

Flat Rock Community Schools

Financial Statements

June 30, 2019



Table of Contents

<u>Section</u>		<u>Page</u>
1	Members of the Board of Education and Administration	1 - 1
2	Independent Auditors' Report	2 - 1
3	Management's Discussion and Analysis	3 - 1
4	Basic Financial Statements	
	District-wide Financial Statements	
	Statement of Net Position	4 - 1
	Statement of Activities	4 - 3
	Fund Financial Statements	
	Governmental Funds	
	Balance Sheet	4 - 4
	Reconciliation of the Balance Sheet of	
	Governmental Funds to the Statement of Net Position	4 - 6
	Statement of Revenues, Expenditures and Changes in Fund Balances	4 - 7
	Reconciliation of the Statement of Revenues, Expenditures and	
	Changes in Fund Balances of Governmental Funds to the Statement of Activities	4 - 9
	Fiduciary Funds	
	Statement of Fiduciary Net Position	4 - 10
	Statement of Changes in Fiduciary Net Position	4 - 11
	Notes to the Financial Statements	4 - 12
5	Required Supplementary Information	
	Budgetary Comparison Schedule – General Fund	5 - 1
	Schedule of the School District's Proportionate Share of the Net Pension Liability	5 - 3
	Schedule of the School District's Pension Contributions	5 - 4
	Schedule of the School District's Proportionate Share of the Net OPEB Liability	5 - 5
	Schedule of the School District's OPEB Contributions	5 - 6

Flat Rock Community Schools

Members of the Board of Education

President	Norman Haase
Vice President	Frank Hamet
Secretary	Tara AuBuchon
Treasurer	Michelle Engelbert
Trustee	Shane Anne Harrison
Trustee	Ivy Nemeth
Trustee	Mark Przybylo

Administration

Superintendent	Andrew Brodie
Business Manager	Carol Manley



800.968.0010 | yeoandyeo.com

Independent Auditors' Report

Management and the Board of Education
Flat Rock Community Schools
Flat Rock, MI

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Flat Rock Community Schools, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School District'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, each major fund, and the aggregate remaining fund information of Flat Rock Community Schools, as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters:

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2019 on our consideration of Flat Rock Community Schools' 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 Flat Rock Community Schools' 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 Flat Rock Community Schools' internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Ann Arbor, MI
October 23, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

Flat Rock Community Schools
Management's Discussion and Analysis
June 30, 2019

This section of Flat Rock Community Schools' (the "District") annual financial report presents our discussion and analysis of the District's financial performance during the year ended June 30, 2019. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Flat Rock Community Schools financially as a whole. The district-wide financial statements provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the District's operations in more detail than the district-wide financial statements by providing information about the District's most significant funds; the General Fund, Debt Service Fund and Capital Projects Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net position, presents financial information about activities for which the District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)
(Required Supplementary Information)

Basic Financial Statements

District-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplementary Information)
Budgetary Information for Major Funds

Reporting the District as a Whole – District-wide Financial Statements

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

Flat Rock Community Schools
Management's Discussion and Analysis
June 30, 2019

These two statements report the District's net position – the difference between assets and liabilities, as reported in the statement of net position – as one way to measure the District's financial position. Over time, increases or decreases in the District's net position – as reported in the statement of activities – are indicators of the District's financial position. The relationship between revenues and expenses is the District's operating results. However, the District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided, the safety of the schools and physical state of its fixed assets, to assess the overall financial position of the District.

The statement of net position and the statement of activities report the governmental and business-type activities for the District, which encompass all of the District's services, including instruction, supporting services, food service, athletics and community services. Property taxes, unrestricted state aid (foundation allowance revenue) and state and federal grants finance most of these activities.

Reporting the District's Most Significant Funds – Fund Financial Statements

The District's fund financial statements provide detailed information about the most significant funds – not the District as a whole. Some funds are required to be established by state law and by bond covenants. However, the District establishes many other funds to help it control and manage money for a particular purpose (such as food service) or show that it is meeting legal responsibilities for using certain taxes, grants and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the District use the following accounting approach:

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

The District as Trustee – Reporting the District's Fiduciary Responsibilities

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

Flat Rock Community Schools
Management's Discussion and Analysis
June 30, 2019

The District as a Whole

Recall that the statement of net position provides the perspective of the District as a whole. Table 1 provides a summary of the District's net position as of June 30, 2019 and 2018:

Table 1

	Governmental Activities	
	June 30	
	2019	2018
Assets		
Current and other assets	\$ 11,179,678	\$ 10,634,468
Capital assets, net	28,349,594	29,457,338
Total assets	39,529,272	40,091,806
Deferred outflows of resources	13,185,170	7,109,817
Liabilities		
Current liabilities	6,442,526	8,052,997
Long-term liabilities	65,521,688	63,358,962
Total liabilities	71,964,214	71,411,959
Deferred inflows of resources	5,605,872	3,075,810
Net Position (Deficit)		
Net investment in capital assets	(583,550)	(1,915,971)
Restricted	122,606	78,669
Unrestricted	(24,394,700)	(25,448,844)
Total net position (deficit)	\$ (24,855,644)	\$ (27,286,146)

The above analysis (see Table 1) focuses on the District's net position. The change in net position (see Table 2) of the District's governmental activities is discussed below.

The District's net position was a deficit of \$24,855,644 at June 30, 2019. Net investment in capital assets, totaling (\$583,500), compares the original cost less depreciation of the District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position, totaling \$122,606, is reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use that net position for day-to-day operations. The remaining amount of net position is an unrestricted deficit totaling \$24,394,700.

Flat Rock Community Schools
Management's Discussion and Analysis
June 30, 2019

The \$24,394,700 deficit in unrestricted net position, of the District's governmental activities, represents the accumulated results of all past years' operations. A positive unrestricted net position balance would enable the District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations, for the District as a whole, are reported in the statement of activities (see Table 2), which shows the changes in net position for the fiscal years 2019 and 2018.

Table 2

	Governmental Activities	
	June 30	
	2019	2018
Revenue		
Program revenue		
Charges for services	\$ 458,234	\$ 424,330
Operating grants and contributions	4,103,222	3,747,483
General revenue		
Property taxes	4,657,214	4,479,733
State aid	15,718,869	15,172,375
Other	900,244	808,262
Total revenue	<u>25,837,783</u>	<u>24,632,183</u>
Function/Program Expenses		
Instruction	11,891,644	12,364,059
Supporting services	9,590,226	8,135,545
Food services	629,537	527,074
Athletics	461,541	435,471
Community services	51,007	52,391
Interest on long-term debt	783,326	767,649
Total expenses	<u>23,407,281</u>	<u>22,282,189</u>
Change in net position	<u>\$ 2,430,502</u>	<u>\$ 2,349,994</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$23,407,281. Certain activities were partially funded from those who benefited from the programs (\$458,234) or by other governments or organizations that subsidized certain programs with grants and contributions (\$4,103,222). The District paid for the remaining "public benefit" portion of our governmental activities with \$4,657,214 in taxes, \$15,718,869 in state foundation allowance and \$900,244 with our other revenue, i.e., interest, general entitlements and the Wayne County enhancement millage.

