund category are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Academy reports the following major governmental funds:

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.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on certificates of participation.

**BENTON HARBOR CHARTER SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Presentation - Fund Financial Statements (Concluded)

The Academy reports the following nonmajor governmental funds:

The *special revenue fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The Academy accounts for its food service activity in a special revenue fund.

The *capital projects fund* accounts for the acquisition of fixed assets or construction of major capital projects. The fund also contains the repair and maintenance reserve required by the certificate of participation debt agreements.

During the course of operations the Academy has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

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

**BENTON HARBOR CHARTER SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Concluded)

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are generally 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. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

State and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amounts is received during the period or within the availability period for this revenue source (within 60 days of year-end).

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to public school academies based on information supplied by the academies.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The state revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as an intergovernmental receivable.

The Academy also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received and accrued, which are not expended by the close of the fiscal year are recorded as unearned revenue.

All other revenue items are generally considered to be measurable and available only when cash is received by the Academy.

**BENTON HARBOR CHARTER SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Information

Budgetary basis of accounting:

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue fund.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods or services (i.e., purchase orders, contracts, and commitments). The Academy does not utilize encumbrance accounting.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Chief Administrative Officer submits to the Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Prior to July 1, the budget is legally adopted by Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
3. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Directors.
4. The budget was amended during the year with supplemental appropriations, the last one approved prior to year-end June 30, 2019. The Academy does not consider these amendments to be significant.

**BENTON HARBOR CHARTER SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and cash equivalents

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of 3 months or less from the date of acquisition.

2. Investments

Certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. Standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. District or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

3. Prepaids

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Capital assets

Capital assets, as summarized below, are reported in the government-wide financial statements. Capital assets are defined by the Academy as assets with an initial, individual cost of more than \$5,000 and a useful life in excess of 1 year. Group purchases are evaluated on a case by case basis. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

**BENTON HARBOR CHARTER SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

4. Capital assets (Concluded)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Land and construction in progress, if any, are not depreciated. Capital assets of the Academy are depreciated using the straight line method over the following estimated useful lives:

<u>Capital asset classes</u>	<u>Lives</u>
Building	7 - 50
Furniture and equipment	4 - 20
Vehicles	3
Technology	3 - 5

5. Deferred outflows/inflows of resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Academy has no items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Academy has no items that qualify for reporting in this category.

6. Net position flow assumption

Sometimes the Academy will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Academy's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

**BENTON HARBOR CHARTER SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Concluded)

7. Fund balance flow assumptions

Sometimes the Academy will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Academy's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

8. Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Academy itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Academy's highest level of decision-making authority. The Board of Directors is the highest level of decision-making authority for the Academy that can, by adoption of a board action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the board action remains in place until a similar action is taken (the adoption of another board action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the Academy for specific purposes but do not meet the criteria to be classified as committed. Intent can be expressed by the Board of Directors or by an official or body to which the Board of Directors delegates authority. The Board of Directors may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**BENTON HARBOR CHARTER SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

H. Revenues and Expenditures/Expenses

1. Program revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment. Unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Long-term obligations

In the government-wide financial statements, long-term obligations and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related debt. Bond issuance costs are reported as expenditures in the year in which they are incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE 2 - DEPOSITS AND RESTRICTED INVESTMENTS

As of June 30, 2019, the Academy had the following investments:

<u>Investment type</u>	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Standard & Poor's rating</u>	<u>%</u>
First American Funds Treasury Obligations Fund - class D	\$ 829,616	0.0027	AAAm	100.00%
Portfolio weighted average maturity		<u>0.0027</u>		
One day maturity equals 0.0027, one year equals 1.00				

BENTON HARBOR CHARTER SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - DEPOSITS AND RESTRICTED INVESTMENTS (Continued)

The Academy invests certain excess funds in external pooled investment funds which included treasury obligations. The treasury obligation reports as of June 30, 2019, the fair value of the Academy's investments is the same as the value of the pool shares. These investments are restricted under the terms of the certificates of participation debt agreements primarily for debt service and maintenance and repair of the related facilities.

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

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2019, the Academy did not have investments in commercial paper and corporate bonds.

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

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2019, \$228,965 of the Academy's bank balance of \$478,965 was exposed to custodial credit risk.

