

Michigan International Prep School

Financial Statements

June 30, 2019



Table of Contents

Section	Page	
1	Members of the Board of Directors	1 – 1
2	Independent Auditors' Report	2 – 1
3	Management's Discussion and Analysis	3 – 1
4	Basic Financial Statements	
	Academy-wide Financial Statements	
	Statement of Net Position	4 – 1
	Statement of Activities	4 – 2
	Fund Financial Statements	
	Governmental Funds	
	Balance Sheet	4 – 3
	Reconciliation of the Balance Sheet of	
	Governmental Funds to the Statement of Net Position	4 – 4
	Statement of Revenues, Expenditures and Changes in Fund Balances	4 – 5
	Reconciliation of the Statement of Revenues, Expenditures and	
	Changes in Fund Balances of Governmental Funds to the Statement of Activities	4 – 6
	Notes to the Financial Statements	4 – 7
5	Required Supplementary Information	
	Budgetary Comparison Schedule – General Fund	5 – 1

6	Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	6 – 1
	Schedule of Findings and Responses	6 – 3
	Summary Schedule of Prior Audit Findings	6 – 4
	Corrective Action Plan	6 – 5

Michigan International Prep School
Members of the Board of Directors
June 30, 2019

Members of the Board of Directors

Carol Mitchell	President
Paul Tarnavsky	Vice President
Sarah Opperman	Secretary
Jeff Capobianco	Treasurer
Sheryl Morris	Trustee



800.968.0010 | yeoandyeo.com

Independent Auditors' Report

Management and the Board of Directors
Michigan International Prep School
Ortonville, MI

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Michigan International Prep School, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 auditors' 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 Michigan International Prep School, as of June 30, 2019, 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.

Other Matters:

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2019 on our consideration of Michigan International Prep School'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 Michigan International Prep School'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 Michigan International Prep School's internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Flint, MI

September 27, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS



MICHIGAN INTERNATIONAL PREP SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS

MICHIGAN INTERNATIONAL PREP SCHOOL
8989 East Colony Rd., Elsie Michigan 48831
Ph: 1-248-289-5521

Michigan International Prep School, a K-12 School located in Clinton County, Michigan, has completed its first year with the enclosed financial statements. In addition to the statements, a comparative analysis of government-wide data is also provided.

The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be Michigan International Prep School's discussion and analysis of the financial results for the fiscal year ended June 30, 2019. Generally Accepted Accounting Principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District-wide Financial Statements and Fund Financial Statements.

Using this Annual Report

The accompanying financial statements are presented in accordance with the reporting model as prescribed in GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis for State & Local Governments. The following components are required:

- Management's Discussion and Analysis
- Basic Financial Statements, including *Statement of Net Position*, *Statement of Activities* and *Fund Financial Statements*
- Notes to the Financial Statements
- Required Supplementary Information

Management's Discussion and Analysis is a narrative insight to the past and present financial condition of Michigan International Prep School. This summary does not take the place of the comprehensive financial statements and other supplemental information following this narrative.

Reporting the School District as a Whole

The financial statements provide information about the activities of Michigan International Prep School, presenting both an aggregate view of the finances and a longer-term view of those finances. These statements use the full accrual basis of accounting similar to that used by companies in the

private sector. The two statements are the Statement of Net Position and the Statement of Activities, which appear first in the financial statements. The Statement of Net Position includes all of Michigan International Prep School's assets and liabilities, regardless if they are short-term or long-term. The Statement of Activities includes all of the current's year's revenues and expenses, regardless of when cash is received or paid.

These two statements report Michigan International Prep School's net position - the difference between assets and liabilities - as one way to measure financial health or financial position. Over time, increases or decreases in the net position - as reported in the Statement of Activities - are indicators of whether financial health is improving or deteriorating. The relationship between revenues and expenses is the operating results. However, Michigan International Prep School's goal is to provide exceptional student service, not to generate profits. One must also consider non-financial factors, such as the quality of the education provided and the condition of the School's facilities, to assess the overall health of Michigan International Prep School.