Flat Rock Community Schools
Management's Discussion and Analysis
June 30, 2019

The District experienced an increase in net position for the year ending June 30, 2019, of \$2,430,502. The increase in net position differs from the change in fund balance and a reconciliation appears in the body of the financial statements.

As discussed above, the net costs show the financial burden that was placed on the State and the District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of the District's operating revenue sources, the Board of Education and administration must annually evaluate the needs of the District and balance those needs with state-prescribed available unrestricted resources.

The District's Funds

As noted earlier, the District uses funds to help it control and manage money for particular purposes. Looking at funds helps you consider whether the District is being accountable for the resources taxpayers and others provide to it but may also give you more insight into the District's overall financial health.

As the District completed this year; the governmental funds reported a combined fund balance of \$8,945,581, which is an increase of \$2,332,165 from the prior year. The net increase in combined fund balance is due primarily to revenues exceeding expenditures in the General Fund.

The General Fund, the primary operating fund of the District, ended the current year with an unassigned fund balance of \$6,179,275, which is an increase of \$1,166,701 from the prior year. The unassigned fund balance represents approximately 29.2% of total General Fund expenditures. The General Fund balance is available to fund expenditures for allowable school operating purposes.

The Debt Service Fund showed a fund balance increase of \$10,008. The Debt Service fund balance is restricted to pay debt service obligations. Millage rates are determined annually to ensure that the District accumulates sufficient resources to pay annual debt service from bonds that have been issued. Considering the debt service required for 2018-19 and the debt fund balance, the District levied the same debt millage, of 11.22 mills, as in 2017-18.

As of June 30, 2019, the fund balance of the Food Service Fund was \$224,796, an increase of \$17,259 from the prior year. The fund balance is restricted to provide food service related activities.

As of June 30, 2019, the fund balance of the Capital Projects Fund was \$2,292,670, an increase of \$1,158,703 from the prior year. The fund balance is assigned to fund future expenditures for acquiring new vehicles and equipment and for building improvements and repairs.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

Flat Rock Community Schools
Management's Discussion and Analysis
June 30, 2019

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. For the fiscal year ending June 30, 2019, the budget was amended in **March**, 2019 and June, 2019. The June, 2019 budget amendment was the final amendment for the fiscal year.

Revenue:

Total Revenue - Original Budget	\$ 20,487,602	
Total Revenue - Final Budget	<u>22,130,737</u>	
Increase in Budgeted Revenue	<u>\$ 1,643,135</u>	<u>8.0%</u>

The District's actual General Fund revenues were higher than the final budget by \$137,765, a variance of 0.6% from the final budget.

Expenditures:

Total Expenditures - Original Budget	\$ 19,882,737	
Total Expenditures - Final Budget	<u>20,599,740</u>	
Increase in Budgeted Expenditures	<u>\$ 717,003</u>	<u>3.6%</u>

The District's actual General Fund expenditures were less than the final budget by \$670,592, a variance of 3.3% from the final budget.

A schedule showing the District's original and final budget amounts compared with the amounts actually paid and received is provided in the required supplementary information of these financial statements.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2019 and 2018, the District had \$28,349,594 and \$29,457,338, respectively, invested in a broad range of capital assets, including land, buildings, vehicles, furniture and equipment. The District's capital assets decreased during the year by \$1,107,744, or 3.8%, from last year. This decrease was primarily due to normal depreciation of the assets. Current year capital asset additions included two new buses, elementary school cafeteria tables, a new food service delivery van and two maintenance and athletics utility vehicles. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At June 30, 2019, the District had \$23,290,000 in general obligation bonds outstanding versus \$27,110,000 in the previous year – a net decrease of \$3,820,000, due to principal payments related to the outstanding bond issues.

Flat Rock Community Schools
Management's Discussion and Analysis
June 30, 2019

The District's general obligation bond rating continues to be A2, as rated by Moody's Investors Service. The State limits the amount of general obligation debt that school districts can issue to 15 percent of the assessed value of all taxable property within the District's boundaries. The District's outstanding general obligation debt of \$23,290,000 is below this statutorily imposed limit.

Other obligations include accrued sick leave. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budget and Rates

Our elected officials and administration considered many factors when setting the District's 2019-20 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2019-20 fiscal year will be 90% of the October 2019 student count and 10% of the February 2019 student count. The 2019-20 General Fund budget was adopted in June 2019, based on an estimate of 2,019 students, which is was an assumed slight decrease of 14 students from the final blended count in 2018-19. Approximately 80% of the General Fund revenue is derived from State sources. Under state law, the District cannot assess additional property tax revenue for general operations. As a result, the District's funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data, at the start of the 2019-20 school year, we anticipate that the fall student count will be slightly lower than the estimate used in creating the 2019-20 General Fund budget. Once the final student count and related per pupil funding are validated, state law requires the District to amend the budget if actual District resources are not sufficient to fund original appropriations.

Since the District's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to local school districts.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Manager, 28639 Division Street, Flat Rock, Michigan 48134.

BASIC FINANCIAL STATEMENTS

Flat Rock Community Schools
Statement of Net Position
June 30, 2019

	<u>Governmental Activities</u>
Assets	
Cash	\$ 6,889,339
Taxes receivable	134,017
Accounts receivable	4,023,992
Inventory	1,970
Prepaid items	130,360
Capital assets not being depreciated	37,230
Capital assets - net of accumulated depreciation	<u>28,312,364</u>
 Total assets	 <u>39,529,272</u>
 Deferred Outflows of Resources	
Deferred amount relating to the net pension liability	11,064,748
Deferred amount relating to the net OPEB liability	1,913,722
Deferred amount on debt refunding	<u>206,700</u>
 Total deferred outflows of resources	 <u>13,185,170</u>
 Total assets and deferred outflows of resources	 <u>52,714,442</u>

