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# Battle Creek Area Learning Center

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

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## **Independent Auditor's Report**

To the Board of Education  
Battle Creek Area Learning Center

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the major fund of Battle Creek Area Learning Center (the "Center") as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise Battle Creek Area Learning Center'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 and the major fund of Battle Creek Area Learning Center as of June 30, 2020 and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Education  
Battle Creek Area Learning Center

**Other Matter**

*Required Supplemental Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the major fund budgetary comparison schedule 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, which 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 supplemental 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 November 2, 2020 on our consideration of Battle Creek Area Learning Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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 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 Battle Creek Area Learning Center's internal control over financial reporting and compliance.



November 2, 2020

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*

**Independent Auditor's Report**

To Management and the Board of Education  
Battle Creek Area Learning Center

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 and major fund of Battle Creek Area Learning Center (the "Center") as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated November 2, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Center'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center'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 Center'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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Findings 2020-001 and 2020-002, that we consider to be material weaknesses in internal control over financial reporting.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Center'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*.

**The Center's Responses to Findings**

The Center agrees with the recommendations. The Center will implement procedures to ensure accounts will be reconciled to supporting records on a timely basis and capital assets are identified and recorded properly, so the Center will have accurate financial information. The Center's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on them.

To Management and the Board of Education  
Battle Creek Area Learning Center

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

*Plante & Moreau, PLLC*

November 2, 2020

This section of Battle Creek Area Learning Center's (the "Center") annual financial report presents our discussion and analysis of the Center's financial performance during the year ended June 30, 2020. Please read it in conjunction with the Center's financial statements, which immediately follow this section.

### ***Using This Annual Report***

This annual report consists of a series of financial statements and notes to those financial statements. These statements are organized so the reader can understand Battle Creek Area Learning Center financially as a whole. The center-wide financial statements provide information about the activities of the whole Center, presenting both an aggregate view of the Center's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term and what remains for future spending. The fund financial statements look at the Center's operations in more detail than the center-wide financial statements by providing information about the Center's most significant fund - the General Fund. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the Center acts solely as an agent for the benefit of students and parents. This report is composed of the following elements:

#### **Management's Discussion and Analysis (MD&A) (Required Supplemental Information)**

##### **Basic Financial Statements**

Center-wide Financial Statements

Fund Financial Statements

Notes to Financial Statements

##### **Required Supplemental Information**

Budgetary Information for Major Fund

### ***Reporting the Center as a Whole - Center-wide Financial Statements***

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

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

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

# Battle Creek Area Learning Center

## Management's Discussion and Analysis (Continued)

### **Reporting the Center's Most Significant Funds - Fund Financial Statements**

The Center's fund financial statements provide detailed information about the most significant fund - not the Center as a whole. At the current time, the Center only has the General Fund. In the future, additional funds could be established by state law and by bond covenants. The Center could establish many other funds to help it control and manage money for particular purposes (a food service fund is an example) or to show that it is meeting legal responsibilities for using certain grants and other money.

### **Governmental Funds**

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

### **The Center as Trustee - Reporting the Center's Fiduciary Responsibilities**

The Center is the trustee, or fiduciary, for its student activity fund. All of the Center's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. We exclude these activities from the Center's other financial statements because the Center cannot use these assets to finance its operations. The Center is responsible for ensuring that the assets reported in this fund are used for their intended purposes.

### **The Center as a Whole**

Recall that the statement of net position provides the perspective of the Center as a whole. The following table provides a summary of the Center's net position as of June 30, 2020 and 2019:

	Governmental Activities	
	2020	2019
	(in thousands)	
<b>Assets</b>		
Current and other assets	\$ 730.0	\$ 530.4
Capital assets	434.6	179.5
Total assets	1,164.6	709.9
<b>Liabilities</b>		
Current liabilities	387.8	248.3
Noncurrent liabilities	90.5	-
<b>Net Position</b>		
Net investment in capital assets	134.6	179.5
Unrestricted	551.7	282.1
Total net position	<b>\$ 686.3</b>	<b>\$ 461.6</b>

The above analysis focuses on net position. The change in net position of the Center's governmental activities is discussed below. Net investment in capital assets totaling approximately \$135,000 compares the total cost less the accumulated depreciation of the Center's capital assets to debt that was used to finance the acquisition of those assets. The Center's net position was approximately \$686,000 at June 30, 2020.