Reporting Michigan International Prep School's Most Significant Funds - Fund Financial Statements

The fund statements for Michigan International Prep School focus on major funds rather than on fund types. The fund statements are reported using the modified accrual method of accounting. Under this basis of accounting, revenues are recorded when received except where they are measurable and available, and thus represent resources that may be appropriated. Expenditures are accounted for in the period that goods and services are used in school programs. In addition, capital asset purchases are expensed and not recorded as an asset. Debt payments are recorded as expenditures in the current year, and future debt obligations are not recorded.

Michigan International Prep School's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Funds are accounting devices that Michigan International Prep School uses to keep track of specific sources of funding and spending for particular purposes. The fund financial statements tell how services were financed in the short-term as well as what remains for future spending. The statements provide information about Michigan International Prep School's most significant fund - the General Fund. The other fund includes the Special Revenue Fund, which is presented as a Non-major fund. The General Fund will continue to be used primarily to account for the general education requirements of Michigan International Prep School. The revenues for Michigan International Prep School are derived primarily from State Aid, as well as from federal, state, and local grants.

Reporting Michigan International Prep School's Fiduciary Responsibilities – Michigan International Prep School as Trustee

Michigan International Prep School is the trustee, or fiduciary, for its student activity funds. All of the fiduciary activities are reported in separate statements of fiduciary assets and liabilities. Michigan International Prep School is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Agency funds are custodial in nature – assets equal liabilities – and do not involve measurement of results of operations. These activities are excluded from Michigan International Prep School's other financial statements since Michigan International Prep School's cannot use these assets to finance its operations.

Financial Analysis of Michigan International Prep School as a Whole

The statement of fund balance provides the perspective of Michigan International Prep School as a whole. Table 1 provides a summary of Michigan International Prep School's net position as of fiscal years ending June 30, 2019 and 2018.

Table 1 - Summary of Net Position:

Assets	<u>2019</u>	<u>2018</u>
Current and other assets	\$ 1,098,662	\$ 473,038
Capital assets - net of accumulated depreciation	<u>71,103</u>	<u>0</u>
Total Assets	<u>\$ 1,169,765</u>	<u>\$ 473,038</u>
Liabilities		
Accounts payable	\$ 119,003	\$ 331,162
Accrued expenditures	<u>27,820</u>	<u>0</u>
Total Liabilities	<u>\$ 146,823</u>	<u>\$ 331,162</u>
Net Position		
Net investment in capital assets	\$ 71,103	\$ 0
Unrestricted	<u>951,839</u>	<u>473,038</u>
Total net position	<u>\$ 1,022,942</u>	<u>\$ 473,038</u>

Net position is a combination of funds available for capital assets, plus capital assets at original cost, less accumulated depreciation and related debt. The accumulated depreciation is the accumulation of depreciation expense since acquisition. As of June 30, 2019, Michigan International Prep School's net capital assets were \$71,103, the restricted amount for the Board discretionary fund was \$0, and the remaining amount of \$951,839 was unrestricted. Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The unrestricted net position represents the accumulated results of all past year's operations. The operating results of the General Fund will have a significant impact on change in unrestricted net position from year to year.

Statement of Activities

The results of this year's operations for Michigan International Prep School are reported in the statement of activities, and in a more condensed format in Table 2.

Table 2 - Results of Activities:

Fiscal Year:	<u>2019</u>	<u>2018</u>
<u>Net Revenues:</u>		
General Revenues:		
State aid – unrestricted	\$ 3,868,268	\$ 1,980,515
Other	<u>12,719</u>	<u>0</u>
Total	<u>\$ 3,880,987</u>	<u>\$ 1,980,515</u>
<u>Net Expenses:</u>		
Instruction	\$ 279,609	\$ 1,222,857
Supporting Services	2,517,412	813,980
Interest and other expenditures	<u>2,900</u>	<u>2,900</u>
Total	<u>\$ 2,799,921</u>	<u>\$ 2,038,639</u>
Change in net position	\$ 1,081,066	\$ (58,124)
Net Position - beginning	<u>(58,124)</u>	<u>0</u>
Net Position - ending	<u>\$ 1,022,942</u>	<u>\$ (58,124)</u>

Analysis of Financial Position

A few significant factors affecting the net position of the year are as follows:

Capital Outlay

Actual acquisitions totaled \$71,500.