See Accompanying Notes to the Financial Statements

Flat Rock Community Schools
Statement of Net Position
June 30, 2019

	Governmental Activities
Liabilities	
Accounts payable	395,633
Due to fiduciary funds	1,811
Payroll deductions and withholdings	372,941
Accrued expenditures	291,767
Accrued salaries payable	1,288,308
Unearned revenue	133,341
Long-term liabilities	
Net pension liability	31,379,405
Net OPEB liability	8,438,319
Due within one year	3,958,725
Due in more than one year	<u>25,703,964</u>
Total liabilities	<u>71,964,214</u>
Deferred Inflows of Resources	
Deferred amount on net pension liability	3,708,829
Deferred amount on net OPEB liability	<u>1,897,043</u>
Total deferred inflows of resources	<u>5,605,872</u>
Total liabilities and deferred inflows of resources	<u>77,570,086</u>
Net Position (Deficit)	
Net investment in capital assets	(583,550)
Restricted for	
Food service	122,606
Unrestricted (deficit)	<u>(24,394,700)</u>
Total net position (deficit)	<u>\$ (24,855,644)</u>

See Accompanying Notes to the Financial Statements

Flat Rock Community Schools
Statement of Activities
For the Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 11,891,644	\$ 222,636	\$ 3,651,636	\$ (8,017,372)
Supporting services	9,590,226	-	25,175	(9,565,051)
Food services	629,537	143,671	426,411	(59,455)
Athletics	461,541	91,927	-	(369,614)
Community services	51,007	-	-	(51,007)
Interest on long-term debt	<u>783,326</u>	<u>-</u>	<u>-</u>	<u>(783,326)</u>
Total governmental activities	<u>\$ 23,407,281</u>	<u>\$ 458,234</u>	<u>\$ 4,103,222</u>	<u>(18,845,825)</u>
		General revenues		
		Property taxes - levied for general purposes		1,619,148
		Property taxes - levied for debt service		3,038,066
		State aid - unrestricted		15,718,869
		Interest and investment earnings		57,366
		Other		<u>842,878</u>
		Total general revenues		<u>21,276,327</u>
		Change in net position		2,430,502
		Net position - beginning		<u>(27,286,146)</u>
		Net position - ending		<u>\$ (24,855,644)</u>

See Accompanying Notes to the Financial Statements

Flat Rock Community Schools
Governmental Funds
Balance Sheet
June 30, 2019

	General Fund	Debt Fund	Capital Projects Fund	Nonmajor Governmental Fund	Total Governmental Funds
Assets					
Cash	\$ 6,559,040	\$ 37,628	\$ -	\$ 292,671	\$ 6,889,339
Taxes receivable	57,342	76,675	-	-	134,017
Accounts receivable	4,003,026	-	-	20,966	4,023,992
Due from other funds	76,586	4,177	2,292,670	-	2,373,433
Inventory	-	-	-	1,970	1,970
Prepaid items	130,360	-	-	-	130,360
	<u>130,360</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>130,360</u>
Total assets	<u>\$ 10,826,354</u>	<u>\$ 118,480</u>	<u>\$ 2,292,670</u>	<u>\$ 315,607</u>	<u>\$ 13,553,111</u>
Liabilities					
Accounts payable	\$ 395,633	\$ -	\$ -	\$ -	\$ 395,633
Due to other funds	2,298,658	-	-	76,586	2,375,244
Payroll deductions and withholdings	372,941	-	-	-	372,941
Accrued expenditures	42,063	-	-	-	42,063
Accrued salaries payable	1,288,308	-	-	-	1,288,308
Unearned revenue	119,116	-	-	14,225	133,341
	<u>119,116</u>	<u>-</u>	<u>-</u>	<u>14,225</u>	<u>133,341</u>
Total liabilities	<u>4,516,719</u>	<u>-</u>	<u>-</u>	<u>90,811</u>	<u>4,607,530</u>

See Accompanying Notes to the Financial Statements

Flat Rock Community Schools
Governmental Funds
Balance Sheet
June 30, 2019

	<u>General Fund</u>	<u>Debt Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Fund</u>	<u>Total Governmental Funds</u>
Fund Balance					
Non-spendable					
Inventory	-	-	-	1,970	1,970
Prepaid items	130,360	-	-	-	130,360
Restricted for					
Food service	-	-	-	222,826	222,826
Debt service	-	118,480	-	-	118,480
Assigned					
Capital projects	-	-	2,292,670	-	2,292,670
Unassigned	<u>6,179,275</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,179,275</u>
 Total fund balance	 <u>6,309,635</u>	 <u>118,480</u>	 <u>2,292,670</u>	 <u>224,796</u>	 <u>8,945,581</u>
 Total liabilities and fund balance	 <u>\$ 10,826,354</u>	 <u>\$ 118,480</u>	 <u>\$ 2,292,670</u>	 <u>\$ 315,607</u>	 <u>\$ 13,553,111</u>

See Accompanying Notes to the Financial Statements

Flat Rock Community Schools
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2019

Total fund balances for governmental funds	\$ 8,945,581
Total net position for governmental activities in the statement of net position is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	
Capital assets not being depreciated	37,230
Capital assets - net of accumulated depreciation	28,312,364
Deferred outflows (inflows) of resources	
Deferred outflows of resources resulting from debt refunding	206,700
Deferred inflows of resources resulting from the net pension liability	(3,708,829)
Deferred outflows of resources resulting from the net pension liability	11,064,748
Deferred inflows of resources resulting from the net OPEB liability	(1,897,043)
Deferred outflows of resources resulting from the net OPEB liability	1,913,722
Certain liabilities are not due and payable in the current period and are not reported in the funds	
Accrued interest	(130,246)
July and August contractual insurance benefits	(119,458)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities	
Net pension liability	(31,379,405)
Net OPEB liability	(8,438,319)
Compensated absences	(337,245)
Bonds payable	(24,225,022)
School bond loan payable	(4,914,822)
Accrued interest on school bond loan and revolving loan funds	<u>(185,600)</u>
Net position of governmental activities	<u>\$ (24,855,644)</u>

See Accompanying Notes to the Financial Statements

Flat Rock Community Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2019

	General Fund	Debt Fund	Capital Projects Fund	Nonmajor Governmental Fund	Total Governmental Funds
Revenues					
Local sources	\$ 1,912,076	\$ 3,047,367	\$ -	\$ 138,809	\$ 5,098,252
State sources	17,667,153	14,000	-	26,626	17,707,779
Federal sources	1,129,416	-	-	406,457	1,535,873
Interdistrict sources	1,559,857	-	-	-	1,559,857
	<u>22,268,502</u>	<u>3,061,367</u>	<u>-</u>	<u>571,892</u>	<u>25,901,761</u>
Total revenues					
Expenditures					
Current					
Education					
Instruction	10,356,573	-	-	-	10,356,573
Supporting services	8,325,203	-	-	-	8,325,203
Food services	-	-	-	547,792	547,792
Athletics	401,609	-	-	-	401,609
Community services	44,387	-	-	-	44,387
Intergovernmental payments	311,517	-	-	-	311,517
Capital outlay	486,281	-	41,297	-	527,578
Debt service					
Principal	-	3,820,000	-	-	3,820,000
Interest and other expenditures	3,578	906,359	-	-	909,937
	<u>19,929,148</u>	<u>4,726,359</u>	<u>41,297</u>	<u>547,792</u>	<u>25,244,596</u>
Total expenditures					
Excess (deficiency) of revenues over expenditures	<u>2,339,354</u>	<u>(1,664,992)</u>	<u>(41,297)</u>	<u>24,100</u>	<u>657,165</u>

