

Francis Street Primary School

Financial Report
With Supplementary Information

Year Ended June 30, 2021

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WILLIS & JURASEK

CPAS AND CONSULTANTS

Independent Auditors' Report

Board of Directors
Francis Street Primary School
Jackson, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Francis Street Primary School (the School), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the School'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 about 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 each major fund of Francis Street Primary 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.

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 as 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, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required 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 November 5, 2021, on our consideration of Francis Street Primary 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 Francis Street Primary 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 Francis Street Primary School's internal control over financial reporting and compliance.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

November 5, 2021

Francis Street Primary School
Management's Discussion and Analysis
Year Ended

As administration of Francis Street Primary School, County of Jackson, State of Michigan ("the School"), we offer readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2021.

Financial Highlights

- The assets of the School exceeded its liabilities at the close of the most recent fiscal year by \$132,630 (positive net position).
- The School's total net position increased by \$172,509. The increase represents the amount by which revenues exceeded expenditures.
- The School's student enrollment was 72, an increase of 22 over the prior year.
- The General Fund had a net change in fund balance of \$187,827. At the end of the year, the total fund balance for the General Fund was \$166,865.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the School financially as a whole. The government-wide financial statements provide information about the activities of the whole School, presenting both an aggregate view of the School's finances and a longer-term view of those finances. The financial statements then proceed to provide an increasingly detailed look at specific financial activities included in the fund financial statements. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements provide information about the School's sole fund – the General Fund.

Reporting the Academy as a Whole

The Statement of Net Position and Statement of Activities – One of the most important questions asked about the School's finances is, "Is the School better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which appear first in the School's financial statements, report information about the School as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities of the School using the accrual basis of accounting, which is similar to the accounting used by private-sector corporations. However, the School's goal is to provide services to its students, not to generate profits, as private-sector corporations do. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

The Statement of Net Position and Statement of Activities present information about the following:

Governmental Activities – All of the School's basic services are considered to be governmental activities, including instruction and various support services. Intergovernmental revenues, (unrestricted and restricted State Aid), and donations finance most of these activities.

These two statements report the School's net position and changes to net position for the year. The change in net position provides the reader a tool to assist in determining whether the School's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as economic conditions in the State, political conditions at the State Capitol, student enrollment growth, and facility conditions in arriving at their conclusion regarding the overall health of the School.

The government-wide financial statements can be found on pages 1 and 2 of this report.

Francis Street Primary School
Management's Discussion and Analysis
Year Ended

Reporting the Academy's Most Significant Funds

Fund Financial Statements – The fund financial statements provide detailed information about the most significant fund – the General Fund. The fund financial statements begin on page 3 and provide detailed information about the most significant fund. The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." The School has only one type of fund, the governmental funds.

In the fund financial statements, capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future years' debt obligations are not recorded.

Governmental Funds – All of the School's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources available to spend in the near future to finance the School's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

The basic governmental fund financial statements can be found on pages 3 and 5 of this report.

Additional Information – The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 7 – 13 of this report.

Government-Wide Financial Analysis

The government-wide financial analysis focuses on the net position and changes in net position of the School's governmental activities. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The following is a summary of the School's net position as of June 30, 2021 and 2020:

	Governmental Activities	
	2021	2020
Assets:		
Current assets	\$ 300,637	\$ 124,056
Non-current assets	80,825	89,067
Total assets	381,462	213,123
Liabilities:		
Current liabilities	142,227	142,335
Non-current liabilities	106,605	110,667
Total liabilities	248,832	253,002
Net Position:		
Invested in capital assets - net of related debt	44,628	52,870
Unrestricted	88,002	(92,749)
Total net position	\$ 132,630	\$ (39,879)

Francis Street Primary School
Management's Discussion and Analysis
Year Ended

The above analysis focuses on the net position. The change in net position of the School's governmental activities is discussed below. The net position differs from fund balances and a reconciliation of such appears on page 4.