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

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

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

**BENTON HARBOR CHARTER SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND RESTRICTED INVESTMENTS (Concluded)

Fair value measurement. The Academy is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the Academy's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Academy does not have any investments subject to the fair value measurement.

**BENTON HARBOR CHARTER SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - CAPITAL ASSETS

A summary of changes in the Academy's capital assets follows:

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,500,000	\$ -	\$ -	\$ 1,500,000
Capital assets being depreciated:				
Building	4,053,505	38,612	-	4,092,117
Furniture and equipment	250,454	5,550	-	256,004
Vehicles	48,100	-	-	48,100
Technology	787,524	96,450	86,375	797,599
Depreciable capital assets	<u>5,139,583</u>	<u>140,612</u>	<u>86,375</u>	<u>5,193,820</u>
Accumulated depreciation:				
Building	1,414,383	109,413	-	1,523,796
Furniture and equipment	172,959	20,246	-	193,205
Vehicles	48,100	-	-	48,100
Technology	559,932	108,719	86,375	582,276
Total accumulated depreciation	<u>2,195,374</u>	<u>238,378</u>	<u>86,375</u>	<u>2,347,377</u>
Net depreciable capital assets	<u>2,944,209</u>	<u>(97,766)</u>	<u>-</u>	<u>2,846,443</u>
Net governmental capital assets	<u>\$ 4,444,209</u>	<u>\$ (97,766)</u>	<u>\$ -</u>	<u>\$ 4,346,443</u>

Depreciation for the fiscal year ended June 30, 2019 amounted to \$238,378. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 4 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivable at June 30, 2019 consist of the following:

State aid	\$ 817,406
Federal	113,155
Non-federal payments from ISD	<u>231,944</u>
	<u>\$ 1,162,505</u>

**BENTON HARBOR CHARTER SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - INTERGOVERNMENTAL RECEIVABLES (Concluded)

Amounts due from governmental units include amounts due from federal, state, and local sources from various projects and programs.

Because of the Academy's favorable collection experience, no allowance for doubtful accounts has been recorded.

NOTE 5 - NOTE PAYABLE - STATE AID ANTICIPATION NOTE

At June 30, 2019, the Academy has issued a state aid anticipation note payable in the amount of \$900,000 which has an interest rate of 3.44% and matures on August 25, 2019. Proceeds of the note were used to fund academy operations. The note is secured by the full faith and credit of the Academy as well as pledged state aid. The note required payments to an irrevocable set-aside account of \$734,225. At year-end the balance of these payments are considered defeased debt and are not included in the year-end balance. In an event of a default on the note, the state may impose a penalty interest rate and at the state's discretion, accelerate the repayment terms. Activity for the year ended June 30, 2019 is as follows:

Balance July 1, 2018	Additions	Payments	Balance June 30, 2019
\$ 165,034	\$ 900,000	\$ 899,259	\$ 165,775

NOTE 6 - LONG-TERM OBLIGATION

The following is a summary of long-term obligation transactions of the Academy for the year ended June 30, 2019.

	Note from direct borrowings and direct placements
Balance, July 1, 2018	\$ 5,020,000
Repayments	185,000
Balance, June 30, 2019	4,835,000
Due within one year	200,000
Due in more than one year	\$ 4,635,000

**BENTON HARBOR CHARTER SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM OBLIGATION (Concluded)

Long-term obligation currently outstanding is as follows:

Note from direct borrowings and direct placements:

2002 Series A term certificates due in annual installments of \$200,000 to \$1,080,000 through May 1, 2032 with interest ranging from 7% to 8%.	<u>\$ 4,835,000</u>
Total general long-term obligation	<u><u>\$ 4,835,000</u></u>

The Academy's outstanding notes from direct borrowings and direct placements related to governmental activities of \$4,835,000 contains provisions that in an event of default, either by (1) unable to make principal or interest payments (2) false or misrepresentation is made to the lender (3) become insolvent or make an assignment for the benefit of its creditors (4) if the lender at any time in good faith believes that the prospect of payment of any indebtedness is impaired. Upon the occurrence of any default event, the outstanding amounts, including accrued interest become immediately due and payable.