See Accompanying Notes to the Financial Statements

Flat Rock Community Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2019

	General Fund	Debt Fund	Capital Projects Fund	Nonmajor Governmental Fund	Total Governmental Funds
Other Financing Sources (Uses)					
Proceeds from school bond loan and revolving loan funds	-	1,675,000	-	-	1,675,000
Transfers in	8,600	-	1,200,000	1,759	1,210,359
Transfers out	(1,201,759)	-	-	(8,600)	(1,210,359)
 Total other financing sources (uses)	<u>(1,193,159)</u>	<u>1,675,000</u>	<u>1,200,000</u>	<u>(6,841)</u>	<u>1,675,000</u>
 Net change in fund balance	1,146,195	10,008	1,158,703	17,259	2,332,165
 Fund balance - beginning	<u>5,163,440</u>	<u>108,472</u>	<u>1,133,967</u>	<u>207,537</u>	<u>6,613,416</u>
 Fund balance - ending	<u>\$ 6,309,635</u>	<u>\$ 118,480</u>	<u>\$ 2,292,670</u>	<u>\$ 224,796</u>	<u>\$ 8,945,581</u>

See Accompanying Notes to the Financial Statements

Flat Rock Community Schools
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2019

Net change in fund balances - Total governmental funds	\$ 2,332,165
Total change in net position reported for governmental activities in the statement of activities is different because:	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Enhancement millage	(63,978)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(1,367,490)
Capital outlay	282,440
Sale of capital assets (net book value)	(22,694)
Expenses are recorded when incurred in the statement of activities.	
Interest	(103,628)
Benefit claims	9,173
Compensated absences	1,218
The statement of net position reports the net pension liability and deferred outflows of resources and deferred inflows related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions.	
Net change in net pension liability	(5,130,285)
Net change in deferrals of resources related to the net pension liability	3,907,563
The statement of net position reports the net OPEB liability and deferred outflows of resources and deferred inflows related to the net OPEB liability and OPEB expense. However, the amount recorded on the governmental funds equals actual OPEB contributions.	
Net change in net OPEB liability	507,709
Net change in deferrals of resources related to the net OPEB liability	(296,930)
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	(1,675,000)
Repayments of long-term debt	3,820,000
Amortization of bond premium	301,880
Amortization of deferred amount on debt refunding	(65,342)
Amortization of bond discount	(6,299)
Change in net position of governmental activities	\$ 2,430,502

See Accompanying Notes to the Financial Statements

Flat Rock Community Schools
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2019

	<u>Private Purpose Trust Funds Scholarships</u>	<u>Agency Funds</u>
Assets		
Cash	\$ 141,338	\$ 268,069
Accounts receivable	2,185	-
Due from other funds	<u>1,811</u>	<u>-</u>
Total assets	<u>145,334</u>	<u>\$ 268,069</u>
Liabilities		
Accounts payable	1,500	\$ 510
Due to agency fund activities	<u>-</u>	<u>267,559</u>
Total liabilities	<u>1,500</u>	<u>\$ 268,069</u>
Net Position		
Assets held for scholarships and loans	<u>\$ 143,834</u>	

See Accompanying Notes to the Financial Statements

Flat Rock Community Schools
Fiduciary Funds
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2019

	<u>Private Purpose Trust Funds Scholarships</u>
Additions	
Local sources	\$ 23,224
Deductions	
Scholarships	<u>25,295</u>
Change in net position	(2,071)
Net position - beginning	<u>145,905</u>
Net position - ending	<u><u>\$ 143,834</u></u>

See Accompanying Notes to the Financial Statements

Flat Rock Community Schools
Notes to the Financial Statements
June 30, 2019

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Flat Rock Community Schools (the School District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the School District's significant accounting policies:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. 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 District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

District-wide Financial Statements

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

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 School District'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 School District's functions. The functions are also supported by

general government revenues (property taxes and 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 School District does not allocate indirect costs. In creating the district-wide financial statements the School District has eliminated interfund transactions.

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

Fund Financial Statements

Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the district-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 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 School District 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.

Flat Rock Community Schools
Notes to the Financial Statements
June 30, 2019

Property taxes, 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.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

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

Debt Service Fund – The Debt Service Fund is used to account for all financial resources used in paying expenditures for principal and interest.

Capital Projects Fund – The Capital Projects Fund is used to record transfers from the General Fund and expenditures for building improvements, maintenance and repairs.

Additionally, the School District reports the following fund types:

Special Revenue Fund – Special Revenue Fund is used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District’s Special Revenue Fund is the Food Service Fund. An operating deficit generated by this activity is generally covered by a transfer from the General Fund.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Trust Funds are funds entrusted to the School District for scholarship awards. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of

results of operations. This fund is used to record the transactions of student groups for school and school-related purposes.

Assets, Liabilities and Net Position or Equity

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2019, the rates are as follows per \$1,000 of assessed value.

General Fund	
Non-principal residence exemption	18.00000
Commercial personal property	6.00000
Debt Service Funds	11.22000

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District’s boundaries. The School District’s tax roll lies within Wayne and Monroe counties.

Properties are assessed as of December 31, and the related property taxes are levied and become a lien on July 1 and December 1 for taxes that are due August and February, respectively. Real property taxes uncollected as of March 1 are purchased by Wayne and Monroe counties and remitted to the School District by June 30.

Flat Rock Community Schools
Notes to the Financial Statements
June 30, 2019

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed, rather than when purchased.

Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the School District follows the consumption method, and they therefore are capitalized as prepaid items in both district-wide and fund financial statements.

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

Buildings and additions	20 - 50 years
Equipment and furniture	3 - 10 years
Buses and other vehicles	5 - 10 years

Deferred Outflows of Resources – A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. Deferred amounts on bond refundings are included in the district-wide financial statements. The amounts represent the difference between the reacquisition price and the net carrying amount of the prior debt. For district-wide financial statements, the School District reports deferred outflows of resources as a result of pension and OPEB plan earnings. This amount is the result of a difference between what the plan expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension and OPEB expense. Changes in assumptions relating to the net pension and OPEB liabilities are deferred and amortized over the expected remaining services lives of the employees and retirees in the plans.

