

Michigan International Prep School

Financial Statements

June 30, 2018



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Michigan International Prep School
Members of the Board of Directors
June 30, 2018

Members of the Board of Directors

Carol Mitchell	President
Pam Sovis	Vice President
Paul Tarnavsky	Secretary
Jeff Capobianco	Treasurer
Jim McCann	Board Spokesman



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Independent Auditors' Report

Management and the Board of Directors
Michigan International Prep School

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, 2018, 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, the business-type activities, each major fund, and the aggregate remaining fund information of Michigan International Prep School, as of June 30, 2018, 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 25, 2018 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 25, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS



MICHIGAN INTERNATIONAL PREP SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS

MICHIGAN INTERNATIONAL PREP SCHOOL

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, 2018. 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, 2018.

Table 1 - Summary of Fund Balance:

Assets	<u>Fiscal 2018</u>
Current and other assets	\$ 473,038
Capital assets - net of accumulated depreciation	<u>0</u>
Total Assets	<u>\$ 473,038</u>
Total assets	<u>\$ 473,038</u>
Liabilities	
Accounts payable	\$ 331,162
Due to other funds	0
Accrued expenditures	0
Unearned Revenue	<u>0</u>
Total Liabilities	<u>\$ 331,162</u>
Total liabilities	<u>\$ 331,162</u>
Fund Balance	
Non-spendable	
Prepaid items	\$ 8,400
Unassigned	133,476
Total fund balance	<u>141,876</u>
Total liabilities and fund balance	<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, 2018, Michigan International Prep School's net capital assets were \$0, the restricted amount for the Board discretionary fund was \$0, and the remaining amount of \$(58,124) 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>Fiscal 2018</u>
<u>Net Revenues:</u>	
General Revenues:	
Local Sources	\$ 0
State Sources	2,057,071
Federal Sources	14,692
Other	<u>0</u>
Total	<u>\$2,072,663</u>
<u>Net Expenses:</u>	
Instruction	\$1,301,183
Supporting Services	827,802
Interest and other expenditures	<u>1,802</u>
Total	<u>\$ 2,130,787</u>
<u>Other Financing Sources:</u>	
Proceeds from notes and loans	<u>\$ 200,000</u>
Change in net position	\$ 141,876
Net Position - beginning	<u>0</u>
Net Position - ending	<u>\$ 141,876</u>

Analysis of Financial Position

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

Bond and note proceeds

Debt issued 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 \$141,876.

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 \$141,876 for the fiscal year ended June 30, 2018.

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

Preliminary total student enrollment for the 2017 – 2018 school year is projected to be approximately 150 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	\$1,445,535	\$2,077,297	\$631,762
Expenditures	\$1,408,574	\$2,096,232	\$687,658

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 2017 - 2018 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 99% 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, 2018

	<u>Governmental Activities</u>
Assets	
Cash	\$ 78,744
Due from other governmental units	385,894
Prepaid items	<u>8,400</u>
 Total assets	 <u>473,038</u>
 Liabilities	
Accounts payable	331,162
Long-term liabilities	
Due within one year	<u>200,000</u>
 Total liabilities	 <u>531,162</u>
 Net Position	
Unrestricted (deficit)	<u>\$ (58,124)</u>

See Accompanying Notes to the Financial Statements

Michigan International Prep School
Statement of Activities
For the Year Ended June 30, 2018

	<u>Expenses</u>	<u>Program Revenues</u> Operating Grants and Contributions	<u>Net (Expense) Revenue and Changes in Net Position</u>
Functions/Programs			
Governmental activities			
Instruction	\$ 1,301,183	\$ 78,326	\$ (1,222,857)
Supporting services	827,802	13,822	(813,980)
Interest and fiscal charges on long-term debt	<u>1,802</u>	<u>-</u>	<u>(1,802)</u>
Total governmental activities	<u>\$ 2,130,787</u>	<u>\$ 92,148</u>	<u>(2,038,639)</u>
General revenues			
State aid – unrestricted			<u>1,980,515</u>
Change in net position			(58,124)
Net position – beginning			<u>-</u>
Net position – ending			<u>\$ (58,124)</u>

See Accompanying Notes to the Financial Statements

Michigan International Prep School
Governmental Funds
Balance Sheet
June 30, 2018

	<u>General Fund</u>
Assets	
Cash	\$ 78,744
Due from other governmental units	385,894
Prepaid items	<u>8,400</u>
Total assets	<u>\$ 473,038</u>
Liabilities	
Accounts payable	<u>\$ 331,162</u>
Fund Balance	
Non-spendable	
Prepaid items	8,400
Unassigned	<u>133,476</u>
Total fund balance	<u>141,876</u>
Total liabilities and fund balance	<u>\$ 473,038</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, 2018

Total fund balances for governmental funds	\$ 141,876
Total net position for governmental activities in the statement of net position is different because	
Long-term liabilities applicable to governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities	
Other loans payable and liabilities	<u>(200,000)</u>
Net position of governmental activities	<u>\$ (58,124)</u>

Michigan International Prep School
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2018

	General Fund
Revenues	
State sources	\$ 2,057,971
Federal sources	14,692
Total revenues	2,072,663
Expenditures	
Current	
Education	
Instruction	1,301,183
Supporting services	827,802
Interest and other expenditures	1,802
Total expenditures	2,130,787
Deficiency of revenues over expenditures	(58,124)
Other Financing Sources	
Proceeds from notes and loans	200,000
Net change in fund balance	141,876
Fund balance – beginning	-
Fund balance – ending	\$ 141,876

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, 2018

Net change in fund balances - Total governmental funds \$ 141,876

Total change in net position reported for governmental activities in the statement of activities is different because:

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.