## Battle Creek Area Learning Center

### Management's Discussion and Analysis (Continued)

The approximately \$552,000 in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The unrestricted net position balance enables the Center to meet working capital and cash flow requirements, as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the Center as a whole are reported in the condensed statement of activities below, which shows the changes in net position for the years ended June 30, 2020 and 2019:

	Governmental Activities	
	2020	2019
	(in thousands)	
<b>Revenue</b>		
Program revenue - Operating grants	\$ 485.5	\$ 361.1
General revenue:		
State aid not restricted to specific purposes	1,263.7	1,225.0
Other	7.2	7.2
Total revenue	1,756.4	1,593.3
<b>Expenses</b>		
Instruction	805.5	760.1
Support services	701.2	726.6
Debt service	13.2	1.8
Depreciation expense (unallocated)	11.8	0.6
Total expenses	1,531.7	1,489.1
<b>Change in Net Position</b>	224.7	104.2
<b>Net Position - Beginning of year</b>	461.6	357.4
<b>Net Position - End of year</b>	<b>\$ 686.3</b>	<b>\$ 461.6</b>

As reported in the statement of activities, the cost of all of our governmental activities this year was approximately \$1,532,000. Certain activities were partially funded or by other governments and organizations that subsidized certain programs with grants and contributions (approximately \$486,000). We paid for the remaining public benefit portion of our governmental activities with approximately \$1,264,000 in state foundation allowance and with our other revenue (i.e., interest and general entitlements).

The Center experienced an increase in net position of approximately \$225,000. A key reason for the increase was higher enrollment than expected or budgeted. Furthermore, the Center has been operating with fiscal conservatism for the exact purpose of trying to increase the fund balance. As the Center continues to add to the fund balance, the Center sets itself up to avoid borrowing and paying loan interest and use those funds to educate students.

As discussed above, the net cost shows the financial burden that was placed on the State and the Center's taxpayers by each of these functions. Since unrestricted state aid constitutes the vast majority of center operating revenue sources, the Board of Education and administration must annually evaluate the needs of the Center and balance those needs with state-prescribed available unrestricted resources.

#### **The Center's Funds**

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

As the Center completed this year, the governmental funds reported a fund balance of approximately \$342,000, which is an increase of approximately \$60,000 from last year. The primary reason for the change is due to key expenses being lower than budgeted.

# Battle Creek Area Learning Center

## Management's Discussion and Analysis (Continued)

The General Fund's fund balance is available to fund costs related to allowable school operating purposes.

### **General Fund Budgetary Highlights**

Over the course of the year, the Center revises its budget as it attempts to deal with unexpected changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted in June 2020. A schedule showing the Center's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

There were numerous revisions made to the 2019-2020 General Fund original budget. Budgeted revenue was increased approximately \$21,000. The increase in revenue was due to the Coronavirus Aid, Relief, and Economic Security (CARES) Act funding. In the original budget and the first amended budget, this funding had not been identified or appropriated, as the COVID-19 pandemic had not yet impacted the country. Following the onset of the pandemic and the addition of the CARES Act funding, the budget was amended one final time with this additional revenue added.

Budgeted expenditures were also increased approximately \$203,000 to account for the net changes in expenditures that resulted from the costs to finish the office space renovation that finished during the year.

There was a significant variance between the final budget and actual amounts in the General Fund for the debt service payments, as described in Note 3.

### **Capital Assets and Debt Administration**

#### **Capital Assets**

As of June 30, 2020, the Center had approximately \$435,000 invested in capital assets, including building and building improvements, vehicles, and furniture and equipment.

	2020	2019
Construction in progress	\$ -	\$ 172,081
Buildings and improvements	419,335	-
Furniture and equipment	19,633	-
Buses and other vehicles	8,000	8,000
	<hr/>	<hr/>
Total capital assets	446,968	180,081
Less - Accumulated depreciation	12,341	571
	<hr/>	<hr/>
Total capital assets - Net of accumulated depreciation	<b>\$ 434,627</b>	<b>\$ 179,510</b>

This year's additions of approximately \$267,000 included new office space construction and various technology upgrades. No major capital projects are planned for the 2020-2021 fiscal year. We anticipate capital additions will significantly decrease this year, as the office renovation is completed. We present more detailed information about our capital assets in the notes to the financial statements.