The School District also reported deferred outflows of resources for pension and OPEB contributions made after the measurement date. This amount will reduce the net pension and OPEB liabilities in the following year.

Compensated Absences – Amounts of vested or accumulated vacation leave are accrued in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as “termination leave” prior to retirement.

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period.

In the School District’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.

Pension – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are

Flat Rock Community Schools
Notes to the Financial Statements
June 30, 2019

recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Postemployment Benefits Other Than Pensions – For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period. For district-wide financial statements, the School District reports deferred inflows of resources as a result of pension and OPEB plan earnings. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension and OPEB expense. Changes in assumptions relating to the net pension and OPEB liabilities are deferred and amortized over the expected remaining service lives of the employees and retirees in the plans. Deferred inflows of resources also includes revenue received relating to the amounts included in the deferred outflows for payments related to MPERS Unfunded Actuarial Accrued Liabilities (UAAL) Stabilization defined benefit pension statutorily required contributions.

Fund Balance – 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 Education. The Board of Education 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 School District'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 School District'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

Flat Rock Community Schools
Notes to the Financial Statements
June 30, 2019

requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as well as deferred inflows and deferred outflows of resources at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Eliminations and Reclassifications

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

Adoption of New Accounting Standards

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

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

and direct placements of debt separately from other debt. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Upcoming Accounting and Reporting Changes

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

Statement No. 87, *Leases* increases the usefulness of the School 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 School District’s leasing activities. The requirements of this Statement are effective for the fiscal year ending June 30, 2021.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* enhances the relevance and comparability of information about capital assets and the cost of

Flat Rock Community Schools
Notes to the Financial Statements
June 30, 2019

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

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

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

The School District 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 School District 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 School District to detect violations.

The Superintendent is authorized to transfer budgeted amounts up to \$50,000 without Board approval 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.

Excess of Expenditures over Appropriations

The School District did not have significant expenditure budget variances.

Flat Rock Community Schools
Notes to the Financial Statements
June 30, 2019

Note 3 - Deposits

The School District's deposits were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash	<u>\$ 6,889,339</u>	<u>\$ 409,407</u>	<u>\$ 7,298,746</u>

The breakdown between deposits for the School District is as follows:

Deposits (checking, savings accounts, money markets, certificates of deposit)	\$ 7,298,646
Petty cash and cash on hand	<u>100</u>
Total	<u>\$ 7,298,746</u>

Interest rate risk – The School District does 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 School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District has an investment policy that would further limit its investment choices.

Concentration of credit risk – The School District 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 School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of year-end, \$7,019,138 of the School District's bank balance of \$7,519,138 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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 School District's investments were exposed to custodial credit risk.

Flat Rock Community Schools
Notes to the Financial Statements
June 30, 2019

Note 4 - Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 37,230	\$ -	\$ -	\$ 37,230
Capital assets being depreciated				
Buildings and additions	48,432,204	15,900	8,000	48,440,104
Site improvements	208,288	-	-	208,288
Equipment and furniture	9,972,152	40,654	30,699	9,982,107
Buses and other vehicles	1,423,319	225,886	267,937	1,381,268
Total capital assets being depreciated	60,035,963	282,440	306,636	60,011,767
Less accumulated depreciation for				
Buildings and additions	19,919,180	1,177,430	3,000	21,093,610
Site improvements	197,637	735	-	198,372
Equipment and furniture	9,516,525	92,768	30,649	9,578,644
Buses and other vehicles	982,513	96,557	250,293	828,777
Total accumulated depreciation	30,615,855	1,367,490	283,942	31,699,403
Net capital assets being depreciated	29,420,108	(1,085,050)	22,694	28,312,364
Net capital assets	\$ 29,457,338	\$ (1,085,050)	\$ 22,694	\$ 28,349,594

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

Governmental activities	
Instruction	\$ 719,802
Supporting services	578,618
Food services	38,073
Athletics	27,913
Community services	3,084
Total governmental activities	\$ 1,367,490

Note 5 - Interfund Receivables, Payables, and Transfers

Individual interfund receivable and payable balances at year end were:

Payable Fund	Receivable Fund	Amount
General fund	Capital projects fund	\$ 2,292,670
General fund	Debt fund	4,177
Nonmajor fund	General fund	76,586
General fund	Trust fund	1,811

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

Interfund transfers consist of the following:

	Transfers Out		
	General Fund	Nonmajor Governmental Funds	Total
Transfers in			
General fund	\$ -	\$ 8,600	\$ 8,600
Capital projects fund	1,200,000	-	1,200,000
Nonmajor governmental funds	1,759	-	1,759
	<u>\$ 1,201,759</u>	<u>\$ 8,600</u>	<u>\$ 1,210,359</u>

These transfers were made to cover indirect costs and the costs of School District programs that were in excess of revenues generated from those activities and to fund future capital project expenditures.

Flat Rock Community Schools
Notes to the Financial Statements
June 30, 2019

Note 6 - Unearned Revenue

Governmental funds report unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the components of unearned revenue are as follows:

	Unearned
Deposits	\$ 14,225
Grant and categorical aid payments received prior to meeting all eligibility requirements	119,116
Total	\$ 133,341

Note 7 - State Aid Anticipation Note

The School District issues state aid anticipation notes in advance of state aid collections, depositing the proceeds in the General Fund. These notes are necessary because the School District receives state aid from October through the following August for its fiscal year ending June 30th. The School District is required to pledge 100% of their state school aid, October through August, or until the note is repaid, whichever is longer. The State has discretion to accelerate repayment terms if they have cause for concern. If the note is in default status, there is a penalty interest rate that may apply.

Short-term debt activity for the year was as follows:

	Beginning Balance	Proceeds	Repayments	Ending Balance
State aid anticipation note	\$ 1,785,723	\$ -	\$ 1,785,723	\$ -

Note 8 - Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. The State can withhold state aid if it has to make a bond payment on behalf of the School District related to qualified bonds. For the School Bond Loan Fund or School Loan Revolving Fund, the State may withhold state aid if the School District is in default, or apply late charges in an instance of default or fails to appropriately levy debt mills. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Bonds and notes payable					
General obligation and energy bonds	\$ 27,10,000	\$ -	\$ 3,820,000	\$ 23,290,000	\$ 3,925,000
Premium on bonds	1,256,826	-	301,880	954,946	-
Discount on bonds	(26,223)	-	(6,299)	(19,924)	-
Total bonds payable	28,340,603	-	4,115,581	24,225,022	3,925,000
Notes from direct borrowings and direct placements					
School Bond Loan	3,239,822	1,675,000	-	4,914,822	-
Accrued interest - SBLF and SLRF	64,926	120,674	-	185,600	-
Total notes from direct borrowings and direct placements	3,304,748	1,795,674	-	5,100,422	-
Other liabilities					
Compensated absences	338,463	39,872	41,090	337,245	33,725
Total	\$ 31,983,814	\$ 1,835,546	\$ 4,156,671	\$ 29,662,689	\$ 3,958,725

For governmental activities, compensated absences are primarily liquidated by the General Fund.

