



GRAND RAPIDS, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022



Vredeveld Haefner LLC
CPAs and Consultants

HOPE ACADEMY OF WEST MICHIGAN

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INDEPENDENT AUDITORS' REPORT

October 5, 2022

Board of Directors
Hope Academy of West Michigan
Grand Rapids, Michigan

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Hope Academy of West Michigan, Grand Rapids, Michigan (the Academy) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Academy, as of June 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Academy and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Academy's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Academy's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Academy's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 27 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2022, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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 the 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 the Academy's internal control over financial reporting and compliance.

Uroderfeld Haefner LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

HOPE ACADEMY OF WEST MICHIGAN

Management's Discussion and Analysis

As management of Hope Academy of West Michigan (the Academy), we offer readers of the Academy's financial statements this narrative overview and analysis of the financial activities of the Academy for the fiscal year ended June 30, 2022. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

Key metrics and financial highlights of the Academy for the year ended June 30, 2022 are as follows:

Total net position	\$1,998,603
Unrestricted net position	1,576,997
Change in net position	61,626
Fund balance, general fund	1,576,997
Change in fund balance, general fund	189,800
Fund balance, general fund (as a percentage of general fund expenditures)	27.8%
Unassigned fund balance, general fund (as a percentage of general fund expenditures)	24.5%

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Academy's financial statements. The Academy's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Academy's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Academy's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Academy is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., payments on debt).

Both of the government-wide financial statements display functions of the Academy that are principally supported by intergovernmental revenues (*governmental activities*). The governmental activities of the Academy include instruction, support services, athletics and unallocated depreciation. The Academy does not have any business-type activities.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Academy, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Academy maintains one individual governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund which is considered to be a major fund.

Fiduciary fund. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Academy's own programs.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. Required supplementary information includes this management discussion and analysis, and a schedule of General fund budget to actual information.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Academy, assets exceeded liabilities by \$1,998,603 at the close of the most recent fiscal year.

A portion of the Academy's net position reflects amounts invested in capital assets (e.g., land, buildings, equipment and software), less any related debt used to acquire those assets that is still outstanding. The Academy uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending.

The following table shows the condensed financial position compared to prior year.

Net Position		
	Governmental Activities	
	<u>2022</u>	<u>2021</u>
Assets		
Current assets	\$ 2,134,103	\$ 1,879,389
Right to use assets	547,316	-
Capital assets	421,606	549,780
Total assets	3,103,025	2,429,169
Current liabilities	557,106	492,192
Noncurrent liabilities	547,316	-
Total liabilities	1,104,422	492,192
Net position		
Net investment in capital assets	421,606	549,780
Unrestricted	1,576,997	1,387,197
Total net position	\$1,998,603	\$1,936,977

Net position of the Academy increased by \$61,626 during the year. The increase in net position is primarily due to an increase in the per pupil foundation allowance along with Act 18 and Special Education SIC funding.

The following table shows the condensed increase (decrease) in financial position compared to prior year.

Activities		
	Governmental Activities	
	<u>2022</u>	<u>2021</u>
Revenue		
Program revenue		
Operating grants and contributions	\$ 1,783,304	\$ 1,495,640
General revenue		
Unrestricted school aid	3,359,465	3,036,882
Unrestricted donations	57,531	69,753
Unrestricted interest	185	284
Total revenue	5,200,485	4,602,559
Expenses		
Instruction	3,116,670	2,628,437
Supporting services	1,791,910	1,601,979
Community services	68,233	64,026
Unallocated depreciation	142,392	140,370
Interest and fees	19,654	-
Total expenses	5,138,859	4,434,812
Increase (decrease) in net position	61,626	167,747
Net position - beginning of year, as restated	1,936,977	1,769,230
Net position - end of year	\$ 1,998,603	\$ 1,936,977

Governmental Activities

During the year the Academy expended 61% of its total expenses on instruction and 35% on support services such as guidance service, transportation, building operation and maintenance and administration. The remaining 4% of expenses was community services, depreciation, and interest on debt.