#### **Debt**

At the end of this year, the Center had approximately \$390,000 in debt outstanding. There was approximately \$18,600 outstanding for the year ended June 30, 2019.

#### **Economic Factors and Next Year's Budgets and Rates**

Our board members and administration consider many factors when setting the Center's 2020-2021 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The 2020-2021 budget was adopted in June 2020 based primarily on an estimate of students who will enroll in September 2020. Based on early enrollment data at the start of the 2020 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2020-2021 budget.

## **Battle Creek Area Learning Center**

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### **Management's Discussion and Analysis (Continued)**

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Approximately 71 percent of total General Fund revenue is from the foundation allowance. As a result, center funding is heavily dependent on the State's ability to fund local school operations. Based on preliminary enrollment data from the beginning of the 2020-2021 school year, we anticipate that we are on target to meet our budgeted enrollment for this year. Once both the final student count and related per pupil funding are validated, state law requires the Center to amend the budget if actual center resources are not sufficient to fund original appropriations.

The COVID-19 pandemic has resulted in economic challenges for the State of Michigan and has strained expected revenue into the School Aid Fund (SAF) for fiscal year 2020-2021. Consequently, the budget process for the Center's 2020-2021 fiscal year was challenging. Subsequently, additional funding was made available through the State using federal Coronavirus Relief Funds. Additionally, the State's revenue to the SAF improved, resulting in no significant cuts in school financing for fiscal year 2020-2021. However, there is continued uncertainty of the pandemic's impact on future state revenue and continued uncertainty on future state funding for the Center. We have received some federal funds; however, they do come with additional restrictions. The federal funds will help offset some of the additional costs incurred due to COVID-19.

# Battle Creek Area Learning Center

## Statement of Net Position

June 30, 2020

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash (Note 4)	\$ 304,428
Due from other governmental units	399,349
Prepaid expenses and other assets	26,175
Capital assets - Net (Note 5)	<u>434,627</u>
Total assets	1,164,579
<b>Liabilities</b>	
Accounts payable and other current liabilities	87,771
Short-term note payable (Note 7)	300,000
Noncurrent liabilities:	
Due within one year (Note 8)	16,667
Due in more than one year (Note 8)	<u>73,819</u>
Total liabilities	<u>478,257</u>
<b>Net Position</b>	
Net investment in capital assets	134,627
Unrestricted	<u>551,695</u>
Total net position	<u><u>\$ 686,322</u></u>

# Battle Creek Area Learning Center

## Statement of Activities

Year Ended June 30, 2020

	Program Revenue		Governmental Activities
	Expenses	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
<b>Functions/Programs</b>			
Primary government - Governmental activities:			
Instruction	\$ 805,542	\$ 357,752	\$ (447,790)
Support services	701,163	127,715	(573,448)
Interest	13,225	-	(13,225)
Depreciation expense (unallocated)	11,770	-	(11,770)
Total primary government	<u>\$ 1,531,700</u>	<u>\$ 485,467</u>	(1,046,233)
General revenue:			
State aid not restricted to specific purposes			1,263,668
Interest and investment earnings			15
Other			7,224
Total general revenue			<u>1,270,907</u>
<b>Change in Net Position</b>			224,674
<b>Net Position - Beginning of year</b>			<u>461,648</u>
<b>Net Position - End of year</b>			<u><b>\$ 686,322</b></u>

# Battle Creek Area Learning Center

## Governmental Fund Balance Sheet

June 30, 2020

General Fund

### Assets

Cash (Note 4)	\$	304,428
Due from other governmental units		399,349
Prepaid expenses and other assets		26,175

Total assets **\$ 729,952**

### Liabilities

Accounts payable and other current liabilities	\$	87,771
Short-term note payable (Note 7)		300,000

Total liabilities 387,771

### Fund Balance

Nonspendable - Prepaid expenses and other assets		26,175
Unassigned		316,006

Total fund balance 342,181

Total liabilities and fund balance **\$ 729,952**

**Battle Creek Area Learning Center**

**Governmental Fund**

**Reconciliation of the Balance Sheet to the Statement of Net Position**

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**June 30, 2020**

<b>Fund Balance Reported in the Governmental Fund</b>	\$ 342,181
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	434,627
Long-term debt obligations are not due and payable in the current period and are not reported in the funds	<u>(90,486)</u>
<b>Net Position of Governmental Activities</b>	<b><u><u>\$ 686,322</u></u></b>