Flat Rock Community Schools
Notes to the Financial Statements
June 30, 2019

General obligation bonds and energy bond payable at year end, consist of the following:

\$10,520,000 2013 Refunding Bonds for the advance refunding of a portion of the 2003 Refunding School Building and Site Bonds; due in annual installments of \$755,000 to \$975,000 through May 1, 2025; interest at 2.00% to 3.00%	\$ 4,870,000
\$10,020,000 2016 Refunding Bonds, Series A for the advance refunding of a portion of the 2008 School Building and Site Bonds; due in annual installments of \$1,205,000 to \$1,695,000 through May 1, 2025; interest at 4.00% to 5.00%	8,815,000
\$14,445,000 2016 Refunding Bonds, Series B for the current refunding of a portion of the School Bond Loan; due in annual installments of \$1,540,000 to \$2,065,000 through May 1, 2024; interest at 1.16% to 2.86%	<u>9,605,000</u>
Total general obligation bonded debt	<u>\$ 23,290,000</u>

Future principal and interest requirements for bonded debt are as follows:

Year Ending June 30,	Bonds	
	Principal	Interest
2020	\$ 3,925,000	\$ 798,844
2021	4,025,000	694,572
2022	4,155,000	568,304
2023	4,290,000	414,724
2024	4,445,000	273,878
2025	<u>2,450,000</u>	<u>123,399</u>
Total	<u>\$ 23,290,000</u>	<u>\$ 2,873,721</u>

The 2013 and 2016 general obligation bonds are payable from the Debt Service Fund. As of year end, the fund had a balance of

\$118,480 to pay this debt. Future debt and interest will be payable from future tax levies.

Deferred Amount on Refunding

The advance refunding related to the 2016 refunding bond resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$474,855. This amount, less accumulated amortization, is reported in the accompanying statement of net position as a deferred outflow of resources and is being charged to activities through fiscal year May 1, 2025. The balance at June 30, 2019 is \$206,700.

State School Bond Loan and School Revolving Loan Funds

The State School Bond Loan consists of a borrowing agreement with the State of Michigan for the purpose of meeting the financing of current debt maturities on the School District's various bonds. The bond election, as passed by the voters, specified that the School District debt millage would not exceed the pre-bond vote millage, but instead the election permitted the School District to extend this levy. Since the monies generated by the millage are presently not sufficient to cover the entire debt service requirements of the School District, it has been necessary for the School District to borrow additional funds to meet debt service requirements. The School District has agreed to repay the loan amount with interest at rates and at times to be determined by the State Treasurer. Changes to the school bond loan for the year ended June 30, 2019, are as follows:

	Principal	Interest	Total
Beginning balance	\$ 3,239,822	\$ 64,926	\$ 3,304,748
Additions	<u>1,675,000</u>	<u>120,674</u>	<u>1,795,674</u>
Ending balance	<u>\$ 4,914,822</u>	<u>\$ 185,600</u>	<u>\$ 5,100,422</u>

Flat Rock Community Schools
Notes to the Financial Statements
June 30, 2019

Compensated Absences

Accrued compensated absences at year end, consist of \$337,245 of accrued sick bank hours, additional retirement incentives and severance pay. \$33,725 is expected to be used within the next year.

Note 9 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) and certain medical benefits provided to employees. The School District has purchased commercial insurance for general liability, property and casualty and health and vision claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

The School District is self-insured for health, dental and vision benefits paid on behalf of its employees. Payments are made to the insurance administrators monthly based on actual claims and administration fees. The health plan provides a stop-loss provision of \$75,000 per employee and 120% aggregate. For governmental activities, the liability for health benefits is primarily liquidated by the General Fund.

Change in estimated liabilities for claims for health, vision and dental benefits for the year is as follows:

	2019	2018
Estimated liability at the beginning of the year	\$ 101,862	\$ 197,096
Estimated claims incurred including changes in estimates	1,210,088	1,283,425
Claim payments	(1,308,501)	(1,378,659)
Estimated liability end of year	\$ 3,449	\$ 101,862

The School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the School District must reimburse the Employment Commission for all benefits charged against the School

District. The School District had \$0 of unemployment compensation expense for the year. No provision has been made for possible future claims.

Note 10 - Pension Plan

Plan Description

The Michigan Public School Employees' Retirement System (System or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

Flat Rock Community Schools
Notes to the Financial Statements
June 30, 2019

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

A DB plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Contributions

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2017 valuation will be amortized over a 20-year period for the 2017 fiscal year.

The schedule below summarizes pension contribution rates in effect for fiscal year ended September 30, 2018.

Pension Contribution Rates		
Benefit Structure	Member	Employer
Basic	0.0 - 4.0%	17.89%
Member Investment Plan	3.0 - 7.0%	17.89%
Pension Plus	3.0 - 6.4%	16.61%
Pension Plus 2	6.2%	19.74%
Defined Contribution	0.0%	13.54%

Required contributions to the pension plan from the School District were \$2,842,371 for the year ending September 30, 2018.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019, the School District reported a liability of \$31,379,405 for its proportionate share of the MPERS net pension liability. The net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2017. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2018, the School District's proportion was 0.1044 percent, which was an increase of 0.0031 percent from its proportion measured as of September 30, 2017. At September 30, 2018, the total pension expense for the School District was \$4,084,087. For the year ending June 30, 2019, the School District made pension plan contributions of \$2,774,272.