Depreciation Expense

Depreciation expense is recorded on a straight-line basis over the estimated useful life of the asset. In accordance with generally accepted accounting principles, depreciation expense is recorded based on the original cost of the asset less an estimated salvage value. For the fiscal year ended June 30, 2019, the net depreciation expense was \$397.

Bond and note proceeds

Repayment of long-term debt totaled \$200,000.

Michigan International Prep School's Funds

As Michigan International Prep School completed this year, the governmental funds reported a fund balance of \$951,839.

A significant factor affecting the total governmental fund balance is the following:

General Operating Fund

Michigan International Prep School's revenues from General Fund operations were lower than expenditures by \$809,963 for the fiscal year ended June 30, 2019.

Revenues by Sources - All Funds

State of Michigan Unrestricted Aid (State Foundation Grant)

The foundation allowance is determined annually by the State of Michigan using the following variables:

- State of Michigan State Aid Act per student foundation allowance
- Student enrollment blended at 50% of the current year fall count and 50% of the prior year spring count, plus Section 25e transfer adjustments

Per Student Foundation Allowance

Michigan International Prep School's blended student enrollment (State Aid Membership) for the 2018-2019 school year was 490.39. Preliminary total student enrollment for the 2018 – 2019 school year is projected to be approximately 500 students.

Changes from Original to Final Budget

The Uniform Budget Act of the State of Michigan requires that the Michigan International Prep School Board of Directors approve the original budget prior to July 1st, the start of the fiscal year. A schedule showing Michigan International Prep School's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

General Fund

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Change</u>
Revenues	\$4,017,094	\$4,132,370	\$115,276
Expenditures	\$3,572,000	\$3,453,174	(\$118,826)

The variation from original to final budgeted revenues is primarily due to: 1. an increase to actual over the budgeted student enrollment, and 2. additional state and Federal restricted grant funding versus original estimates, along with overall general increased levels of funding for these grants. Expenditures were increased to allow for the additional costs allowed as a result of this additional funding available.

Economic Factors and Next Year's Budgets and Rates

The administration considered many factors when determining Michigan International Prep School's 2018 - 2019 fiscal year budget. One of the most important factors is the student count, since the state foundation revenue is determined by the blended student count that was discussed earlier. Approximately 96% of total General Fund revenues are from State Sources. Revenues are thus heavily dependent on the State's ability to fund local operations. When the fall student count is completed and the related per pupil funding is validated, the budget for Michigan International Prep School is amended to reflect the revised numbers.

Since Michigan International Prep School's revenue depends on State funding and the health of the State School Aid fund, the actual revenue received therefore depends on the State's ability to collect revenues to fund its appropriations to Districts. The State periodically holds revenue-estimating conferences to evaluate its ability to fund obligations. Should state revenues fall below previous estimates, a statewide proration of the Foundation Allowance to Districts could occur. If a reduction in State Aid funding resulted, an appropriate budget adjustment would be made to reflect the revised financial situation.

Contacting Michigan International Prep School's Financial Management

This financial report is designed to provide a general overview of Michigan International Prep School's finances, and to demonstrate Michigan International Prep School's accountability for the money it receives. If there are any questions about this report, or if additional financial information is needed, contact Michigan International Prep School School's Business Department at 8989 East Colony Rd., Elsie Michigan 48831.