# Battle Creek Area Learning Center

## Governmental Fund Statement of Revenue, Expenditures, and Changes in Fund Balance

Year Ended June 30, 2020

	<u>General Fund</u>
<b>Revenue</b>	
Local sources	\$ 7,239
State sources	1,431,356
Federal sources	135,043
Governmental - Intergovernmental	<u>182,736</u>
Total revenue	1,756,374
<b>Expenditures</b>	
Current:	
Instruction	805,204
Support services	696,165
Debt service	22,739
Capital outlay	<u>272,223</u>
Total expenditures	1,796,331
<b>Other Financing Sources</b> - Face of value of debt issued (Note 8)	<u>100,000</u>
<b>Net Change in Fund Balance</b>	60,043
<b>Fund Balance</b> - Beginning of year	<u>282,138</u>
<b>Fund Balance</b> - End of year	<u><u>\$ 342,181</u></u>



**Battle Creek Area Learning Center**

**Governmental Fund**  
**Reconciliation of the Statement of Revenue, Expenditures, and Changes in**  
**Fund Balance to the Statement of Activities**

**Year Ended June 30, 2020**

<b>Net Change in Fund Balance Reported in the Governmental Fund</b>	\$	60,043
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:		
Capitalized capital outlay (Note 5)		266,887
Depreciation expense		(11,770)
Issuing debt provides current financial resources to governmental funds but increases long-term liabilities in the statement of net position		(100,000)
Repayment of long-term debt is an expenditure in the governmental funds but not in the statement of activities (where it reduces long-term debt)		9,514
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>224,674</u></b>

**Battle Creek Area Learning Center**

**Fiduciary Fund**  
**Statement of Fiduciary Assets and Liabilities**

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	<b>June 30, 2020</b>
	<u>Agency Fund</u>
<b>Assets - Cash (Note 4)</b>	<b>\$ 5,573</b>
<b>Liabilities - Due to student groups</b>	<b>\$ 5,573</b>

June 30, 2020

### Note 1 - Nature of Business

Battle Creek Area Learning Center (the "Center") is a charter school in the state of Michigan that provides educational services to students.

### Note 2 - Significant Accounting Policies

#### *Accounting and Reporting Principles*

The Center follows accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies used by the Center.

#### *Reporting Entity*

The Center was formed as a charter school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994.

On July 1, 2017, the Center entered into a contract with the Bay Mills Community College (BMCC) board of trustees to charter a public school academy. The contract states the charter will be in effect until June 30, 2025, unless sooner revoked or terminated. The contract requires the Center to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the state constitution. The Bay Mills Community College board of trustees is the fiscal agent for the Center and is responsible for overseeing the Center's compliance with the contract and all applicable laws. The Center pays the Bay Mills Community College board of trustees 3.0 percent of state aid as administrative fees. The total administrative fees for the year ended June 30, 2020 to the Bay Mills Community College board of trustees were approximately \$40,000.

The Center provides alternative high school educational opportunities for those who are unable to benefit and achieve in a traditional high school setting.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the Center. Based on application of the criteria, the Center does not contain any component units.

#### *Administrative Services*

Battle Creek Area Learning Center has a contracted services agreement with third-party service provider (AccessPoint), which expires in June 2025. There was approximately \$20,000 paid to AccessPoint for the year ended June 30, 2020.

Battle Creek Area Learning Center entered into a lease agreement with the Burmese American Initiative, Inc. for office and classroom space. This lease was entered into in March 2019 and started on July 1, 2019. The lease is for a period of 74 months and expires on June 30, 2025. Base rent each month is \$6,038, and, after the first full year, the monthly rent adjustment can be increased or decreased depending on the financial results of the Center. The monthly rent was not adjusted for the upcoming year. There was approximately \$73,000 paid for rent under this lease agreement for the year ended June 30, 2020.