Financial Analysis of the Academy's General Fund

As noted earlier, the Academy uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Academy maintains one governmental fund – the general fund.

Governmental funds. The focus of *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Academy's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a Academy's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the Academy's general fund reported ending fund balance of \$1,576,997, an increase of \$189,800 in comparison with the prior year as compared to the final budgeted change in fund balance of \$(129).

Unassigned fund balance of the General fund was \$1,389,025. As a measure of the General fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents approximately 24.5% of total General fund expenditures.

Budgetary Highlights

Over the course of the year, we revised the budget as we attempted to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing our original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information section of these financial statements.

There were revisions made to our 2021-2022 General fund original budget. Budgeted revenues were increased by approximately \$480,000 over the original budget to reflect increases in state and interdistrict revenues. The budget for Federal revenue was decreased by approximately \$214,000 to account for the actual grant expenditures incurred and eligible for reimbursement. Budgeted expenditures were increased by approximately \$1,150,000 to reflect that additional staff salaries made possible by the foundation allowance increase and the initial recording of the lease liability for implementation of GASB 87.

Capital Asset and Debt Administration

Capital assets. The Academy's investment in capital assets for its governmental activities as of June 30, 2022, amounted to \$421,606 (net of accumulated depreciation).

The Academy's capital assets (net of depreciation) are summarized as follows:

	Governmental Activities
Computer	\$ 7,959
Furniture and fixtures	31,848
Machinery and equipment	381,799
Total	<u>\$421,606</u>

Additional information on the Academy's capital assets can be found in Note 4 of this report.

Debt. The Academy's only debt outstanding is related to its lease payable. Additional information on the Academy's building lease can be found in Note 6 of these financial statements.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Academy's budget for the 2022-23 fiscal year:

- Ferris State University re-authorized the Academy through June 30, 2027.
- An increase in state aid to an amount of \$9,150 per student for the 2023 school year has been announced and the Academy is anticipating this will occur.
- The Academy has renewed the cooperative agreement with a partner district for the upcoming school year.
- The Academy has remaining CARES – ESSER II funds to expend during the 2023 school year. In addition, the Academy has received an allocation of ESSER III funds in the amount of \$1,524,945. These funds must be expended by September 30, 2024.

Requests for Information

This financial report is designed to provide a general overview of the Academy's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Integrity Educational Services, Executive Director of the Business Office, 3300 36th Street, Grand Rapids, Michigan, 49512.

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BASIC FINANCIAL STATEMENTS

HOPE ACADEMY OF WEST MICHIGAN

STATEMENT OF NET POSITION

JUNE 30, 2022

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 948,199
Accounts receivable	20,664
Due from other governmental units	977,268
Prepaid items	187,972
Right to use leased assets	547,316
Capital assets, net	
Land improvements, buildings and improvements, furniture and equipment	<u>421,606</u>
Total assets	<u>3,103,025</u>
Liabilities	
Accounts payable	113,888
Accrued liabilities	383,162
Due to other governmental units	21,304
Unearned revenue	38,752
Noncurrent liabilities	
Lease payable	547,316
Total liabilities	<u>1,104,422</u>
Net position	
Net investment in capital assets	421,606
Unrestricted deficit	<u>1,576,997</u>
Total net position	<u><u>\$ 1,998,603</u></u>

The accompanying notes are an integral part of these financial statements.

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HOPE ACADEMY OF WEST MICHIGAN

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2022

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue</u>
Primary government			
Governmental activities			
Instruction	\$ 3,116,670	\$ 1,234,357	\$ (1,882,313)
Support services	1,791,910	548,947	(1,242,963)
Community services	68,233	-	(68,233)
Depreciation - unallocated	142,392	-	(142,392)
Interest and fees	19,654	-	(19,654)
Total governmental activities	<u>\$ 5,138,859</u>	<u>\$ 1,783,304</u>	<u>(3,355,555)</u>
General revenues			
Unrestricted school aid			3,359,465
Unrestricted donations			57,531
Interest earnings			185
Total general revenues			<u>3,417,181</u>
Change in net position			61,626
Net position, beginning of year			<u>1,936,977</u>
Net position, end of year			<u>\$ 1,998,603</u>

The accompanying notes are an integral part of these financial statements.