Debt issued (200,000)

Change in net position of governmental activities \$ (58,124)

Michigan International Prep School
Notes to the Financial Statements
June 30, 2018

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 \$ 61,739.

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, 2018

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.

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 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

Michigan International Prep School
Notes to the Financial Statements
June 30, 2018

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. 86, *Certain Debt Extinguishment Issues* is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The statement provides uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irremovable trust for the purpose of extinguishing that debt were acquired. Statement No. 86 is effective for the fiscal year ending June 30, 2018.

Upcoming Accounting and Reporting Changes

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. 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, 2020.

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.

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

Michigan International Prep School
Notes to the Financial Statements
June 30, 2018

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 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:

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
Instructional staff	\$ 9,641	\$ 33,208	\$ 23,567
Business	89,696	107,689	17,993
Operations and maintenance	64,103	67,045	2,942
Central	154,036	173,219	19,183

Note 3 - Deposits

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

	Governmental Activities
Cash	\$ <u>78,744</u>

The breakdown between deposits for the Academy is as follows:

Deposits (checking, savings accounts, money markets, certificates of deposit)	\$ <u>78,744</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

Michigan International Prep School
Notes to the Financial Statements
June 30, 2018

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, the Academy’s bank balance of \$ 78,444 was fully insured and collateralized.

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 - Leases

Operating Leases

As of June 30, 2018, the Academy leases buildings under non-cancelable operating leases. Total costs for such leases were \$ 31,290. The future minimum lease payments for these leases are as follows:

Year ending June 30,	
2018	\$ 30,240
2019	<u>22,680</u>
Total	<u>\$ 52,920</u>

Note 5 - Long-Term Debt

The Academy’s long-term debt includes notes to provide working capital. Notes payable will be liquidated by the General Fund and consist of two separate notes of \$ 100,000, both due in full plus 1% interest in February 2019. 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.

Long-term obligation activity is summarized as follows:

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

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.

Michigan International Prep School
Notes to the Financial Statements
June 30, 2018

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 \$ 51,590 for the year ended June 30, 2018.

REQUIRED SUPPLEMENTARY INFORMATION

Michigan International Prep School
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Local sources	\$ 37,500	\$ -	\$ -	\$ -
State sources	1,408,035	2,061,812	2,057,971	(3,841)
Federal sources	-	15,485	14,692	(793)
	<u>1,445,535</u>	<u>2,077,297</u>	<u>2,072,663</u>	<u>(4,634)</u>
Expenditures				
Instruction				
Basic programs	744,904	279,040	277,375	(1,665)
Added needs	-	1,046,931	1,023,808	(23,123)
Supporting services				
Instructional staff	8,000	9,641	33,208	23,567
General administration	480,570	448,912	445,514	(3,398)
School administration	-	2,071	1,127	(944)
Business	52,000	89,696	107,689	17,993
Operations and maintenance	48,600	64,103	67,045	2,942
Central	74,500	154,036	173,219	19,183
Debt service				
Interest and fiscal charges	-	1,802	1,802	-
	<u>1,408,574</u>	<u>2,096,232</u>	<u>2,130,787</u>	<u>34,555</u>
Excess (deficiency) of revenues over expenditures	<u>36,961</u>	<u>(18,935)</u>	<u>(58,124)</u>	<u>(39,189)</u>

Michigan International Prep School
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources				
Proceeds from notes and loans	-	200,000	200,000	-
Net change in fund balance	36,961	181,065	141,876	(39,189)
Fund balance - beginning	-	-	-	-
Fund balance - ending	<u>\$ 36,961</u>	<u>\$ 181,065</u>	<u>\$ 141,876</u>	<u>\$ (39,189)</u>



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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, 2018, 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 25, 2018.

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. Given these limitations, during our audit we did not

identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 2018-001.

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.

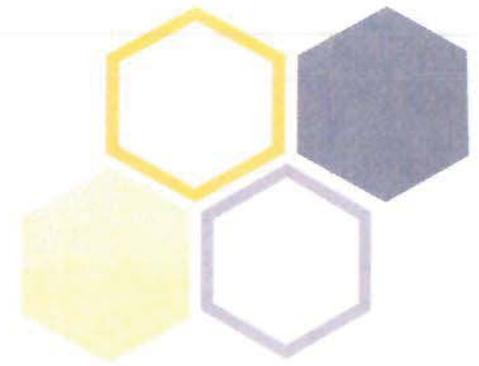
Flint, MI
September 25, 2018

**Michigan International Prep School
Schedule of Findings and Responses
June 30, 2018**

Government Auditing Standards Findings

Finding 2018-001 - Noncompliance

- Criteria:** Certain policies and procedures are to be developed and documented as required by the Michigan Department of Education Bulletin 1022.
- Condition:** 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. A manual was provided, but lacked those applicable policies and procedures.
- Cause and Effect:** The Academy first came into existence during the 17-18 fiscal year. As such, the written policies and procedures are either in the process of being developed or are unavailable at this time.
- Recommendation:** We recommend that the Academy develop and or maintain documentation of the various policies and procedures required of local education agencies in Michigan. Those policies and procedures include investment of funds, cash management, and allowability of costs.
- Views of Responsible Officials:** Management agrees with this finding. See corrective action plan on page 6 - 4



September 25, 2018

Michigan International Prep School submits the following corrective action plan concerning findings for the 2018-001 on the schedule of findings and responses:

2018-001 Noncompliance

Corrective Action

The management of Michigan International Prep School will implement a plan over the course of the next six months to draft and implement missing policies and procedures. We will designate an individual with knowledge and opportunity to effectively put this plan into action. We will send drafts to auditors for review and recommendation.

Sincerely,

Angie L. Browne
Director of Business/Human Resources