BASIC FINANCIAL STATEMENTS

Michigan International Prep School
Statement of Net Position
June 30, 2019

	<u>Governmental Activities</u>
Assets	
Cash	\$ 216,877
Due from other governmental units	865,404
Prepaid items	16,381
Capital assets – net of accumulated depreciation	<u>71,103</u>
 Total assets	 <u>1,169,765</u>
 Liabilities	
Accounts payable	119,003
Accrued expenditures	<u>27,820</u>
 Total liabilities	 <u>146,823</u>
 Net Position	
Net investment in capital assets	71,103
Unrestricted	<u>951,839</u>
 Total net position	 <u>\$ 1,022,942</u>

See Accompanying Notes to the Financial Statements

Michigan International Prep School
Statement of Activities
For the Year Ended June 30, 2019

	Expenses	Program Revenues Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Functions/Programs			
Governmental activities			
Instruction	\$ 493,706	\$ 214,097	\$ (279,609)
Supporting services	2,555,330	37,918	(2,517,412)
Interest and fiscal charges on long-term debt	2,900	-	(2,900)
Total governmental activities	\$ 3,051,936	\$ 252,015	(2,799,921)
		General revenues	
		State aid – unrestricted	3,868,268
		Other	12,719
		Total general revenues	3,880,987
		Change in net position	1,081,066
		Net position – beginning	(58,124)
		Net position – ending	\$ 1,022,942

See Accompanying Notes to the Financial Statements

Michigan International Prep School
Governmental Funds
Balance Sheet
June 30, 2019

	<u>General Fund</u>
Assets	
Cash	\$ 216,877
Due from other governmental units	865,404
Prepaid items	<u>16,381</u>
Total assets	<u>\$ 1,098,662</u>
Liabilities	
Accounts payable	\$ 119,003
Accrued expenditures	<u>27,820</u>
Total liabilities	<u>146,823</u>
Fund Balance	
Non-spendable	
Prepaid items	16,381
Unassigned	<u>935,458</u>
Total fund balance	<u>951,839</u>
Total liabilities and fund balance	<u>\$ 1,098,662</u>

See Accompanying Notes to the Financial Statements

Michigan International Prep School
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2019

Total fund balances for governmental funds	\$ 951,839
Total net position for governmental activities in the statement of net position is different because	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	
Capital assets - net of accumulated depreciation	<u>71,103</u>
Net position of governmental activities	<u>\$ 1,022,942</u>

Michigan International Prep School
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2019

	General Fund
Revenues	
Local sources	\$ 12,719
State sources	3,954,180
Federal sources	166,103
Total revenues	4,133,002
Expenditures	
Current	
Education	
Instruction	493,309
Supporting services	2,555,330
Capital outlay	71,500
Debt service	
Principal	200,000
Interest and other expenditures	2,900
Total expenditures	3,323,039
Net change in fund balance	809,963
Fund balance – beginning	141,876
Fund balance – ending	\$ 951,839

See Accompanying Notes to the Financial Statements

Michigan International Prep School
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2019

Net change in fund balances - Total governmental funds	\$ 809,963
Total change in net position reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(397)
Capital outlay	71,500
Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are recorded as liabilities and amortized in the statement of activities. When debt refunding occurs, the difference in the carrying value of the refunding debt and the amount applied to the new debt is reported the same as regular debt proceeds or repayments, as a financing source or expenditure in the governmental funds. However, in the statement of net position, debt refunding may result in deferred inflows of resources or deferred outflows of resources, which are then amortized in the statement of activities.	
Repayments of long-term debt	<u>200,000</u>
Change in net position of governmental activities	<u>\$ 1,081,066</u>

Michigan International Prep School
Notes to the Financial Statements
June 30, 2019

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Michigan International Prep School conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the Academy's significant accounting policies:

Reporting Entity

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

The Academy has entered into a contract with the Ovid-Elsie Area Schools Board of Education to charter a public school academy through June 30, 2022. The contract requires the Academy 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. Ovid-Elsie is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays Ovid-Elsie three percent of the state aid foundation as administrative fees. The total administrative fees for the year to Ovid-Elsie was approximately \$ 118,625.

The Academy is governed by an appointed Board of Directors. 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 financial relationships that determine which of the governmental organizations are a part of the Academy's reporting entity, and which organizations are legally separate component units of the Academy. The Academy has no component units.