The annual requirements to amortize long-term obligation outstanding as of June 30, 2019 are as follows:

Year ending June 30,	Note from direct borrowings and direct placements		Total
	Principal	Interest	
2020	\$ 200,000	\$ 385,188	\$ 585,188
2021	215,000	369,688	584,688
2022	230,000	353,024	583,024
2023	250,000	335,200	585,200
2024	270,000	315,200	585,200
2025 - 2029	1,705,000	1,216,000	2,921,000
2030 - 2032	1,965,000	366,800	2,331,800
	<u>\$ 4,835,000</u>	<u>\$ 3,341,100</u>	<u>\$ 8,176,100</u>

Interest expense (all funds) for the year ended June 30, 2019 was approximately \$405,000.

The certificates may be paid off early beginning on May 1, 2012 at the discretion of the Academy at stated amounts based on the terms of the agreement.

**BENTON HARBOR CHARTER SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivable and payable balances at June 30, 2019 are as follows:

Receivable fund	Payable fund
General fund	Debt service fund
\$ 26,951	\$ 26,951

The outstanding balances between funds results mainly from the time lag between the dates that (1) interfunds goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, (3) payments between funds are made.

NOTE 8 - TRANSFERS

Transfers between the governmental funds were as follows:

General fund	\$ 615,568	Debt service fund	\$ 584,724
		Food service fund	30,844
			\$ 615,568

The transfers to the debt service fund and food service fund were to pay the debt service principal and interest payments and subsidize food service fund operating expenses, respectively.

NOTE 9 - OVERSIGHT FEES

The Academy pays an administrative oversight fee of 3% of its state school aid discretionary and Proposal A obligation payments to Ferris State University, as set forth by contract, to reimburse the University Board for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy’s compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2019, the Academy incurred expense of \$119,700 for oversight fees.

NOTE 10 - MANAGEMENT AGREEMENT

The Academy currently has a management agreement with Choice Schools Associates, LLC (Choice Schools) for operations of the Academy through June 2019. Under the terms of the management agreement, Choice Schools’ compensation for operating the Academy was \$517,100 for the fiscal year 2019.

**BENTON HARBOR CHARTER SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 11 - PURCHASED SERVICES

The Academy leases all employee services from Choice Schools. Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of Choice Schools. Accounts payable to Choice Schools at June 30, 2019 was approximately \$112,100.

NOTE 12 - RISK MANAGEMENT

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. To minimize the risk, the Academy carries commercial insurance.

NOTE 13 - LEASES

The Academy leases certain buses and office equipment through operating leases expiring through April 2020. Total lease expenditures were approximately \$120,000 for the fiscal year 2019.

The future lease payments under the lease are as follows:

Year ending June 30,	Bus leases	Copier lease	Total
2020	\$ 16,152	\$ 24,548	\$ 40,700

NOTE 14 - SUBSEQUENT EVENTS

The Academy borrowed \$1,316,000 under a state aid anticipation note in September 2019 at 3.49% to be repaid monthly from October 2019 through August 2020.

NOTE 15 - UPCOMING ACCOUNTING PRONOUNCEMENT

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017 and will be effective for the Academy's 2021 year end. The objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

REQUIRED SUPPLEMENTARY INFORMATION

**BENTON HARBOR CHARTER SCHOOL ACADEMY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2019**

	Original budget	Final budget	Actual	Variance with final budget
REVENUES:				
Local sources	\$ 39,310	\$ 72,566	\$ 56,411	\$ (16,155)
State sources	4,746,179	4,841,216	4,848,349	7,133
Federal sources	379,008	351,287	357,973	6,686
Incoming transfers and other	26,840	45,222	32,882	(12,340)
Total revenues	<u>5,191,337</u>	<u>5,310,291</u>	<u>5,295,615</u>	<u>(14,676)</u>
EXPENDITURES:				
Instruction:				
Basic programs	1,816,428	1,876,241	1,836,096	40,145
Added needs	585,357	514,781	515,340	(559)
Total instruction	<u>2,401,785</u>	<u>2,391,022</u>	<u>2,351,436</u>	<u>39,586</u>
Support services:				
Pupil	48,500	54,250	49,057	5,193
Instructional staff	281,485	282,459	281,432	1,027
General administration	692,543	701,022	690,930	10,092
School administration	386,904	406,936	397,725	9,211
Business	17,898	27,243	27,712	(469)
Operation and maintenance	367,236	469,662	450,064	19,598
Pupil transportation services	314,638	314,655	302,256	12,399
Central support services	105,250	94,735	82,541	12,194
Athletics	6,850	2,300	2,319	(19)
Total support services	<u>2,221,304</u>	<u>2,353,262</u>	<u>2,284,036</u>	<u>69,226</u>