**June 30, 2020****Note 2 - Significant Accounting Policies (Continued)*****Report Presentation***

Governmental accounting principles require that financial reports include two different perspectives - the center-wide perspective and the fund-based perspective. The center-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 and its component units, as applicable. The center-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Taxes, unrestricted intergovernmental receipts, and other items not properly included among program revenue are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the center-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The General Fund is the Center's only fund.

***Basis of Accounting***

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the Center has spent its resources.

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Revenue is not recognized until it is collected or collected soon enough after the end of the year that it is available to pay for obligations outstanding at the end of the year. For this purpose, the Center considers amounts collected within 60 days of year end to be available for recognition. Revenue not meeting this definition is classified as a deferred inflow of resources.

Fiduciary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

***Fund Accounting***

The Center accounts for its various activities in different funds in order to demonstrate accountability for how it spends certain resources; separate funds allow the Center to show the particular expenditures for which specific revenue is used. The various funds are aggregated into the following fund types:

**Governmental Funds**

Governmental funds include all activities that provide general governmental services that are not business-type activities. Governmental funds can include the General Fund, special revenue funds, debt service funds, capital project funds, and permanent funds. The Center's only major fund is the General Fund, which is the primary operating fund because it accounts for all financial resources used to provide government services other than those specifically assigned to another fund.

**Note 2 - Significant Accounting Policies (Continued)**

**Fiduciary Funds**

Fiduciary funds include amounts held in a fiduciary capacity for others. These amounts are not used to operate the Center's programs. The Center maintains a student activity agency fund to record the transactions of student groups for schools and school-related purposes. The funds are segregated and held for the students.

***Specific Balances and Transactions***

**Cash**

Cash includes cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

**Prepaid Items**

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both center-wide and fund financial statements, when applicable.

**Capital Assets**

Capital assets, which include building improvements, equipment, and a bus, are reported in the applicable governmental activities column in the center-wide financial statements. Capital assets are defined by the Center as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

	<u>Depreciable Life - Years</u>
Buildings and improvements	15
Equipment	5
Buses	7

**Net Position**

Net position of the Center is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

**Net Position Flow Assumption**

The Center will sometimes fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the center-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Center's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

**June 30, 2020****Note 2 - Significant Accounting Policies (Continued)****Fund Balance Flow Assumptions**

The Center will sometimes 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 Center's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Furthermore, 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.

**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 nonspendable fund balance component represents amounts that are not in spendable form or are legally or contractually required to be maintained intact. Restricted fund balance represents amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose. The Center 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 Center's highest level of decision-making authority. The Board of Education is the highest level of decision-making authority for the Center that can, by prior to the end of the fiscal year, commit fund balance. Once passed, the limitation imposed by the resolution remains in place until a similar action is taken the passing of another resolution to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Center has, by resolution, authorized the superintendent to assign fund balance. The Board of Education 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.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

**Upcoming Accounting Pronouncements**

In January 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The Center has evaluated the impact this standard will have on the financial statements. As of July 1, 2020, the Center will report the activities and related balances currently reported as fiduciary in a newly created special revenue fund. The provisions of this statements were originally effective for the Center's financial statements for the year ended June 30, 2020 but were extended to June 30, 2021 with the issuance of GASB Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance*.

**Note 2 - Significant Accounting Policies (Continued)**

In June 2017, the GASB issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires 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 an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Center is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement were originally effective for the Center's financial statements for the year ending June 30, 2021 but were extended to June 30, 2022 with the issuance of GASB Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance*.

**Note 3 - Stewardship, Compliance, and Accountability**

***Budgetary Information***

Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund. All annual appropriations lapse at fiscal year end. The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Center to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner.

The budget document differs from the financial statements due to capital outlay being budgeted on a functional basis.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders and contracts) are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

***Excess of Expenditures Over Appropriations in Budgeted Funds***

During the year, the Center incurred expenditures in the General Fund, which were in excess of the amounts budgeted, as follows:

	Budget	Actual
General Fund - Debt service - Principal	\$ -	\$ 9,514

**Note 4 - Deposits and Investments**

State statutes and the Center's investment policy authorize the Center to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Center is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, certificates of deposit, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Center's deposits are in accordance with statutory authority.