Academy-wide Financial Statements

The Academy's basic financial statements include both Academy-wide (reporting for the district as a whole) and fund financial statements (reporting the Academy's major funds). The district-wide financial statements categorize all nonfiduciary activities as either governmental

or business type. All of the Academy's activities are classified as governmental activities.

The statement of net position presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net position is reported in three parts (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

The statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (certain intergovernmental revenues). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The Academy does not allocate indirect costs. In creating the Academy-wide financial statements the Academy has eliminated interfund transactions.

The Academy-wide focus is on the sustainability of the Academy as an entity and the change in the Academy's net position resulting from current year activities.

Fund Financial Statements

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the Academy-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis

Michigan International Prep School
Notes to the Financial Statements
June 30, 2019

of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The Academy reports the following major governmental fund:

General Fund – The General Fund is used to record the general operations of the Academy pertaining to education and those operations not required to be provided for in other funds.

Assets, Liabilities and Net Position or Equity

Prepaid Items – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both Academy-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their acquisition value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of \$5,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Site improvements	10 – 20 years
-------------------	---------------

Long-term Obligations – In the Academy-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

In the Academy's fund financial statements, the face amount of the debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses.

Fund Equity – In the fund financial statements, governmental funds report fund balance in the following categories:

Non-spendable – amounts that are not available in a spendable form.

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed – amounts that have been formally set aside by the Board of Education for specific purposes. A fund balance commitment may be established, modified, or rescinded by a resolution of the Board of Education.

Assigned – amounts intended to be used for specific purposes, as determined by the board of directors. The Board of Directors has granted the Superintendent the authority to assign funds. Residual amounts in governmental funds other than the General Fund are automatically assigned by their nature.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Academy's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the Academy's

Michigan International Prep School
Notes to the Financial Statements
June 30, 2019

policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

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, as well as deferred inflows and deferred outflows of resources at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Eliminations and Reclassifications

In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the “grossing up” effect on assets and liabilities within the governmental activities column.

Adoption of New Accounting Standards

Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* improves the information that is disclosed in notes to the District’s financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities districts should include when disclosing information related to debt. It requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

It will also require that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Upcoming Accounting and Reporting Changes

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the criteria includes the following: (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable are: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

Statement No. 87, *Leases* increases the usefulness of the District’s financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. A lessee will be required to recognize a lease liability and an intangible right-to-use a lease asset, and a lessor will be required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the District’s leasing activities. The requirements of this Statement are effective for the fiscal year ending June 30, 2021.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. It requires that interest cost incurred before the end of a construction period be

Michigan International Prep School

Notes to the Financial Statements

June 30, 2019

recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reporting in a business-type activity or enterprise fund. Interest cost incurred before the end of a construction period should be recognized as an expenditure for financial statements prepared using the current financial resources measurement. The requirements of this Statement are effective for the fiscal year ending June 30, 2021.

Statement No. 90, *Majority Equity* Interests improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain components. This statement is effective for the year ending June 30, 2020.

Statement No. 91, *Conduit Debt Obligations* provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This statement is effective for the year ending June 30, 2022.

The Academy is evaluating the impact that the above GASBs will have on its financial reporting.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end, thereby canceling all encumbrances. These appropriations are reestablished at the beginning of the year.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the Academy to have its budget in place by July 1. A district is not considered in violation of the law if reasonable procedures are in use by the Academy to detect violations.

The Superintendent is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education.

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year. Individual amendments were not material in relation to the original appropriations.

Excess of Expenditures over Appropriations

During the year, the Academy incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

<u>Function</u>	<u>Final Budget</u>	<u>Amount of Expenditures</u>	<u>Budget Variances</u>
General Fund			
General administration	\$ 1,040,409	\$ 1,044,119	\$ 3,710
Operations and maintenance	123,501	130,970	7,469
Central	388,902	388,971	69

Michigan International Prep School
Notes to the Financial Statements
June 30, 2019

Note 3 - Deposits

The Academy's deposits were reported in the basic financial statements in the following category:

	Governmental Activities
Cash	<u>\$ 216,877</u>

The breakdown between deposits for the Academy is as follows:

Deposits (checking, savings accounts, money markets, certificates of deposit)	<u>\$ 216,877</u>
---	-------------------

Interest rate risk – The Academy does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

Credit risk – State statutes authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the Academy is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Academy has no investment policy that would further limit its investment choices.

