

# Michigan International Prep School

## Financial Statements

June 30, 2021



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**Michigan International Prep School**  
**Members of the Board of Directors**  
**June 30, 2021**

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Members of the Board of Directors

Carol Mitchell	President
Paul Tarnavsky	Vice President
Sheryl Morris	Secretary
Jeff Capobianco	Treasurer
Pat Bono	Trustee



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## 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, 2021, 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, 2021, 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.

## **Adoption of New Accounting Standard**

As described in Note 1 to the financial statements, during the year ended June 30, 2021, the Academy adopted GASB Statement No. 84, Fiduciary Activities. Our opinions are not modified with respect to this matter

## **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 October 1, 2021 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

October 1, 2021

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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# 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, 2021. 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, 2021 and 2020.

Table 1 - Summary of Net Position:

<b>Assets</b>	<b><u>2021</u></b>	<b><u>2020</u></b>
Current and other assets	\$ 3,681,626	\$ 2,181,271
Capital assets - net of accumulated depreciation	<u>1,133,619</u>	<u>66,336</u>
Total Assets	<u>\$ 4,815,245</u>	<u>\$ 2,247,607</u>
<b>Liabilities</b>		
Accounts payable	\$ 269,474	\$ 142,849
Accrued expenditures	<u>0</u>	<u>0</u>
Total Liabilities	<u>\$ 269,474</u>	<u>\$ 142,849</u>
<b>Net Position</b>		
Net investment in capital assets	\$ 1,183,619	\$ 66,336
Unrestricted	<u>3,362,152</u>	<u>2,038,422</u>
Total net position	<u>\$ 4,545,771</u>	<u>\$ 2,104,758</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 31, 2021, Michigan International Prep School's net capital assets were \$1,183,619, the restricted amount for the Board discretionary fund was \$0, and the remaining amount of \$3,362,152 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:

<b>Fiscal Year:</b>	<b><u>2021</u></b>	<b><u>2020</u></b>
<b><u>Net Revenues:</u></b>		
General Revenues:		
State aid – unrestricted	\$ 9,802,856	\$ 5,771,412
Other	<u>15,310</u>	<u>5,603</u>
Total	<u>\$ 9,818,166</u>	<u>\$ 5,777,015</u>
<b><u>Net Expenses:</u></b>		
Instruction	\$ 2,932,781	\$ 1,868,121
Supporting Services	4,384,723	2,794,078
Community Services	<u>59,649</u>	<u>33,000</u>
Total	<u>\$ 7,377,153</u>	<u>\$ 4,695,199</u>
<b>Change in net position</b>	<b>\$ 2,441,013</b>	<b>\$ 1,081,816</b>
<b>Net Position - beginning</b>	<b><u>2,104,758</u></b>	<b><u>1,022,942</u></b>
<b>Net Position - ending</b>	<b><u>\$ 4,545,771</u></b>	<b><u>\$ 2,104,758</u></b>

## **Analysis of Financial Position**

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

### **Capital Outlay**

Actual acquisitions totaled \$1,183,619.

### **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, 2021, the net depreciation expense was \$8,959.

## **Michigan International Prep School's Funds**

As Michigan International Prep School completed this year, the governmental funds reported a fund balance of \$3,362,152.

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 higher than expenditures by \$1,425,479 for the fiscal year ended June 30, 2021.

## **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 the Superblend for the current fiscal year, plus Section 25e transfer adjustments

## **Per Student Foundation Allowance**

Michigan International Prep School's blended student enrollment (State Aid Membership) for the 2019-2020 school year was 728.58. Preliminary total student enrollment for the 2020 – 2021 school year is projected to be approximately 880 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	\$6,653,419	\$11,252,959	\$4,599,540
Expenditures	\$6,723,678	\$10,115,211	\$3,391,533

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 2020-2021 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 90.6% 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

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**Michigan International Prep School**  
**Statement of Net Position**  
**June 30, 2021**

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	<u>Governmental Activities</u>
<b>Assets</b>	
Cash	\$ 1,003,444
Accounts receivable	180
Due from other governmental units	2,537,886
Prepaid items	90,116
Capital assets not being depreciated	50,000
Capital assets – net of accumulated depreciation	<u>1,133,619</u>
 Total assets	 <u>4,815,245</u>
 <b>Liabilities</b>	
Accounts payable	<u>269,474</u>
 <b>Net Position</b>	
Net investment in capital assets	1,183,619
Unrestricted	<u>3,362,152</u>
 Total net position	 <u><u>\$ 4,545,771</u></u>