The School's positive restricted net position reflects its investment in capital assets (i.e. land, buildings, and equipment) less any related debt used to acquire those assets that is still outstanding. The School uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the School's investment in its capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following is a summary of the change in net position for the year ended June 30, 2021 and 2020:

	2021	2020
Revenues:		
Program Revenue:		
Operating grants and contributions	\$ 200,796	\$ 24,732
General Revenue:		
State School Aid	577,443	391,589
Other	10,665	37,449
Total revenues	788,904	453,770
Expenses:		
Instruction	290,997	214,022
Support services	305,115	281,568
Interest on long-term debt	12,041	6,510
Depreciation - unallocated	8,242	8,215
Total expenses	616,395	510,315
Change in Net Position	172,509	(56,545)
Net Position, Beginning of Year	(39,879)	16,666
Ending Net Position	\$ 132,630	\$ (39,879)

The School's net position increased by \$172,509 during the current fiscal year. The increase in net position differs from the change in fund balances and a reconciliation appears on page 6.

Since unrestricted State Aid constitutes the vast majority of the School's operating revenue sources, the Board of Directors and Administration must annually evaluate the needs of the School and balance those needs with State-prescribed available unrestricted resources.

General Fund Budgeting and Operating Highlights

The School's budgets for the General Fund are prepared according to Michigan Law. During the fiscal year ended June 30, 2021, the School amended the budget of this major governmental fund as needed. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School's original and final budget amounts compared with amounts actually paid and received is provided in required supplementary information of these financial statements.

Francis Street Primary School
Management's Discussion and Analysis
Year Ended

The General Fund actual revenues and other financing sources were \$791,586. That amount is above the amended budget estimate of \$589,754 and above the original budget of \$462,660.

The actual expenditures and other financing uses of the General Fund were \$603,759, which is above the amended budget estimate of \$552,240 and above the original budget of \$462,000.

These actual revenue and expenditure amounts created a net change in fund balance of \$187,827 and an ending positive fund balance of \$166,865.

Capital Asset and Debt Administration

Capital Assets – At the end of the fiscal year 2021, the School had \$104,428 invested in site improvements, furniture and equipment. On this amount, \$23,603 in depreciation has been taken. There is currently a net book value of \$80,825. There were no expenditures for depreciable capital outlay for the fiscal year.

	<u>Governmental Activities</u>	
	<u>2021</u>	<u>2020</u>
Site improvements and construction in progress	\$ 80,711	\$ 80,711
Furniture and equipment	23,717	23,717
Total capital assets	104,428	104,428
Less accumulated depreciation	23,603	15,361
Net capital assets	<u>\$ 80,825</u>	<u>\$ 89,067</u>

Long-Term Debt – At June 30, 2021, the School had total debt outstanding of \$106,605. The debt is for a playground equipment loan and a loan to a related party. The School's total debt decreased by a net \$4,062 during the current fiscal year.

Additional information on the School's long-term debt can be found in Note 6 on page 12 of this report.

Francis Street Primary School
Management's Discussion and Analysis
Year Ended

Economic Factors and Next Year's Budgets and Rates

At the time these financial statements were prepared and audited, the School was aware of the following circumstances that could significantly affect its financial health in the future:

- Student enrollment is expected to increase as stated below, and continue to increase each following year as the School continues to add grade levels until approximately fifth grade. This will in turn allow for an additional 20 students for each classroom.

The following assumptions were made in preparing the School's original budget for the 2021-2022 fiscal year:

- Foundation allowance of approximately \$8,111
- A student enrollment of 70

Requests for Information

This financial report is designed to provide a general overview of Francis Street Primary School's finances for all those with an interest in the School's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Nikki Macchia, Office Manager
Francis Street Primary
1320 Martin Luther King Jr. Drive
Jackson, Michigan 49203
nmacchia@francisstreetprimary.com
517-879-1380