Concentration of credit risk – The Academy has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy does not have a deposit policy for custodial credit risk. As of year-end, \$ 10,571 of the Academy's bank balance of \$ 260,571 was uninsured.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of year end, none of the Academy's investments were exposed to custodial credit risk.

Note 4 - Capital Assets

A summary of the changes in governmental capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets being depreciated				
Site improvements	\$ -	\$ 71,500	\$ -	\$ 71,500
Less accumulated depreciation for				
Site improvements	-	397	-	397
Net capital assets	<u>\$ -</u>	<u>\$ 71,103</u>	<u>\$ -</u>	<u>\$ 71,103</u>

Depreciation expense was charged to activities of the School District as follows:

Governmental activities	
Instruction	<u>\$ 397</u>

Michigan International Prep School
Notes to the Financial Statements
June 30, 2019

Note 5 - Leases

Operating Leases

As of June 30, 2019, the Academy leases buildings under non-cancelable operating leases. Total costs for such leases were \$ 100,639. The future minimum lease payments for these leases are as follows:

Year ending June 30,	
2020	\$ 84,418
2021	58,958
2022	<u>36,263</u>
 Total	 <u>\$ 179,639</u>

Note 6 - Long-Term Debt

The Academy may issue bonds, notes, and other contractual commitments to provide for resources. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. The State can withhold state aid if it has to make a bond payment on behalf of the Academy related to qualified bonds.

The Academy's long-term debt consisted of two notes of \$ 100,000, both due in full plus 1% interest in February 2019, to provide working capital. Notes payable are liquidated by the General Fund. Both notes are collateralized by future revenues of the Academy. One note was provided by a minority shareholder of Reimagine Education, LLC the Academy's management Company. As of June 30, 2019, those notes were liquidated.

Long-term obligation activity is summarized as following notes from direct borrowing and direct placement:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Notes payable	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ -</u>

Note 7 - Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions. The Academy has purchased commercial insurance for general liability, property and casualty. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage.

Note 8 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time, although the Academy expects such amounts, if any, to be immaterial.

Note 9 - Management Service Agreement

The Academy has a management agreement with Reimagine Education, LLC. Under the terms of this agreement, Reimagine provides a variety of services including management, curriculums, education programs and teacher training. The agreement states that the Academy is obligated to pay Reimagine twelve percent of its applicable revenues from state. The agreement also states that the Academy and Reimagine may mutually agree on adjustments to the fee based on factors such as student enrollments. The total charged for these services amounted to approximately \$ 470,758 for the year ended June 30, 2019.

REQUIRED SUPPLEMENTARY INFORMATION

Michigan International Prep School
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Local sources	\$ -	\$ -	\$ 12,719	\$ 12,719
State sources	4,017,094	3,954,135	3,954,180	45
Federal sources	-	178,235	166,103	(12,132)
Total revenues	<u>4,017,094</u>	<u>4,132,370</u>	<u>4,133,002</u>	<u>632</u>
Expenditures				
Instruction				
Basic programs	555,029	319,294	285,576	(33,718)
Added needs	28,550	225,693	207,733	(17,960)
Supporting services				
Pupil	-	92,516	89,084	(3,432)
Instructional support	1,141,094	863,280	781,744	(81,536)
General administration	986,905	1,040,409	1,044,119	3,710
School administration	5,500	8,300	5,333	(2,967)
Business	96,455	116,859	115,109	(1,750)
Operations and maintenance	187,248	123,501	130,970	7,469
Central	369,219	388,902	388,971	69
Capital outlay	-	71,520	71,500	(20)
Debt service				
Principal	202,000	200,000	200,000	-
Interest and fiscal charges	-	2,900	2,900	-
Total expenditures	<u>3,572,000</u>	<u>3,453,174</u>	<u>3,323,039</u>	<u>(130,135)</u>
Excess of revenues over expenditures	445,094	679,196	809,963	130,767
Fund balance - beginning	<u>141,876</u>	<u>141,876</u>	<u>141,876</u>	<u>-</u>
Fund balance - ending	<u>\$ 586,970</u>	<u>\$ 821,072</u>	<u>\$ 951,839</u>	<u>\$ 130,767</u>