	Original budget	Final budget	Actual	Variance with final budget
EXPENDITURES (Concluded):				
Community services	\$ 46,284	\$ 49,622	\$ 47,496	\$ 2,126
Capital outlay	5,000	5,945	5,944	1
Total expenditures	<u>4,674,373</u>	<u>4,799,851</u>	<u>4,688,912</u>	<u>110,939</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>516,964</u>	<u>510,440</u>	<u>606,703</u>	<u>96,263</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>(607,445)</u>	<u>(608,870)</u>	<u>(615,568)</u>	<u>(6,698)</u>
NET CHANGE IN FUND BALANCE	<u><u>\$ (90,481)</u></u>	<u><u>\$ (98,430)</u></u>	<u>(8,865)</u>	<u><u>\$ 89,565</u></u>
FUND BALANCE:				
Beginning of year			<u>762,217</u>	
End of year			<u><u>\$ 753,352</u></u>	

ADDITIONAL SUPPLEMENTARY INFORMATION

**BENTON HARBOR CHARTER SCHOOL ACADEMY
NONMAJOR GOVERNMENTAL FUND TYPES
COMBINING BALANCE SHEET
JUNE 30, 2019**

	Special revenue fund (food service)	Capital projects fund	Total nonmajor funds
ASSETS			
ASSETS:			
Restricted investments	\$ -	\$ 51,203	\$ 51,203
FUND BALANCES			
FUND BALANCES:			
Restricted:			
Capital projects	-	51,203	51,203
TOTAL FUND BALANCES	\$ -	\$ 51,203	\$ 51,203

**BENTON HARBOR CHARTER SCHOOL ACADEMY
NONMAJOR GOVERNMENTAL FUND TYPES
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2019**

	Special revenue fund (food service)	Capital projects fund	Total nonmajor funds
REVENUES:			
State sources	\$ 7,990	\$ -	\$ 7,990
Federal sources	420,530	-	420,530
Investment income	-	837	837
	<u>428,520</u>	<u>837</u>	<u>429,357</u>
Total revenues			
EXPENDITURES:			
Salaries	76,542	-	76,542
Benefits	31,874	-	31,874
Food	350,948	-	350,948
	<u>459,364</u>	<u>-</u>	<u>459,364</u>
Total expenditures			
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(30,844)</u>	<u>837</u>	<u>(30,007)</u>
OTHER FINANCING SOURCES (USES):			
Transfer in	30,844	-	30,844
	<u>30,844</u>	<u>-</u>	<u>30,844</u>
Total other financing sources (uses)			
NET CHANGE IN FUND BALANCES	-	837	837
FUND BALANCES, beginning of year	<u>-</u>	<u>50,366</u>	<u>50,366</u>
FUND BALANCES, end of year	<u>\$ -</u>	<u>\$ 51,203</u>	<u>\$ 51,203</u>

**BENTON HARBOR CHARTER SCHOOL ACADEMY
 FULL TERM CERTIFICATES OF PARTICIPATION - SERIES 2002A
 YEAR ENDED JUNE 30, 2019**

\$6,210,000 Series A Term Certificates issued May 1, 2002.

Principal due May 1	Interest due		Debt service requirement for fiscal year	
	November 1	May 1	June 30,	Amount
\$ 200,000	\$ 192,594	\$ 192,594	2020	\$ 585,188
215,000	184,844	184,844	2021	584,688
230,000	176,512	176,512	2022	583,024
250,000	167,600	167,600	2023	585,200
270,000	157,600	157,600	2024	585,200
290,000	146,800	146,800	2025	583,600
315,000	135,200	135,200	2026	585,400
340,000	122,600	122,600	2027	585,200
365,000	109,000	109,000	2028	583,000
395,000	94,400	94,400	2029	583,800
425,000	78,600	78,600	2030	582,200
460,000	61,600	61,600	2031	583,200
1,080,000	43,200	43,200	2032	1,166,400
<u>\$ 4,835,000</u>	<u>\$ 1,670,550</u>	<u>\$ 1,670,550</u>		<u>\$ 8,176,100</u>

The above certificates bear interest rates at 7% to 8%. The certificate proceeds were used for the acquisition of real property and improvements thereto.