Flat Rock Community Schools
Notes to the Financial Statements
June 30, 2019

At June 30, 2019, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Total
Difference between expected and actual experience	\$ 145,606	\$ (228,029)	\$ (82,423)
Changes of assumptions	7,267,444	-	7,267,444
Net difference between projected and actual earnings on pension plan investments	-	(2,145,554)	(2,145,554)
Changes in proportion and differences between the School District contributions and proportionate share of contributions	<u>1,038,821</u>	<u>(165,167)</u>	<u>873,654</u>
Total to be recognized in future School District contributions subsequent to the measurement date	<u>2,612,877</u>	<u>(1,170,079)</u>	<u>1,442,798</u>
Total	<u>\$11,064,748</u>	<u>\$(3,708,829)</u>	<u>\$ 7,355,919</u>

Contributions subsequent to the measurement date reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred (Inflow) and Deferred Outflow of Resources by Year (To Be Recognized in Future Pension Expenses)	
Year	Amount
2019	\$ 2,251,217
2020	1,847,313
2021	1,304,680
2022	<u>509,911</u>
	<u>\$ 5,913,121</u>

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

- Valuation Date: September 30, 2017
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 2.75%
- Investment Rate of Return:

Flat Rock Community Schools
Notes to the Financial Statements
June 30, 2019

- MIP and Basic Plans: 7.05%
- Pension Plus Plan: 7.00%
- Pension Plus 2 Plan: 6.00%
- Projected Salary Increases: 2.75 – 11.55%, including wage inflation at 2.75%
- Cost-of-Living Pension Adjustments: 3% Annual Non-Compounded for MIP Members
- Mortality:
 - Retirees: RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
 - Active Members: Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2017 valuation. The total pension liability as of September 30, 2018, is based on the results of an actuarial valuation date of September 30, 2017, and rolled forward using generally accepted actuarial procedures, including the experience study.

Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.5304

Recognition period for assets in years is 5.0000

Full actuarial assumptions are available in the 2018 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2018, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.7 %
Alternative Investment Pools	18.0	9.2
International Equity	16.0	7.2
Fixed Income Pools	10.5	5.0
Real Estate and Infrastructure Pools	10.0	3.9
Absolute Return Pools	15.5	5.2
Short Term Investment Pools	2.0	0.0
	<u>100.0%</u>	

**Long-term rates of return are net of administrative expenses and 2.3% inflation.*

Rate of Return

For the fiscal year ended September 30, 2018, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 11.11%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Flat Rock Community Schools
Notes to the Financial Statements
June 30, 2019

Discount Rate

A discount rate of 7.05% was used to measure the total pension liability (7.0% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 7.05% (7.0% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 7.05% (7.0% for the Hybrid Plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

1% Decrease*	Current Single Discount Rate Assumption*	1% Increase*
6.05% / 6.0% / 5.0%	7.05% / 7.0% / 6.0%	8.05% / 8.0% / 7.0%
<u>\$ 41,198,735</u>	<u>\$ 31,379,405</u>	<u>\$ 23,221,138</u>

*Discount rates listed in the following order: Basic and Member Investment Plan (MIP), Pension Plus, and Pension Plus 2.

Michigan Public School Employees' Retirement System (MPERS) Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

Payables to the Michigan Public School Employees' Retirement System (MPERS)

There were no significant payables to the pension plan that are not ordinary accruals to the School District.

Note 11 - Postemployment Benefits Other Than Pensions (OPEB)

Plan Description

The Michigan Public School Employees' Retirement System (System or MPERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System's health plan provides all eligible retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

Flat Rock Community Schools
Notes to the Financial Statements
June 30, 2019

The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

Benefits Provided

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree healthcare recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP Graded plan members) the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008 (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012 or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

Contributions

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer OPEB contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2017 valuation will be amortized over a 20-year period for the 2017 fiscal year.

Flat Rock Community Schools
Notes to the Financial Statements
June 30, 2019

The schedule below summarizes OPEB contribution rates in effect for fiscal year 2018.

OPEB Contribution Rates		
Benefit Structure	Member	Employer
Premium Subsidy	3.0%	6.44%
Personal Healthcare Fund (PHF)	0.0%	6.13%

Required contributions to the OPEB plan from the School District were \$689,057 for the year ended September 30, 2018.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2019, the School District reported a liability of \$8,438,319 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2017. The School District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2018, the School District's proportion was 0.1062 percent, which was an increase of 0.0051 percent from its proportion measured as of September 30, 2017. At September 30, 2018, the total OPEB expense for the School District was \$495,355. For the year ending June 30, 2019, the School District made OPEB plan contributions of \$705,065.

At June 30, 2019, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Total
Difference between expected and actual experience	\$ -	\$(1,570,588)	\$(1,570,588)
Changes of assumptions	893,622	-	893,622
Net difference between projected and actual earnings on OPEB plan investments	-	(324,305)	(324,305)
Changes in proportion and differences between the School District contributions and proportionate share of contributions	<u>386,132</u>	<u>(2,150)</u>	<u>383,982</u>
Total to be recognized in future School District contributions subsequent to the measurement date	1,279,754	(1,897,043)	(617,289)
	<u>633,968</u>	<u>-</u>	<u>633,968</u>
Total	<u>\$1,913,722</u>	<u>\$(1,897,043)</u>	<u>\$ 16,679</u>

Flat Rock Community Schools
Notes to the Financial Statements
June 30, 2019

Contributions subsequent to the measurement date reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Deferred (Inflow) and Deferred Outflow of Resources by Year (To Be Recognized in Future OPEB Expenses)		
2019	\$	(163,827)
2020		(163,827)
2021		(163,827)
2022		(97,648)
2023		(28,160)
	<u>\$</u>	<u>(617,289)</u>

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

- Valuation Date: September 30, 2017
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 2.75%
- Investment Rate of Return: 7.15%

- Projected Salary Increases: 2.75 – 11.55%, including wage inflation of 2.75%
- Healthcare Cost Trend Rate: 7.5% Year 1 graded to 3.0% Year 12
- Mortality:
 - Retirees: RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
 - Active Members: Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Other Assumptions:

- Opt Out Assumptions: 21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan
- Survivor Coverage: 80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death
- Coverage Election at Retirement: 75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2017 valuation. The total OPEB liability as of September 30, 2018, is based on the results of an actuarial valuation date of September 30, 2017, and rolled forward using generally accepted actuarial procedures, including the experience study.

Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 5.6018

Flat Rock Community Schools
Notes to the Financial Statements
June 30, 2019

Recognition period for assets in years is 5.0000

Full actuarial assumptions are available in the 2018 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2018, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.7 %
Alternative Investment Pools	18.0	9.2
International Equity	16.0	7.2
Fixed Income Pools	10.5	0.5
Real Estate and Infrastructure Pools	10.0	3.9
Absolute Return Pools	15.5	5.0
Short Term Investment Pools	2.0	0.0
	<u>100.0%</u>	

*Long-term rates of return are net of administrative expenses and 2.3% inflation.