See Accompanying Notes to the Financial Statements



800.968.0010 | yeoandyeo.com

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 Auditors' Report

Management and the Board of Directors
Michigan International Prep School
Ortonville, MI

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 and the major fund of Michigan International Prep School, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Michigan International Prep School's basic financial statements, and have issued our report thereon dated September 27, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Michigan International Prep School'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 Michigan International Prep School's internal control. Accordingly, we do not express an opinion on the effectiveness of Michigan International Prep School'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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2019-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Michigan International Prep School'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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2019-001.

Michigan International Prep School's Response to Findings and Corrective Action Plan

Michigan International Prep School's response to the finding identified in our audit is described in the accompanying schedule of findings and responses and corrective action plan. Michigan International Prep School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Yeo & Yeo, P.C.

Flint, MI
September 27, 2019

**Michigan International Prep School
Schedule of Findings and Responses
June 30, 2019**

Government Auditing Standards Findings

Finding 2019-001 – Material Weakness and Material Noncompliance

Criteria: The Revised School Code Act of 1976, article 2, part 16, Section 380.1274 states that a school district or public school academy shall not purchase an item or a group of items in a single transaction costing \$20,959.00 (\$24,459 for 2019) or more unless competitive bids are obtained for those items and the purchase of those items is approved by the school board or board of directors.

Condition: The Academy entered into a contract with a construction company for leasehold improvements in an amount over the required threshold for competitive bids, without having followed the board adopted bid policy and Section 380.1274 of the Revised School Code Act.

Cause and Effect: As a result, the Academy entered in to an agreement that could potentially result in a related party transaction and conflict of interest.

Recommendation: We recommend that the Academy follow the state requirements and the board adopted policies and procedures for complete bids.

Views of Responsible Officials: Management agrees with this finding. See corrective action plan on page 6 - 5

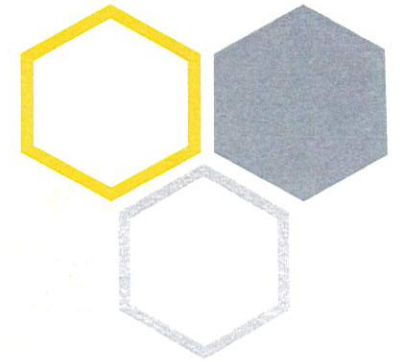
**Michigan International Prep School
Summary Schedule of Prior Audit Findings
June 30, 2019**

Government Auditing Standards Findings

Finding 2018-001 - Noncompliance

Finding: Certain policies and procedures were not available or provided to the auditors. Although these policies or procedures may exist, management was unable to provide them. We recommended that the Academy develop and maintain documentation of the various policies and procedures required of local education agencies in Michigan. Those policies and procedures included investment of funds, cash management, and allowability of costs.

Corrective Action: This finding was corrected in the 2018-19 fiscal year and all required policies and procedures were made available to the auditors.



September 27, 2019

Michigan International Prep School submits the following corrective action plan concerning findings for the 2019-001 on the schedule of findings and responses:

2019-001 Material Weakness and Material Noncompliance

Corrective Action

The management of Michigan International Prep School has implemented as of September 2019, that all purchases in a single transaction will be reviewed by the Business office prior to purchase to verify that all school codes followed. If there is a purchase over the amount allowable through The Revised School Code Act of 1976, article 2, part 16, Section 380.1274, a competitive bid process will be completed with the Board's approval.

Sincerely,

Angie L. Browne
Director of Business/Human Resources