**BENTON HARBOR CHARTER SCHOOL ACADEMY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019**

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued revenue 7/1/2018	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued revenue 6/30/2019
U.S. Department of Agriculture:								
Passed through Michigan Department of Education:								
Child Nutrition Cluster:								
Non-cash assistance (Donated foods):								
Entitlement commodities	10.555		\$ 23,952	\$ -	\$ -	\$ 23,952	\$ 23,952	\$ -
Cash assistance:								
National School Lunch Program	10.555	191960	217,621	-	-	217,621	217,621	-
National School Lunch Program	10.555	181960	243,268	-	209,944	33,324	33,324	-
National School Lunch Program	10.555	191980	7,948	-	-	7,948	7,948	-
National School Lunch Program	10.555	181980	10,074	-	9,053	1,021	1,021	-
			<u>478,911</u>	<u>-</u>	<u>218,997</u>	<u>259,914</u>	<u>259,914</u>	<u>-</u>
Total CFDA #10.555			<u>502,863</u>	<u>-</u>	<u>218,997</u>	<u>283,866</u>	<u>283,866</u>	<u>-</u>
School Breakfast Program	10.553	191970	118,655	-	-	118,655	118,655	-
School Breakfast Program	10.553	181970	131,964	-	113,955	18,009	18,009	-
Total CFDA #10.553			<u>250,619</u>	<u>-</u>	<u>113,955</u>	<u>136,664</u>	<u>136,664</u>	<u>-</u>
Total cash assistance			<u>729,530</u>	<u>-</u>	<u>332,952</u>	<u>396,578</u>	<u>396,578</u>	<u>-</u>
Total Child Nutrition Cluster			<u>753,482</u>	<u>-</u>	<u>332,952</u>	<u>420,530</u>	<u>420,530</u>	<u>-</u>
Total U.S. Department of Agriculture and Nutrition Cluster			<u>753,482</u>	<u>-</u>	<u>332,952</u>	<u>420,530</u>	<u>420,530</u>	<u>-</u>

**BENTON HARBOR CHARTER SCHOOL ACADEMY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019**

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass- through grantor's number	Award amount	Accrued revenue 7/1/2018	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued revenue 6/30/2019
<u>U.S. Department of Education:</u>								
Passed through Michigan Department of Education:								
Title I, Part A, Improving Basic Programs	84.010	1915301819	\$ 363,228	\$ -	\$ -	\$ 145,443	\$ 244,474	\$ 99,031
Title I, Part A, Improving Basic Programs	84.010	1815301718	469,540	168,699	344,300	215,776	47,077	-
Total CFDA #84.010			<u>832,768</u>	<u>168,699</u>	<u>344,300</u>	<u>361,219</u>	<u>291,551</u>	<u>99,031</u>
Title II, Part A, Improving Teacher Quality	84.367	1905201819	62,480	-	-	48,390	50,407	2,017
Title II, Part A, Improving Teacher Quality	84.367	1805201718	59,670	41,874	41,874	44,024	2,150	-
Total CFDA #84.367			<u>122,150</u>	<u>41,874</u>	<u>41,874</u>	<u>92,414</u>	<u>52,557</u>	<u>2,017</u>
Title IV, Part A Student Support & Academic Enrichment	84.424	1907501819	22,447	-	-	-	12,107	12,107
Total CFDA #84.424			<u>22,447</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,107</u>	<u>12,107</u>
Total passed through Michigan Department of Education			<u>977,365</u>	<u>210,573</u>	<u>386,174</u>	<u>453,633</u>	<u>356,215</u>	<u>113,155</u>
Total U.S. Department of Education			<u>977,365</u>	<u>210,573</u>	<u>386,174</u>	<u>453,633</u>	<u>356,215</u>	<u>113,155</u>
<u>U.S. Department of Health and Human Services:</u>								
Passed through Berrien Regional Education Service Agency:								
Medicaid Outreach	93.778	18/19	1,758	-	-	1,758	1,758	-
Medicaid Outreach	93.778	17/18	858	858	-	858	-	-
Total CFDA #93.778			<u>2,616</u>	<u>858</u>	<u>-</u>	<u>2,616</u>	<u>1,758</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>2,616</u>	<u>858</u>	<u>-</u>	<u>2,616</u>	<u>1,758</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,733,463</u>	<u>\$ 211,431</u>	<u>\$ 719,126</u>	<u>\$ 876,779</u>	<u>\$ 778,503</u>	<u>\$ 113,155</u>

**BENTON HARBOR CHARTER SCHOOL ACADEMY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019**

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Benton Harbor Charter School Academy under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Benton Harbor Charter School Academy, it is not intended to and does not present the financial position or changes in net position of Benton Harbor Charter School Academy.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available. Benton Harbor Charter School Academy has elected to not use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Management has utilized the cash management system (CMS) Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards. The Academy does not pass through federal awards.