Francis Street Primary School
Statement of Net Position
June 30, 2021

	Governmental Activities
Assets:	
Cash and cash equivalents	\$ 184,427
Due from other governmental units	113,236
Prepaid expenditures	2,974
Capital assets, net of accumulated depreciation	80,825
Total assets	<u>381,462</u>
Liabilities:	
Accounts payable and accrued expenses	64,512
Accrued salaries and benefits	35,455
Accrued interest	8,455
Unearned revenue	33,805
Long-term liabilities:	
Due within one year	6,990
Due in more than one year	99,615
Total liabilities	<u>248,832</u>
Net Position:	
Net investment in capital assets	44,628
Unrestricted	88,002
Total net position	<u>\$ 132,630</u>

Francis Street Primary School
Statement of Activities
Year Ended June 30, 2021

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expenses) Revenues and Change in Net Position</u>
Primary Government				
Governmental activities:				
Instruction	\$ 290,997	\$ -	\$ 174,907	\$ (116,090)
Support services	305,115	-	25,890	(279,225)
Interest on long-term debt	12,041	-	-	(12,041)
Depreciation (unallocated)	8,242	-	-	(8,242)
Total governmental activities	<u>\$ 616,395</u>	<u>\$ -</u>	<u>\$ 200,797</u>	<u>(415,598)</u>
General Revenues:				
State aid not restricted to specific purposes				577,443
Other				10,664
Total general revenues				<u>588,107</u>
Change in Net Position				172,509
Net Position - Beginning of Year				<u>(39,879)</u>
Net Position - End of Year				<u>\$ 132,630</u>

Francis Street Primary School
Balance Sheet
Governmental Funds
June 30, 2021

<u>Assets</u>	<u>General Fund</u>
Cash and cash equivalents	\$ 184,427
Receivable from other governments	113,236
Prepaid expenditures	<u>2,974</u>
Total assets	<u>\$ 300,637</u>
 <u>Liabilities and Fund Balance</u> 	
Liabilities:	
Accounts payable	\$ 64,512
Unearned revenue	33,805
Salaries payable and related	<u>35,455</u>
Total liabilities	<u>133,772</u>
Fund Balance:	
Nonspendable:	
Prepaid expenditures	2,974
Unassigned	<u>163,891</u>
Total fund balance	<u>166,865</u>
Total liabilities and fund balance	<u>\$ 300,637</u>

Francis Street Primary School
 Reconciliation of the Fund Balances on the Balance Sheet of Governmental Funds
 to Net Position of Governmental Activities on the Statement of Net Position
 June 30, 2021

Total Fund Balance - Governmental Funds	\$	166,865
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.		
The cost of the capital assets is	\$	104,428
Accumulated depreciation is		<u>(23,603)</u>
		80,825
Accrued interest payable on long-term debt is not included as a liability in governmental funds.		
Accrued interest		(8,455)
Long-term liabilities (notes payable, etc.) are not due and payable in the current period and are not reported in the governmental funds.		
Loans payable		<u>(106,605)</u>
Total Net Position - Governmental Activities	\$	<u>132,630</u>

Francis Street Primary School
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
Year Ended June 30, 2021

	General Fund
Revenues:	
Local sources	\$ 10,664
State sources	613,248
Federal sources	167,674
Total revenues	791,586
Expenditures:	
Instruction	290,997
Support services	305,115
Debt service:	
Principal and interest	5,112
Total expenditures	603,759
Net Change in Fund Balance	187,827
Fund Balance - Beginning of Year	(20,962)
Fund Balance - End of Year	\$ 166,865

Francis Street Primary School

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance
of Governmental Funds to the Statement of Activities
Year Ended June 30, 2021

Net Change in Fund Balance - Total Governmental Funds \$ 187,827

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.

The amount by which net capital expenditures of \$0 exceed depreciation of \$8,242 in the current period. (8,242)

Accrued interest is recorded in the Statement of Activities when incurred; it is not reported in governmental funds until paid (8,455)

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. (2,683)

Governmental funds report debt proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of debt principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities.

Debt issued:

Proceeds from related party loan

\$ (1,051)

Payments on equipment loan

5,113

4,062

Change in Net Assets of Governmental Activities \$ 172,509

Francis Street Primary School
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

The basic financial statements of Francis Street Primary School (“the School”) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School’s accounting policies are described below.