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

**June 30, 2020**

**Note 4 - Deposits and Investments (Continued)**

The Center's cash is subject to several types of risk, which are examined in more detail below:

***Custodial Credit Risk of Bank Deposits***

Custodial credit risk is the risk that, in the event of a bank failure, the Center's deposits may not be returned to it. The Center does not have a deposit policy for custodial credit risk. At year end, the Center's deposit balance at the bank was \$312,340 (checking account), of which \$62,340 was uninsured. The Center evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Note 5 - Capital Assets**

Capital asset activity of the Center's governmental activities was as follows:

	Balance July 1, 2019	Reclassifications	Additions	Disposals and Adjustments	Balance June 30, 2020
Capital assets not being depreciated - Construction in progress	\$ 172,081	\$ (438,968)	\$ 266,887	\$ -	\$ -
Capital assets being depreciated:					
Buildings and improvements	-	419,335	-	-	419,335
Furniture and equipment	-	19,633	-	-	19,633
Buses and other vehicles	8,000	-	-	-	8,000
Subtotal	8,000	438,968	-	-	446,968
Accumulated depreciation:					
Buildings and improvements	-	-	9,318	-	9,318
Furniture and equipment	-	-	1,309	-	1,309
Buses and other vehicles	571	-	1,143	-	1,714
Subtotal	571	-	11,770	-	12,341
Net capital assets being depreciated	7,429	438,968	(11,770)	-	434,627
Net governmental activities capital assets	<u>\$ 179,510</u>	<u>\$ -</u>	<u>\$ 255,117</u>	<u>\$ -</u>	<u>\$ 434,627</u>

Depreciation expense was not charged to activities, as the Center's assets benefit multiple activities and allocation is impractical.

**Note 6 - Risk Management**

The Center is exposed to various risks of loss related to property loss, torts, errors, and omissions. The Center has purchased commercial insurance for all other claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**Note 7 - Short-term Note Payable**

The Center has an available \$300,000 line of credit with a bank that is due upon demand and is uncollateralized. The line of credit bears interest at the prime rate plus 1.00 percent (an effective rate of 4.25 percent) and has various nonfinancial covenants. The line of credit was used for construction expenses related to the office renovation. At June 30, 2020, the Center had \$300,000 outstanding.



**June 30, 2020**

**Note 8 - Long-term Debt**

During the year, the Center received an uncollateralized, interest-free loan from the Battle Creek Community Foundation in the original amount of \$100,000. Monthly payments are approximately \$1,400, and the loan will mature in November 2025. As of June 30, 2020, the outstanding loan balance was \$90,486, and \$16,667 is due within one year. There are no financial or nonfinancial covenants related to this note payable. The Center paid \$9,514 in principal during the year ended June 30, 2020.

Annual debt service requirements to maturity are \$16,667 each year from 2021 through 2025 and \$7,152 for 2026.

**Note 9 - Subsequent Events**

Following the passing of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was signed into law on March 27, 2020 to combat the effects of the COVID-19 pandemic, the U.S. Department of Treasury distributed Coronavirus Relief Fund (CRF) payments to the State of Michigan. During July and August 2020, the School District received \$60,308 of these restricted CRF funds from the Michigan Department of Education. The CRF funds can only be used for eligible costs and are subject to certain Uniform Guidance and grant-specific reporting requirements.

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## Required Supplemental Information

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# Battle Creek Area Learning Center

## Required Supplemental Information Budgetary Comparison Schedule General Fund

**Year Ended June 30, 2020**

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Revenue</b>				
Local sources	\$ 7,850	\$ 100	\$ 7,239	\$ 7,139
State sources	1,454,182	1,478,857	1,431,356	(47,501)
Federal sources	78,222	131,848	135,043	3,195
Governmental - Intergovernmental	144,292	94,292	182,736	88,444
Total revenue	1,684,546	1,705,097	1,756,374	51,277
<b>Expenditures</b>				
Current:				
Instruction:				
Basic programs	572,272	638,901	633,474	(5,427)
Added needs	208,337	173,381	172,068	(1,313)
Support services:				
Pupil	118,638	99,656	99,395	(261)
Instructional staff	92,277	82,107	81,014	(1,093)
General administration	77,325	55,150	55,057	(93)
School administration	275,149	277,849	272,403	(5,446)
Business	50,838	49,629	46,379	(3,250)
Operations and maintenance	150,956	395,877	375,988	(19,889)
Pupil transportation services	2,800	1,818	1,468	(350)
Central	58,960	38,225	36,346	(1,879)
Debt service:				
Principal	9,725	-	9,514	9,514
Interest	7,000	14,500	13,225	(1,275)
Total expenditures	1,624,277	1,827,093	1,796,331	(30,762)
<b>Other Financing Sources - Face value of debt issued</b>				
	-	-	100,000	100,000
<b>Net Change in Fund Balance</b>	60,269	(121,996)	60,043	182,039
<b>Fund Balance - Beginning of year</b>	282,138	282,138	282,138	-
<b>Fund Balance - End of year</b>	<b>\$ 342,407</b>	<b>\$ 160,142</b>	<b>\$ 342,181</b>	<b>\$ 182,039</b>