See Accompanying Notes to the Financial Statements

**Michigan International Prep School**  
**Statement of Activities**  
**For the Year Ended June 30, 2021**

	<u>Expenses</u>	<u>Program Revenues</u> Operating Grants and Contributions	<u>Net (Expense) Revenue and Changes in Net Position</u>
<b>Functions/Programs</b>			
Governmental activities			
Instruction	\$ 4,067,403	\$ 1,134,622	\$ (2,932,781)
Supporting services	4,602,340	217,617	(4,384,723)
Community services	59,649	-	(59,649)
	<u>8,729,392</u>	<u>1,352,239</u>	<u>(7,377,153)</u>
Total governmental activities	<u>\$ 8,729,392</u>	<u>\$ 1,352,239</u>	<u>(7,377,153)</u>
General revenues			
State aid – unrestricted			9,802,856
Other			<u>15,310</u>
Total general revenues			<u>9,818,166</u>
Change in net position			2,441,013
Net position – beginning			<u>2,104,758</u>
Net position – ending			<u>\$ 4,545,771</u>

See Accompanying Notes to the Financial Statements

**Michigan International Prep School**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2021**

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	<u>General Fund</u>
<b>Assets</b>	
Cash	\$ 1,003,444
Accounts receivable	180
Due from other governmental units	2,537,886
Prepaid items	<u>90,116</u>
 Total assets	 <u>\$ 3,631,626</u>
<b>Liabilities</b>	
Accounts payable	<u>\$ 269,474</u>
<b>Fund Balance</b>	
Non-spendable	
Prepaid items	90,116
Unassigned	<u>3,272,036</u>
 Total fund balance	 <u>3,362,152</u>
 Total liabilities, deferred inflows of resources, and fund balance	 <u>\$ 3,631,626</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, 2021**

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<b>Total fund balances for governmental funds</b>	\$ 3,362,152
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 not being depreciated	50,000
Capital assets - net of accumulated depreciation	<u>1,133,619</u>
<b>Net position of governmental activities</b>	<u>\$ 4,545,771</u>

**Michigan International Prep School**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2021**

	General Fund
<b>Revenues</b>	
Local sources	\$ 23,810
State sources	10,213,283
Federal sources	<u>1,035,061</u>
Total revenues	<u>11,272,154</u>
<b>Expenditures</b>	
Current	
Education	
Instruction	4,058,444
Supporting services	4,602,340
Community services	59,649
Capital outlay	<u>1,126,242</u>
Total expenditures	<u>9,846,675</u>
Net change in fund balance	1,425,479
Fund balance – beginning	<u>1,936,673</u>
Fund balance – ending	<u><u>\$ 3,362,152</u></u>

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, 2021**

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<b>Net change in fund balances - Total governmental funds</b>	\$ 1,425,479
Total change in net position reported for governmental activities in the statement of activities is different because:	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Grants	(101,749)
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	(8,959)
Capital outlay	<u>1,126,242</u>
<b>Change in net position of governmental activities</b>	<u>\$ 2,441,013</u>

**Michigan International Prep School**  
**Notes to the Financial Statements**  
**June 30, 2021**

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**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 \$ 305,427.

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, 2021**

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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 Academy 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 Academy does not have infrastructure assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20 – 50 years
Site improvements	10 – 20 years
Equipment and furniture	5 – 10 years

Deferred Inflows of Resources - A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period.

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.

# Michigan International Prep School

## Notes to the Financial Statements

June 30, 2021

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When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the Academy's 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. 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, 2021.

### Upcoming Accounting and Reporting Changes

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, 2022.

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 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, 2022.

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

**Michigan International Prep School**  
**Notes to the Financial Statements**  
**June 30, 2021**

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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, 2023.

Statement No. 93, *Replacement of Interbank Offered Rates* establishes accounting and financial reporting requirements related to the replacement of IBORs in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The requirements of this Statement apply to the financial statements of all state and local governments. The requirements of this Statement apply to the financial statements of all state and local governments. This statement is effective for the year ending June 30, 2022.

Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period

of time in an exchange or exchange-like transaction. This statement is effective for the year ending June 30, 2023.

Statement No. 96, *Subscription-Based Information Technology Arrangements*, is based on the standards established in Statement No. 87 Leases. This statement (1) defines a SBITA as a contract that conveys control of the right to use a SBITA vendor's IT software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction (2) requires governments with SBITAs to recognize a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability, and (3) provides guidance related to outlays other than subscription payments, including implementation costs, and requirements for note disclosures related to a SBITA. This statement is effective for the year ending June 30, 2023.

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.