Reporting Entity

The School was established under the provisions of the State of Michigan as a Public Academy. Public School Academies are formed pursuant to the Michigan School Code of 1976 as amended by Act Number 416 of the Public Acts of 1994; Act Number 416 became effective March 30, 1995. The School has contracted with Grand Valley State University’s Board of Trustees to charter a Public Academy. The School operates under an appointed Board of Directors and provides education needs for grades K – 3.

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 School’s reporting entity, and which organizations are legally separate, component units of the School. Based on the application of the criteria, the School does not contain any component units.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements - The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School’s government-wide activities are considered governmental activities. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

The Statement of Net Position presents all governmental activities on a consolidated basis. The Statement of Net Position reports all assets and liabilities including those of a long-term nature. The net difference is reported as net position. Net position is categorized as net investment in capital assets, restricted net position, and unrestricted net position. It is the School’s policy to allocate resource outlays first to restricted net position with the remainder allocated to unrestricted net position.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Intergovernmental payments and other items not properly included among program revenues are reported instead as general revenue. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Francis Street Primary School
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Fund Financial Statements – Separate financial statements are provided for governmental funds. 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 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 government 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, severance pay, claims, and judgments are only recorded 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. Expenditure reimbursing grants are recognized when the qualifying expenditures have been incurred, eligibility requirements have been met, and receipt of monies is expected within the current availability period (60 days post year-end). All other revenue items are considered to be available only when cash is received by the government.

The School reports one major governmental fund, the General Fund, which is the School's primary operating fund. It accounts for all financial resources of the School.

Revenue, Assets, Liabilities, and Net Position or Equity

State Revenue – The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a State-wide formula. The foundation allowance is funded from State sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of State funds to school districts and academies based on information supplied by the school districts and academies. For the year ended June 30, 2021, the foundation allowance was based on pupil membership counts.

The State portion of the foundation is provided primarily by a state education property tax millage of six mills and an allocated portion of state sales and other taxes. The State revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The School also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year, are recorded as unearned revenue. Other categorical funding is recognized when the appropriation is received.

Deposits and Investments – Cash and cash equivalents include demand deposits.

The School reports its cash and investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available.

Francis Street Primary School
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenue, Assets, Liabilities, and Net Position or Equity (Continued)

Deposits and Investments (Continued) – The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School intends to hold the investment until maturity. Accordingly, investments in bankers' acceptances and commercial paper are recorded at amortized cost. As of year-end, the School held no investments.

State statutes authorize the School to invest in bonds, and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Receivables and Payables – Receivables are shown net of an allowance for uncollectible amounts. The School has determined the uncollectible amounts are immaterial and no provision has been recorded.

Capital Assets - Capital assets, which include land, buildings, and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. The School defines capital assets as assets with an initial individual cost of \$1,000 or greater and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School does not have infrastructure type assets.

Buildings, equipment, and furniture are depreciated using the straight-line method over the following useful lives:

Site improvements	15 years
Furniture and equipment	5-10 years

Long-Term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position.

Deferred Outflows/Inflows of Resources – In addition to assets, the Statement of Net Position may report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the Statement of Net Position may report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

Francis Street Primary School
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenue, Assets, Liabilities, and Net Position or Equity (Continued)

Fund Equity – The School has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In accordance with this guidance, fund balances of governmental funds are categorized according to five defined categories of fund balance. These categories consist of *nonspendable* amounts which are legally or contractually required to be maintained intact; *restricted* amounts that are constrained for specific purposes set by external parties or law; *committed* amounts that are constraints set by the highest decision making authority (the School Board) through adoption of a resolution and may only be removed by the School Board through a rescindment resolution; *assigned* amounts that have an intended purpose but require no formal specific action; and *unassigned* amounts which are the residual of the other categories and have no specific purpose. It is the School's policy to generally use fund balance in order according to the hierarchy of fund balance categories, from restricted down to unassigned.