HOPE ACADEMY OF WEST MICHIGAN

GENERAL FUND BALANCE SHEET

JUNE 30, 2022

Assets

Cash and cash equivalents	\$ 948,199
Accounts receivable	20,664
Due from other governmental units	977,268
Prepaid items	<u>187,972</u>

Total assets

\$ 2,134,103

Liabilities and fund balances

Liabilities

Accounts payable	\$ 113,888
Due to other governmental units	21,304
Accrued liabilities	383,162
Unearned revenue	<u>38,752</u>

Total liabilities

557,106

Fund balances

Non-spendable	
Prepaid items	187,972
Unassigned	<u>1,389,025</u>

Total fund balances

1,576,997

Total liabilities and fund balances

\$ 2,134,103

The accompanying notes are an integral part of these financial statements.

HOPE ACADEMY OF WEST MICHIGAN

RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR THE GENERAL FUND TO NET POSITION OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET POSITION

JUNE 30, 2022

Fund balance - general fund	\$ 1,576,997
Amounts reported for <i>governmental activities</i> in the statement of net position are different because	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	
Add - capital assets, net	421,606
Add - right to use asset	547,316
Certain liabilities and related deferred inflows and deferred outflows are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - lease payable	<u>(547,316)</u>
Net position of governmental activities	<u>\$ 1,998,603</u>

The accompanying notes are an integral part of these financial statements.

HOPE ACADEMY OF WEST MICHIGAN

GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED JUNE 30, 2022

Revenues	
Local sources	\$ 57,716
State sources	3,987,681
Federal sources	632,106
Interdistrict sources	<u>522,982</u>
Total revenues	<u>5,200,485</u>
Expenditures	
Current	
Instruction	2,999,697
Support services	1,800,268
Community services	68,233
Interdistrict	3,478
Capital lease outlay	666,671
Debt service	
Principal	119,355
Interest and fees	<u>19,654</u>
Total expenditures	<u>5,677,356</u>
Revenues over (under) expenditures	(476,871)
Other financing sources (uses)	
Issuance of long-term lease	<u>666,671</u>
Net change in fund balances	189,800
Fund balance, beginning of year	<u>1,387,197</u>
Fund balance, end of year	<u>\$ 1,576,997</u>

The accompanying notes are an integral part of these financial statements.

HOPE ACADEMY OF WEST MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF THE GENERAL FUND TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2022

Net changes in fund balance - general fund	\$ 189,800
<p>Amounts reported for <i>governmental activities</i> in the statement of activities are different because</p> <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.</p>	
Add - capital outlay	14,218
Deduct - depreciation expense	(142,392)
Add - right to use leased assets	666,671
<p>Long-term debt proceeds provide current financial resources to governmental funds in the period issued, but issuing long-term debt increases long-term liabilities in the statement of net position. Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>	
Deduct - lease liability issued	(666,671)
Add - principal payments on lease liability	119,355
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.</p>	
Deduct - amortization of right ot use leased assets	<u>(119,355)</u>
Change in net position of governmental activities	<u>\$ 61,626</u>

The accompanying notes are an integral part of these financial statements.

HOPE ACADEMY OF WEST MICHIGAN

***FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION***

JUNE 30, 2022

	Custodial <u>Fund</u>
Assets	
Cash and cash equivalents	<u>\$ 1,380</u>
Net position	
Net position restricted for individuals and organizations	<u>\$ 1,380</u>

The accompanying notes are an integral part of these financial statements.

HOPE ACADEMY OF WEST MICHIGAN
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2022

	Custodial Fund
Additions	
Collected for other organizations	\$ -
Deductions	
Distributions to other organizations	<u>393</u>
Change in net position	(393)
Net position, beginning of year	<u>1,773</u>
Net position, end of year	<u>\$ 1,380</u>

The accompanying notes are an integral part of these financial statements.