Rate of Return

For the fiscal year ended September 30, 2018, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 10.75%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 7.15% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 7.15%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the School District's proportionate share of the net OPEB liability calculated using the discount rate of 7.15%, as well as what the School District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

1% Decrease 6.15%	Current Discount Rate 7.15%	1% Increase 8.15%
<u>\$ 10,130,031</u>	<u>\$ 8,438,319</u>	<u>\$ 7,015,383</u>

Flat Rock Community Schools
Notes to the Financial Statements
June 30, 2019

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate

The following presents the School District's proportionate share of the net OPEB liability calculated using assumed trend rates, as well as what the School District's proportionate share of net OPEB liability would be if it were calculated using a trend rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
\$ 6,940,425	\$ 8,438,319	\$ 10,156,710

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2018 MPSERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

Payables to the OPEB Plan

There were no significant payables to the OPEB plan that are not ordinary accruals to the School District.

Note 12 - 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 School District expects such amounts, if any, to be immaterial. A separate report on federal compliance has been issued for the year June 30, 2019.

Note 13 - Tax Abatements

The School District receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions and Brownfield Redevelopment Agreements granted by the City of Flat Rock. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities; Brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties

For the fiscal year ended June 30, 2019, the School District's property tax revenues were reduced by \$12,419 under these programs.

REQUIRED SUPPLEMENTARY INFORMATION

Flat Rock Community Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Local sources	\$ 1,872,417	\$ 1,888,267	\$ 1,912,076	\$ 23,809
State sources	16,708,629	17,620,218	17,667,153	46,935
Federal sources	1,000,856	1,124,749	1,129,416	4,667
Interdistrict sources	905,700	1,497,503	1,559,857	62,354
	<u>20,487,602</u>	<u>22,130,737</u>	<u>22,268,502</u>	<u>137,765</u>
Total revenues				
Expenditures				
Instruction				
Basic programs	8,683,289	8,728,198	8,386,771	(341,427)
Added needs	1,904,317	2,011,746	1,969,802	(41,944)
Supporting services				
Pupil	1,552,591	1,628,924	1,599,641	(29,283)
Instructional staff	1,282,020	1,253,500	1,219,294	(34,206)
General administration	427,791	395,511	384,769	(10,742)
School administration	1,166,477	1,163,725	1,135,445	(28,280)
Business	386,051	389,414	372,340	(17,074)
Operations and maintenance	1,719,820	2,457,792	2,370,603	(87,189)
Pupil transportation services	825,286	825,678	767,071	(58,607)
Central	495,370	483,742	476,040	(7,702)
Athletics	386,000	412,000	401,609	(10,391)
Community services	49,128	47,649	44,387	(3,262)
Intergovernmental payments	511,517	311,517	311,517	-
Capital outlay	483,080	486,766	486,281	(485)
Debt service				
Interest and other expenditures	10,000	3,578	3,578	-
	<u>19,882,737</u>	<u>20,599,740</u>	<u>19,929,148</u>	<u>(670,592)</u>
Total expenditures				
Excess of revenues over expenditures	<u>604,865</u>	<u>1,530,997</u>	<u>2,339,354</u>	<u>808,357</u>

Flat Rock Community Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources (Uses)				
Transfers in	12,000	10,000	8,600	(1,400)
Transfers out	<u>(551,000)</u>	<u>(1,201,775)</u>	<u>(1,201,759)</u>	<u>16</u>
Total other financing sources (uses)	<u>(539,000)</u>	<u>(1,191,775)</u>	<u>(1,193,159)</u>	<u>(1,384)</u>
Net change in fund balance	65,865	339,222	1,146,195	806,973
Fund balance - beginning	<u>5,163,440</u>	<u>5,163,440</u>	<u>5,163,440</u>	<u>-</u>
Fund balance - ending	<u>\$ 5,229,305</u>	<u>\$ 5,502,662</u>	<u>\$ 6,309,635</u>	<u>\$ 806,973</u>

Flat Rock Community Schools
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years (Measurement Date September 30th, of Each Fiscal Year)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
A. Reporting unit's proportion of net pension liability (%)	0.10440%	0.10130%	0.09788%	0.09812%	0.10137%					
B. Reporting unit's proportionate share of net pension liability	\$ 31,379,405	\$ 26,249,120	\$ 24,419,161	\$ 23,966,862	\$ 22,328,383					
C. Reporting unit's covered-employee payroll	\$ 9,016,583	\$ 8,616,880	\$ 8,230,997	\$ 8,184,273	\$ 8,821,072					
D. Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	348%	305%	297%	293%	253%					
E. Plan fiduciary net position as a percentage of total pension liability	62.36%	64.21%	63.27%	63.17%	66.20%					

Note Disclosures

Changes of benefit terms: There were no changes of benefit terms in plan fiscal year 2018.

Changes of benefit assumptions: There were no changes of benefit assumptions in plan fiscal year 2018.

Flat Rock Community Schools
Required Supplementary Information
Schedule of the School District's Pension Contributions
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years

	For the Years Ended June 30,									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
A. Statutorily required contributions	\$ 2,774,272	\$ 2,677,044	\$ 2,197,947	\$ 1,892,943	\$ 1,574,345					
B. Contributions in relation to statutorily required contributions	<u>2,774,272</u>	<u>2,677,044</u>	<u>2,197,947</u>	<u>1,892,943</u>	<u>1,574,345</u>					
C. Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>					
D. Reporting unit's covered-employee payroll	\$ 9,003,323	\$ 8,976,480	\$ 8,510,084	\$ 7,968,178	\$ 8,506,430					
E. Contributions as a percentage of covered-employee payroll	30.81%	29.82%	25.83%	23.76%	18.51%					

Flat Rock Community Schools
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net OPEB Liability
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years (Measurement Date September 30th, of Each Fiscal Year)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
A. Reporting unit's proportion of the net OPEB liability (%)	0.1062%	0.1010%								
B. Reporting unit's proportionate share of the net OPEB liability	\$ 8,438,319	\$ 8,946,028								
C. Reporting unit's covered-employee payroll	\$ 9,016,583	\$ 8,616,880								
D. Reporting unit's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	94%	104%								
E. Plan fiduciary net position as a percentage of total OPEB liability	42.95%	36.39%								

Note Disclosures

Changes of benefit terms: There were no changes of benefit terms in plan fiscal year 2018.

Changes of benefit assumptions: There were no changes of benefit assumptions in plan fiscal year 2018.

Flat Rock Community Schools
Required Supplementary Information
Schedule of the School District's OPEB Contributions
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years

	For the Years Ended June 30,									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
A. Statutorily required contributions	\$ 705,065	\$ 677,414								
B. Contributions in relation to statutorily required contributions	<u>705,065</u>	<u>677,414</u>								
C. Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>								
D. Reporting unit's covered-employee payroll	\$ 9,003,323	8,976,480								
E. Contributions as a percentage of covered-employee payroll	7.83%	7.55%								