Use of Estimates - The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Note 2 – Stewardship, Compliance, and Accountability

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriations lapse at fiscal year-end. The School follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Chief Academic Officer submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Prior to July 1, the budget is legally adopted by Board of Directors resolution pursuant to the *Uniform Budgeting and Accounting Act* (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations if any, for the General Fund, are noted in the required supplementary information section.
3. The Chief Academic Officer is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
4. Formal budgetary integration is employed as a management control device during the year for the General Fund.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to the end of the fiscal year.

Francis Street Primary School
Notes to Financial Statements

Note 3 – Deposits and Investments

At year-end, the School's deposits were all held in deposit accounts (checking and savings).

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned. The School has not adopted and State law does not require a policy for deposit custodial credit risk. As of year-end, none of the School's bank balance of approximately \$190,000 was uninsured and uncollateralized.

Note 4 – Receivables

Receivables at year-end consist mainly of amounts due from other governmental units and more specifically, the Michigan Department of Education. Receivables at year-end totaled \$113,236.

Note 5 – Capital Assets

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Year-End Balance</u>
Assets not being depreciated:				
Construction in progress	\$ 15,104	\$ -	\$ -	\$ 15,104
Total assets not being depreciated	<u>15,104</u>	<u>-</u>	<u>-</u>	<u>15,104</u>
Capital assets beings depreciated:				
Site improvements	65,607	-	-	65,607
Furniture and equipment	23,717	-	-	23,717
Subtotal	<u>89,324</u>	<u>-</u>	<u>-</u>	<u>89,324</u>
Accumulated depreciation:				
Site improvements	7,905	3,868	-	11,773
Furniture and equipment	7,456	4,374	-	11,830
Subtotal	<u>15,361</u>	<u>8,242</u>	<u>-</u>	<u>23,603</u>
Net capital assets being depreciated	73,963	(8,242)	-	65,721
Net capital assets	<u>\$ 89,067</u>	<u>\$ (8,242)</u>	<u>\$ -</u>	<u>\$ 80,825</u>

Depreciation - Total depreciation for the fiscal year was \$8,242. The School has determined it is impractical to allocate depreciation among governmental activities.

Francis Street Primary School
Notes to Financial Statements

Note 6 – Long-Term Debt

The following is a summary of long-term debt transactions for the year ended June 30, 2021:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Navitas	\$ 16,300	\$ -	\$ 5,113	\$ 11,187	\$ 6,318
Related party	94,367	1,051	-	95,418	672
Total governmental activities	<u>\$ 110,667</u>	<u>\$ 1,051</u>	<u>\$ 5,113</u>	<u>\$ 106,605</u>	<u>\$ 6,990</u>

Estimated annual debt service requirements to maturity on the above governmental loan obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2022	\$ 6,990	\$ 4,467	\$ 11,457
2023	13,890	3,299	17,189
2024	9,290	2,711	12,001
2025	9,560	2,437	11,997
2026	9,850	2,154	12,004
Thereafter	<u>57,025</u>	<u>10,000</u>	<u>67,025</u>
Total	<u>\$ 106,605</u>	<u>\$ 25,068</u>	<u>\$ 131,673</u>

Long-term debt consists of:

\$25,346 Navitas borrowing used to purchase playground equipment; due in 60 monthly installments of \$621 including interest at 19%; final payment due May 2023; collateralized by playground equipment.	\$ 11,187
\$95,418 unsecured related party loan; interest at 3% due annually, see Note 8.	<u>95,418</u>
Total	<u>\$ 106,605</u>

Note 7 – Leases

The School leases its land and buildings from a related party, Francis Street Schoolhouse, LLC, see Note 8. Rent expense for the year ended June 30, 2021 was \$36,000 with \$36,000 included in accounts payable. The lease agreement calls for annual payments not to exceed 10% of State Aid. The lease agreement was amended with rent for the next five years expected to be \$18,000 per year.

Note 8 – Related Parties

As disclosed in Note 7, the School leases its facilities from Francis Street Schoolhouse, LLC. The School's Chief Academic Officer is a majority member in the LLC.

The School net borrowings totaled \$1,051 from the School's Chief Academic Officer during the year ended June 30, 2021, see Note 6.

Francis Street Primary School
Notes to Financial Statements

Note 9 – Federal and State Grants

The School has received State grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.