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HOPE ACADEMY OF WEST MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Hope Academy of West Michigan (the Academy) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

Reporting Entity

The Academy was formed as a charter school pursuant to the Michigan School Code. The Academy's authorizer is Ferris State University (the Authorizer) who is paid 3% of state-aid payments received by the Academy. The Authorizer provides certain contractual services to the Academy including the approval of the Academy's operating plan, monitoring compliance with provisions of the charter contract and selection of members for the Board of Directors. The Authorizer is paid 3% of state-aid payments received by the Academy for such services. The Academy provides education and related services to approximately 375 students in grades Pre-kindergarten through 12th. The Academy is governed by a seven-member Board of Directors. The Academy is administered by Integrity Educational Services (IES) with whom the Board of Directors entered into a services agreement that requires IES to provide management and operational services to the Academy.

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of Hope Academy of West Michigan. There are no component units to be included. The criteria for including a component unit include significant operational or financial relationships with the Academy.

Government-wide and Fund 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 primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by intergovernmental revenues are reported in total. The Academy has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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 or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Major 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 general operating fund of the Academy. It is used to account for all financial resources, except those required to be accounted for in another fund.

HOPE ACADEMY OF WEST MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

Additionally, the Academy reports the following fund type:

The *Custodial Fund* is used to account for resources held on behalf of other individuals and organizations. This primarily includes undistributed prior collections.

Measurement Focus and Basis of Accounting

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.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for reimbursement-based grants and interest which use one year. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. Exceptions to this general rule include principal and interest on long-term debt which is recognized when due.

All governmental funds are accounted for on a spending or "flow of current financial resources" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance is considered a measure of "available, spendable resources".

Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available, spendable resources" during a period.

Budgets and Budgetary Accounting

Comparisons to budget are presented for the General fund. The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The contracted Executive Director of the Business Office establishes a proposed operating budget for the fiscal year commencing the following July 1 and submits the budget to the Board of Directors.
2. Public hearings are conducted to obtain comments.
3. Prior to July 1, the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for the General fund.
5. The budget for the General fund is adopted on a basis consistent with generally accepted accounting principles (GAAP).

HOPE ACADEMY OF WEST MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

6. Adoption and amendments of all budgets used by the Academy are governed by Michigan Law. The appropriation ordinances are based on the projected expenditures budget of the various functions of the Academy. Any amendment to the original budget must meet the requirements of Michigan Law. Any revisions that alter the total expenditures of any activity must be approved by the Board of Directors. The Academy did amend its budget for the current fiscal year.

Cash and Investments

Michigan law and Academy policy authorizes the Academy to invest in:

- a. Bonds, bills or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States, or obligations of the State. In a primary or fourth class school district, the bonds, bills or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- b. Certificates of deposit issued by a state or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d. Securities issued or guaranteed by agencies or instrumentalities of the United States, United States or federal agency obligation repurchase agreements, and bankers' acceptances issued by a bank that is a member of the federal deposit insurance corporation.
- e. Mutual funds that are composed entirely of investment vehicles that are legal for direct investment by a school district.
- f. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

Receivables

The Academy follows the practice of recording revenues that have been earned but not yet received as receivables.

Prepaid Items

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

Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements.

HOPE ACADEMY OF WEST MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at acquisition value (the price that would be paid to acquire an asset with an equivalent service potential in an orderly market transaction) on the date received.

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

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Furniture and equipment	3-5

Accrued Compensation

A liability is recorded at June 30 for amounts owed to the Academy's contracted staffing company, for those amounts owed by the staffing company to teachers and other staff members who do not work during the summer but are contracted to have their salaries paid over a twelve-month period. This has the effect of properly charging these contracted staffing costs to expenditures in the fiscal year in which the services are received, even though they are not paid until July and August of the following fiscal year.

The Academy has also recorded accrued contracted staffing costs for amounts to be reimbursed to the staffing company after June 30, 2022, for the post-year-end cost to the staffing company of funding FICA, as well as retirement plan funding, related to the services of Academy staff during the school year and fiscal year ended June 30, 2022.