NOTE 3 - RECONCILING WITH AUDITED FINANCIAL STATEMENTS

Federal expenditures are reported as revenue in the following funds in the financial statements for the period ending June 30, 2019:

General fund	\$ 357,973
Special revenue fund	<u>420,530</u>
	<u><u>\$ 778,503</u></u>

**INDEPENDENT AUDITOR’S 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
Benton Harbor Charter School Academy

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Benton Harbor Charter School Academy as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Benton Harbor Charter School Academy’s basic financial statements and have issued our report thereon dated September 25, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Benton Harbor Charter School Academy’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Benton Harbor Charter School Academy’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Benton Harbor Charter School Academy’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Benton Harbor Charter School Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Manes Costeiran PC

September 25, 2019

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors
Benton Harbor Charter School Academy

Report on Compliance for Each Major Federal Program

We have audited Benton Harbor Charter School Academy' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Benton Harbor Charter School Academy' major federal programs for the year ended June 30, 2019. Benton Harbor Charter School Academy' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Benton Harbor Charter School Academy' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Benton Harbor Charter School Academy' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our unmodified opinion on compliance for major federal programs. However, our audit does not provide a legal determination of Benton Harbor Charter School Academy' compliance.

Opinion on Each Major Federal Program

In our opinion, Benton Harbor Charter School Academy complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of Benton Harbor Charter School Academy is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Benton Harbor Charter School Academy's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Benton Harbor Charter School Academy's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Maney Costeiran PC

September 25, 2019

**BENTON HARBOR CHARTER SCHOOL ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

➤ Material weakness(es) identified ? Yes X No

➤ Significant deficiency(ies) identified that are not considered to be material weakness(es) ? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

➤ Material weakness(es) identified: Yes X No

➤ Significant deficiency(ies) identified that are not considered to be material weakness(es) ? Yes X None reported

Type of auditor's report issued on compliance for major programs: *Unmodified*

Any audit findings that are required to be reported in accordance with Title 2 CFR Section 200.516(a)? Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.555 & 10.553	Child Nutrition Cluster

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? Yes X No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Question Costs

None

**BENTON HARBOR CHARTER SCHOOL ACADEMY
SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2019**

There were no audit findings required to be reported on this schedule for the previous year.

September 25, 2019

To the Board of Directors
Benton Harbor Charter School Academy

We have audited the financial statements of Benton Harbor Charter School Academy for the year ended June 30, 2019, and have issued our report thereon dated September 25, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards, *Government Auditing Standards* and OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)

As stated in our engagement letter, 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. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Benton Harbor Charter School Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

As part of obtaining reasonable assurance about whether Benton Harbor Charter School Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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. Also in accordance with the Uniform Guidance, we examined, on a test basis, evidence about Benton Harbor Charter School Academy's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Benton Harbor Charter School Academy's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Benton Harbor Charter School Academy's compliance with those requirements.

Our responsibility for the supplementary information accompanying the financial statement, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to the Treasurer of the Board of Directors.

Significant Audit Findings

1. 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 Benton Harbor Charter School 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 2019. 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. The most sensitive estimates affecting the financial statements were:

Management's determination of the estimated life span of the capital assets:

We evaluated the key factors and assumptions used by management to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole. In addition, certain amounts included in capital assets have been estimated based on an outside appraisal company.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. We did not identify any sensitive disclosures.

2. *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

3. *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. We did not detect any corrected or uncorrected misstatements.

4. *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

5. *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 25, 2019.

6. *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the 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.

7. *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Academy's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. *Other Matters*

We applied certain limited procedures to the required supplementary information (RSI) which are required and supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the other supplementary information, which accompany the financial statements but are not RSI. With respect to this other supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the other supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

A separate management letter was not issued.

This information is intended solely for the use of the Board of Directors and management of Benton Harbor Charter School Academy and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Maney Costeiran PC