Note 10 – Risk Management

The School is exposed to various risks of loss related to property loss, torts, errors, and omissions. The School has purchased commercial insurance for general liability and property/casualty claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

COVID-19 Considerations – The continuing pandemic, both in the U.S. and globally in regards to the outbreak of the coronavirus (COVID-19) has made evaluation of the future uncertain. Areas that may be affected by the change in daily lives and work include investment values, levels of sales and services, availability of cash, supply chains, etc. As a result, funding to schools from the State and federal governments is subject to risk and potential change. Because of the uncertainty of the full impact, no amounts can be estimated and have not been reflected in these statements.

Note 11 – Upcoming Accounting and Reporting Changes

Statement No. 87, *Leases*, was issued by the Governmental Accounting Standards Board to increase the usefulness of government financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. The Statement also addresses standards for note disclosures to include information regarding the timing, significance, and purpose of a government's leasing arrangements. Statement No. 87 will be effective for the School's fiscal year ending June 30, 2022.

Required Supplementary Information

Francis Street Primary School
 Budgetary Comparison Schedule - General Fund
 Year Ended June 30, 2021

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
Local sources	\$ 11,000	\$ 5,762	\$ 10,664
State sources	426,660	583,992	613,248
Federal sources	25,000	-	167,674
Total revenues	<u>462,660</u>	<u>589,754</u>	<u>791,586</u>
Expenditures:			
Instruction:			
Basic programs	253,200	280,000	286,873
Added needs	10,000	16,000	4,124
Support services:			
General administration	22,800	42,740	52,702
School administration	84,000	113,500	148,437
Business	22,000	16,000	18,622
Operation & maintenance	67,000	78,000	74,565
Technology	3,000	6,000	10,789
Debt service			
Principal	-	-	5,112
Interest and other charges	-	-	2,535
Total expenditures	<u>462,000</u>	<u>552,240</u>	<u>603,759</u>
Net Changes in Fund Balance	660	37,514	187,827
Fund Balance - Beginning of Year	<u>(20,962)</u>	<u>(20,962)</u>	<u>(20,962)</u>
Fund Balance - End of Year	<u>\$ (20,302)</u>	<u>\$ 16,552</u>	<u>\$ 166,865</u>



WILLIS & JURASEK
CPAS AND CONSULTANTS

**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Directors
Francis Street Primary School
Jackson, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Francis Street Primary School as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Francis Street Primary School's basic financial statements, and have issued our report thereon dated November 5, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Francis Street Primary 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Francis Street Primary School's internal control. Accordingly, we do not express an opinion on the effectiveness of Francis Street Primary 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 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the schedule of findings as 2021-001, 2021-002, and 2021-003 that we consider to be material weaknesses.

Board of Directors
Francis Street Primary School
Jackson, Michigan

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Francis Street Primary 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Francis Street Primary School's Response to Findings

Francis Street Primary School's response to the findings identified in our audit is described in the accompanying corrective plan. Francis Street Primary School's response was not subjected to the auditing procedures applied in the audit of 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 result 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.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

November 5, 2021

2021-001 – Financial Statement Preparation

Criteria or Specific Requirement: It is management's responsibility to prepare the financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data, and (2) reporting government-wide and fund financial statements, including the related footnotes.

Condition: As is the case with many smaller and medium-sized entities, the School has relied on its independent external auditors to assist with the preparation of the financial statements and footnotes.

Cause: The School has determined that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary expertise required to perform this task internally.

Effect: The School lacks complete internal control over the preparation of financial statements in accordance with GAAP, and instead has relied on the external auditors for this expertise.

Recommendation: We do not recommend any changes to the situation at this time and communicate this as required by professional standards.

Views of Responsible Officials and Planned Corrective Action: Please see the corrective action plan following.

2021-002 – Material Adjustments

Criteria or Specific Requirement: It is management's responsibility to prepare the financial statements in accordance with generally accepted accounting principles (GAAP) and implement adequate controls over financial reporting.

Condition: During the course of our audit, the auditors proposed material adjustments.