State Aid Revenue

The Academy reports State of Michigan school aid in the fiscal year in which the Academy is entitled to the revenue as provided by the State of Michigan School Aid Appropriation Act. State funding accounted for 77.0% of the General fund revenues for the year. A certain portion of State Aid received by the Academy is restricted to cover specified expenses of the Academy, including special education costs and retirement costs. The unrestricted portion is for use in the general operations of the Academy.

Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The Academy carries commercial insurance to cover various risks of loss and employee benefits. The Academy has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

HOPE ACADEMY OF WEST MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

Net Position and Fund Balance Reporting

Governmental funds report fund balance in the following five categories:

1. Non-spendable – the related asset's form does not allow expenditure of the balance. The assets are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact. Nonspendable fund balance would be equal to inventory, prepaid items, non-current financial assets, and the nonspendable portion of endowments.
2. Restricted – the related assets can only be spent for the specific purposes stipulated by constitution, external resource providers, or as identified in enabling legislation.
3. Committed – the related assets can only be spent for a specific purpose identified by formal resolution of the Academy's governing board.
4. Assigned – the related assets can only be spent for a specific purpose identified by formal resolution of the Academy's governing board. The Board has not delegated authority for the ability to assign fund balance.
5. Unassigned – is the residual classification and includes all spendable amounts not contained in the other classifications.

Net Position and Fund Balance Flow Assumptions

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/fund balance and unrestricted – net position/fund balance, 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 use restricted resources first, then unrestricted resources as they are needed. 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.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

State law provides that the Academy shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the Academy's actual expenditures and budgeted expenditures for the budgeted funds have been shown at the activity level. The approved budgets of the Academy for these budgetary funds were adopted at the activity level. During the year ended June 30, 2022, the Academy did not incur any expenditures in budgeted funds which were in excess of the amounts appropriated.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are reported on the financial statements as follows:

	Governmental Activities	Fiduciary Fund	Total
Cash and cash equivalents	\$948,199	\$1,380	\$949,579

HOPE ACADEMY OF WEST MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

These deposits are in financial institutions located in Michigan. The accounts are in the name of the Academy and are recorded in the Academy's records at fair value. Interest is recorded when earned.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned. State law does not require, and the Academy does not have, a policy for deposit custodial credit risk. As of year-end, \$716,905 of the Academy's bank balance of \$966,905 was exposed to custodial credit risk because it was uninsured and uncollateralized.

4. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	<u>Balance July 1, 2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2022</u>
Governmental activities				
Capital assets, being depreciated				
Furniture and equipment	\$1,330,874	\$14,218	\$14,496	\$1,330,596
Less accumulated depreciation for Furniture and equipment	781,094	142,392	14,496	908,990
Net capital assets, being depreciated	<u>549,780</u>	<u>(128,174)</u>	<u>-</u>	<u>421,606</u>
Governmental activities capital assets, net	<u>\$549,780</u>	<u>\$(128,174)</u>	<u>\$ -</u>	<u>\$421,606</u>

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

5. SHORT-TERM DEBT

The following is a summary of the short-term debt transactions of the Academy for the year ended June 30, 2022:

	<u>Balance July 1, 2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2022</u>
Governmental Activities				
Michigan state aid note payable 2021; due in one payment September 1, 2022; interest payable at 3.21%	<u>\$ -</u>	<u>\$250,000</u>	<u>\$250,000</u>	<u>\$ -</u>

6. LEASE

The Academy leases a school building from a not-for-profit entity. The Lease is extended through June 30, 2024 and includes a second two-year extension option. Rent is payable monthly at an amount mutually agreed upon based on available funding (but not less than \$11,584 per month) and adjusted annually for CPI. Total rental expense under this lease agreement for the year ended June 30, 2022 totaled \$139,009.

The terms of the lease result in a lease payable of \$547,316 utilizing an assume CPI index of 2% and an interest rate of 3.21%.