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## Schedule of Findings and Questioned Costs

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**Schedule of Findings and Questioned Costs**

**Year Ended June 30, 2020**

**Section II - Financial Statement Audit Findings**

Reference Number	Finding
2020-001	<p><b>Finding Type</b> - Material weakness</p> <p><b>Criteria</b> - The Center's internal control structure should ensure that accounting data is properly calculated and reported for capital assets in accordance with generally accepted accounting principles (GAAP).</p> <p><b>Condition</b> - The Center did not have the proper controls in place to identify the necessary assets that needed to be capitalized as of June 30, 2020. The Center is required to ensure that controls are in place and assets are recorded in the proper period. These audit adjustments were proposed by the auditors.</p> <p><b>Context</b> - Adjustments were identified during the audit regarding capital asset balances and depreciation that impacted assets and expenditures.</p> <p><b>Cause</b> - The Center did not properly account for the recording of the capital assets prior to the audit adjusting entries. Due to minimal activity in capital assets, no controls, oversight, or training were in place surrounding capital assets.</p> <p><b>Effect</b> - Prior to the adjustments identified, the Center did not properly identify or record the capital asset activity in accordance with GAAP. These adjustments were corrected by management during the audit process.</p> <p><b>Recommendation</b> - We recommend the business office implement controls over capital assets in order to properly account for existing and new capital assets and seek appropriate guidance for properly analyzing fixed asset purchases in the future.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - Battle Creek Area Learning Center agrees with the above recommendation. The Center will implement procedures to ensure capital assets are accounted for properly, so the Center will have accurate financial information prior to the annual audit.</p>

**Schedule of Findings and Questioned Costs (Continued)**

**Year Ended June 30, 2020**

**Section II - Financial Statement Audit Findings (Continued)**

Reference Number	Finding
2020-002	<p><b>Finding Type</b> - Material weakness</p> <p><b>Criteria</b> - The Center's internal control structure should ensure that financial information is complete, accurate, and made available to management and those charged with governance in a timely and orderly manner.</p> <p><b>Condition</b> - Several account balances in the Center's books and records for the 2020 fiscal year were not reconciled properly and closed prior to commencement of the audit and, thus, were identified as improperly recorded either by the Center or as part of the audit process. Several adjustments and reclassifications to the Center's general ledger were discussed with management during our audit process and recorded by management as a result.</p> <p><b>Context</b> - Adjustments and reclassifications that were identified during the audit, either by management or as a result of audit procedures, impacted expenditures, revenue, assets, and liabilities within the Center's governmental funds. These adjustments and reclassifications were corrected by management and are reflected in the Center's June 30, 2020 governmental fund financial statements.</p> <p><b>Cause</b> - The Center did not have controls and processes in place to analyze, adjust, and independently review account balances prior to commencement of the audit.</p> <p><b>Effect</b> - Account balances were not completely reconciled and adjusted prior to the commencement of the audit. The net effect of all adjustments was to increase net position by approximately \$38,000.</p> <p><b>Recommendation</b> - We recommend the Center continue to review and revise its year-end closing accounting procedures and controls to make certain that all account balances are completely and accurately reconciled and reviewed throughout the year and prior to the commencement of the annual audit.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - Battle Creek Area Learning Center agrees with the above recommendation. The Center agrees that all adjustments, schedules, and account balance reconciliations should be completed throughout the year before the year-end audit process. The Center continues to use its resources to adequately review and revise year-end closing procedures to make certain all account balance reconciliations are completed accurately before the annual audit.</p>