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**Notes to the Financial Statements**  
**June 30, 2021**

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:

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
Added needs	\$ 707,132	\$ 739,495	\$ 32,363
Pupil	134,187	161,578	27,391
Instructional staff	844,733	846,958	2,225
Other	-	17,500	17,500
Capital outlay	1,025,000	1,126,242	101,242

**Note 3 - Deposits**

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

	<u>Governmental Activities</u>
Cash	<u>\$ 1,003,444</u>

The breakdown between deposits for the Academy is as follows:

Deposits (checking, savings accounts, money markets, certificates of deposit)	<u>\$ 1,003,444</u>
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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, \$ 859,878 of the Academy's bank balance of \$ 1,109,878 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.



**Michigan International Prep School**  
**Notes to the Financial Statements**  
**June 30, 2021**

**Note 4 - Capital Assets**

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

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ -	\$ 50,000	\$ -	\$ 50,000
Capital assets being depreciated				
Buildings and additions	-	985,828	-	985,828
Site improvements	71,500	27,620	-	99,120
Equipment and furniture	-	62,794	-	62,794
Total capital assets being depreciated	<u>71,500</u>	<u>1,076,242</u>	<u>-</u>	<u>1,147,742</u>
Less accumulated depreciation for				
Site improvements	5,164	5,682	-	10,846
Equipment and furniture	-	3,277	-	3,277
Total accumulated depreciation	<u>5,164</u>	<u>8,959</u>	<u>-</u>	<u>14,123</u>
Net capital assets being depreciated	<u>66,336</u>	<u>1,067,283</u>	<u>-</u>	<u>1,133,619</u>
Net capital assets	<u>\$ 66,336</u>	<u>\$ 1,117,283</u>	<u>\$ -</u>	<u>\$ 1,183,619</u>

Depreciation expense was charged to activities of the Academy as follows:

<b>Governmental activities</b>	
Instruction	<u>\$ 8,959</u>

**Note 5 - Leases**

**Operating Leases**

As of June 30, 2021, the Academy leases buildings under non-cancelable operating leases. Total costs for such leases were \$ 138,749. The future minimum lease payments for these leases are as follows:

<b>Year ending June 30,</b>	
2022	\$ 344,053
2023	287,053
2024	287,719
2025	210,186
2026	<u>192,000</u>
<b>Total</b>	<b><u>\$ 1,321,011</u></b>

**Note 6 - 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 7 - 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.

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**Notes to the Financial Statements**  
**June 30, 2021**

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**Note 8 - 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 \$ 1,175,708 for the year ended June 30, 2021. Additionally, Reimagine provides staffing for teachers, administrators, and other individuals who provide educational programs at the Academy. The Academy is responsible for reimbursing Reimagine for all costs incurred for providing staffing. The total cost of these purchased services amounted to approximately \$ 5,127,936.

## REQUIRED SUPPLEMENTARY INFORMATION

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**Michigan International Prep School**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule - General Fund**  
**For the Year Ended June 30, 2021**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Local sources	\$ -	\$ 28,652	\$ 23,810	\$ (4,842)
State sources	6,239,091	10,187,499	10,213,283	25,784
Federal sources	414,328	1,036,808	1,035,061	(1,747)
Total revenues	<u>6,653,419</u>	<u>11,252,959</u>	<u>11,272,154</u>	<u>19,195</u>
<b>Expenditures</b>				
Instruction				
Basic programs	3,069,103	3,590,326	3,318,949	(271,377)
Added needs	91,800	707,132	739,495	32,363
Supporting services				
Pupil	173,612	134,187	161,578	27,391
Instructional support	674,927	844,733	846,958	2,225
General administration	1,264,688	1,945,306	1,888,153	(57,153)
School administration	137,616	11,988	7,893	(4,095)
Business	135,821	174,407	164,862	(9,545)
Operations and maintenance	238,127	292,387	241,457	(50,930)
Central	889,984	1,329,368	1,274,039	(55,329)
Other	-	-	17,400	17,400
Community services	48,000	60,377	59,649	(728)
Capital outlay	-	1,025,000	1,126,242	101,242
Total expenditures	<u>6,723,678</u>	<u>10,115,211</u>	<u>9,846,675</u>	<u>(268,536)</u>
Excess of revenues over expenditures	(70,259)	1,137,748	1,425,479	287,731
Fund balance - beginning	<u>1,936,673</u>	<u>1,936,673</u>	<u>1,936,673</u>	<u>-</u>
Fund balance - ending	<u>\$ 1,866,414</u>	<u>\$ 3,074,421</u>	<u>\$ 3,362,152</u>	<u>\$ 287,731</u>

See Accompanying Notes to the Financial Statements