HOPE ACADEMY OF WEST MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

The annual requirements to amortize the lease payable as of June 30, 2022 are as follows:

	<u>Principal</u>	<u>Interest</u>
2023	\$126,064	\$15,725
2024	133,049	11,576
2025	140,319	7,199
2026	147,884	2,584
	<u>\$547,316</u>	<u>\$37,084</u>

7. RETIREMENT PLAN

All leased employees of the Academy are eligible to participate in a retirement plan established by Integrity Educational Services (IES). The Academy reimburses to IES a 50% match up to 6% of each employee's salary to a qualified 401(k) plan. Academy contributions for the year ended June 30, 2022 totaled \$56,675.

8. OUTSOURCED FOOD SERVICE ACTIVITY

The Academy has contracted with Grand Rapids Public Schools ("GRPS") to provide breakfast and lunch food services during the school year for its students. Under this agreement, GRPS is the direct recipient of most grants and charges for services and has discretionary control over the spending of the funds. As such, any activity is included in Grand Rapids Public Schools' financial statements and therefore has been excluded from this report. If the Academy were to terminate the agreement with GRPS, it would receive a distribution of the balance of the fund maintained by GRPS. As of June 30, 2022, the food service fund balance held by GRPS on behalf of the Academy was \$167,344.

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REQUIRED SUPPLEMENTARY INFORMATION

HOPE ACADEMY OF WEST MICHIGAN

GENERAL FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2022

	Budget Amounts		Actual	Variance
	Original	Final	Amount	Positive (Negative)
Revenues				
Local sources	\$ 20,000	\$ 51,687	\$ 57,716	\$ 6,029
State sources	3,673,722	3,993,332	3,987,681	(5,651)
Federal sources	845,839	871,700	632,106	(239,594)
Interdistrict sources	279,500	382,933	522,982	140,049
Total revenues	<u>4,819,061</u>	<u>5,299,652</u>	<u>5,200,485</u>	<u>(99,167)</u>
Expenditures				
Current				
Instruction				
Basic programs	1,986,305	2,396,820	2,320,558	76,262
Added needs	804,217	724,950	679,139	45,811
Support services				
Pupil service	256,361	331,473	325,642	5,831
Instructional staff	213,455	270,995	227,345	43,650
General administration	170,682	180,275	160,785	19,490
School administration	364,171	354,967	336,963	18,004
Business services	224,643	232,594	224,755	7,839
Operations and maintenance	383,143	379,572	376,291	3,281
Pupil transportation services	39,900	51,206	43,216	7,990
Central services	80,760	79,077	64,849	14,228
Pupil accounting	31,637	42,812	34,667	8,145
Pupil activities	24,500	10,347	5,755	4,592
Community services	61,015	71,153	68,233	2,920
Interdistrict	31,963	31,323	3,478	27,845
Capital lease outlay	-	666,671	666,671	-
Debt service				
Principal	120,000	120,000	119,355	645
Interest	22,833	22,217	19,654	2,563
Total expenditures	<u>4,815,585</u>	<u>5,966,452</u>	<u>5,677,356</u>	<u>289,096</u>
Revenues over (under) expenditures	3,476	(666,800)	(476,871)	189,929
Other financing sources (uses)				
Issuance of long-term lease	-	666,671	666,671	-
Net changes in fund balance	3,476	(129)	189,800	189,929
Fund balance, beginning of year	<u>1,387,197</u>	<u>1,387,197</u>	<u>1,387,197</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,390,673</u>	<u>\$ 1,387,068</u>	<u>\$ 1,576,997</u>	<u>\$ 189,929</u>

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INTERNAL CONTROL AND COMPLIANCE



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INDEPENDENT AUDITORS' 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

October 5, 2022

Board of Directors
Hope Academy of West Michigan
Grand Rapids, Michigan

We have audited, in accordance with the 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 Hope Academy of West Michigan, Grand Rapids, Michigan (the Academy) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated October 5, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Academy's internal control over financial reporting (internal control) as a basis for designing 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 Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 the 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*.

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 Academy'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 Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vredersold Haefner LLC