Cause: The School was in its third year of operations and controls in place were not adequate for proper year end cutoff.

Effect: The School's financial statements were materially misstated prior to the recording of the proposed audit adjustments.

Recommendation: We recommend the School review year-end adjustments for proper cut-off procedures related to the recording of liabilities.

Views of Responsible Officials and Planned Corrective Action: Please see the corrective action plan following.

2021-003 – Budget Process

Criteria or Specific Requirement: It is management's responsibility to implement adequate controls over financial reporting including the adherence to a board approved budget to ensure compliance with the Uniform Budgeting and Accounting Act.

Condition: Budget approvals were not performed timely – final amendments were approved post year end. Also, the School overspent the approved budget in several functions for the year ended June 30, 2021.

Cause: Control over the budget process was not implemented to ensure compliance.

Effect: Budget overages were incurred, thus School was out of compliance with State budget regulations.

Recommendation: We recommend the School review actual activity and consider known expenses when preparing budget amendments during the year.

View of Responsible Official: Please see the corrective action plan following.

Francis Street Primary
1320 Martin Luther King Jr. Drive
Jackson, Michigan 49203

Corrective Action Plan

Fiscal Year 2020-2021

Contact Person: Nikki Macchia, Office Manager (517) 879-1380

Finding 2021-001

We are relying upon our auditors to prepare annual financial statements in accordance with U.S. generally accepted accounting principles. We are aware that this is considered a deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for technical assistance. We would expect this situation to be ongoing in future years.

Finding 2021-002

We are aware that material adjustments were made as a result of audit procedures over year end cutoff. To correct this error going forward, we have implemented a more streamlined approach to recording payables as invoices are received. These procedures will also assist in preventing budget overages per Finding 2021-003.

Finding 2021-003

We are aware of the deficiency whereby the School was out of compliance with the State of Michigan Uniform Budgeting and Accounting Act. The School has put controls in place to ensure compliance with timely amendments to the budget when expenditures are expected to exceed the original budget. Our procedures have been updated to include regular reviews of the budget to actual financial data and subsequently get Board approval for the necessary amendments to stay in compliance including at year end.



WILLIS & JURASEK

CPAS AND CONSULTANTS

November 5, 2021

Board of Directors and Management
Francis Street Primary School
Jackson, Michigan

We have audited the financial statements of the governmental activities and each major fund of Francis Street Primary School for the year ended . Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 6, 2021. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Francis Street Primary School are described in Note 1 to the financial statements. Accounting policies were adopted and these policies are written for consistent application. We noted no transactions entered into by Francis Street Primary School during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the government-wide financial statements was:

Management's estimate of the capitalized assets and the estimate of related accumulated depreciation is based upon purchase prices and usage. Related depreciation is based upon estimated lives and methods to formulate net book value. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Material misstatements detected as a result of audit procedures, corrected by management, included recording adjusting State Aid revenues, additional accounts payable, building rent, and accrued wages.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as per the auditors' report.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Francis Street Primary School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the Budgetary Comparison Schedules and related notes which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Recommendations

As a result of our audit, we offer the following recommendations:

- A reminder that there is \$2,000 in 31a monies to be spent that was received in prior year but has not yet been spent. This would not flow through State reporting as it has already been reported to MDE as spent.
- Since FSP does not have any employees, "payroll" related expenditures should be recorded as purchased services rather than payroll.
- Recordkeeping should include storing invoices by vendor name or by general ledger account number, not by date. As you grow, this will be too cumbersome for you to look up information.
- Be consistent in allocation of expenses – expenditures for same type expenditure were in multiple accounts. Consistency will make it easier to trace back and also to compare expenditures year over year for budget purposes.
- See Findings letter for other concerns including the need for better controls over the budget process.
- We recommend that Don consider whether to take a salary or pay back his loans. Part of the analysis would be reduction of payroll taxes.
- Important matter to consider: Since Don Tassie plays such a key role in the operations of this entity, we recommend setting up a succession plan.

Board of Directors
and Management
Francis Street Primary School
Page 3

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of Francis Street Primary School and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.