Flat Rock Community Schools

Financial Statements

June 30, 2018

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Flat Rock Community Schools

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Independent Auditors' Report

Management and the Board of Education
Flat Rock Community Schools

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, 2018, 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, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, during the year ended June 30, 2018, the School District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Our opinions are not modified with respect to this matter.

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 19, 2018 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 19, 2018

MANAGEMENT’S DISCUSSION AND ANALYSIS

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, 2018. 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 Food Service Funds. The District's proprietary fund is reported separately from the governmental 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.

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.

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, 2018 and 2017:

Table 1

	Governmental Activities	
	June 30	
	2018	2017
Assets		
Current and other assets	$ 10,634,468	$ 9,217,560
Capital assets, net	29,457,338	30,589,592
Total assets	40,091,806	39,807,152
Deferred outflows of resources	7,109,817	3,634,320
Liabilities		
Current liabilities	8,052,997	8,185,723
Long-term liabilities	63,358,962	54,987,517
Total liabilities	71,411,959	63,173,240
Deferred inflows of resources	3,075,810	1,313,340
Net Position (Deficit)		
Net investment in capital assets	(1,915,971)	(3,042,198)
Restricted	-	-
Unrestricted	(25,370,175)	(18,002,910)
Total net position (deficit)	$ (27,286,146)	$ (21,045,108)

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 $27,286,146 at June 30, 2018. Net investment in capital assets, totaling ($1,915,971), 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, if any, 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 $25,370,175.

The $25,370,175 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 2018 and 2017.

Table 2

	Governmental Activities June 30 2018	Governmental Activities June 30 2017
Revenue		
Program revenue		
Charges for services	$ 424,330	$ 408,303
Operating grants and contributions	3,747,483	3,449,636
General revenue		
Property taxes	4,479,733	4,337,665
State aid	15,172,375	14,338,164
Other	808,262	767,562
Total revenue	24,632,183	23,301,330
Function/Program Expenses		
Instruction	11,557,912	10,545,995
Supporting services	7,607,105	6,734,736
Food services	492,830	518,490
Athletics	407,179	382,646
Community services	48,987	48,773
Interest on long-term debt	767,649	766,264
Unallocated depreciation	1,400,527	1,429,625
Total expenses	22,282,189	20,426,529
Change in net position	$ 2,349,994	$ 2,874,801

As reported in the statement of activities, the cost of all of our governmental activities this year was $22,282,189. Certain activities were partially funded from those who benefited from the programs ($424,330) or by other governments or organizations that subsidized certain programs with grants and contributions ($3,747,483). The District paid for the remaining "public benefit" portion of our governmental activities with $4,479,733 in taxes, $15,172,375 in state foundation allowance and $808,262 with our other revenue, i.e., interest, general entitlements and the Wayne County enhancement millage.

The District experienced an increase in net position for the year ending June 30, 2018, of $2,349,994. 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 $6,613,416, which is an increase of $1,537,542 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 $5,012,574, which is an increase of $854,028 from the prior year. The unassigned fund balance represents approximately 24.8% 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 $9,835. 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 2017-18 and the debt fund balance, the District levied the same debt millage, of 11.22 mills, as in 2016-17.

As of June 30, 2018, the fund balance of the Food Service Fund was $207,537, an increase of $72,596 from the prior year. The fund balance is restricted to provide food service related activities.

As of June 30, 2018, the fund balance of the Capital Projects Fund was $1,133,967, an increase of $533,967 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.

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, 2018, the budget was amended in January, 2018 and June, 2018. The June, 2018 budget amendment was the final amendment for the fiscal year.

Revenue:		
Total Revenue - Original Budget	$ 19,520,407	
Total Revenue - Final Budget	20,877,899	
Increase in Budgeted Revenue	$ 1,357,492	7.0%

The District's actual General Fund revenues were higher than the final budget by $261,855, a variance of 1.2% from the final budget.

Expenditures:		
Total Expenditures - Original Budget	$ 19,392,557	
Total Expenditures - Final Budget	20,798,710	
Increase in Budgeted Expenditures	$ 1,406,153	7.3%

The District's actual General Fund expenditures were less than the final budget by $580,100, a variance of 2.9% 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, 2018 and 2017, the District had $29,457,338 and $30,589,592, 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 $1,132,254, or 3.84%, from last year. This decrease was primarily due to normal depreciation of the assets. Current year capital asset additions included two new buses, auditorium stage curtains and technology infrastructure upgrades throughout the District. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At June 30, 2018, the District had $27,110,000 in general obligation bonds outstanding versus $30,895,000 in the previous year – a net decrease of $3,785,000, due to principal payments related to the outstanding bond issues.

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 $27,110,000 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 2018-19 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 2018-19 fiscal year will be 90% of the October 2018 student count and 10% of the February 2018 student count. The 2018-19 General Fund budget was adopted in June 2018, based on an estimate of 1,975 students, which is was an assumed slight decrease of 18 students from the final blended count in 2017-18. 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 2018-19 school year, we anticipate that the fall student count will be slightly higher than the conservative estimate used in creating the 2018-19 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, 2018

	Governmental Activities
Assets	
Cash	$ 6,220,581
Taxes receivable	112,795
Accounts receivable	3,704,066
Due from fiduciary funds	442,492
Inventory	3,668
Prepaid items	150,866
Capital assets not being depreciated	37,230
Capital assets - net of accumulated depreciation	29,420,108
Total assets	40,091,806
Deferred Outflows of Resources	
Deferred amount relating to the net pension liability	6,221,725
Deferred amount relating to the net OPEB liability	616,050
Deferred amount on debt refunding	272,042
Total deferred outflows of resources	7,109,817
Total assets and deferred outflows of resources	47,201,623

See Accompanying Notes to the Financial Statements

Flat Rock Community Schools
Statement of Net Position
June 30, 2018

	Governmental Activities
Liabilities	
Accounts payable	283,047
State aid anticipation note payable	1,785,723
Payroll deductions and withholdings	353,515
Accrued expenditures	401,613
Accrued salaries payable	1,340,772
Unearned revenue	68,327
Long-term liabilities	
Net pension liability	26,249,120
Net OPEB liability	8,946,028
Due within one year	3,820,000
Due in more than one year	28,163,814
Total liabilities	71,411,959
Deferred Inflows of Resources	
Deferred amount on net pension liability	2,773,369
Deferred amount on net OPEB liability	302,441
Total deferred inflows of resources	3,075,810
Total liabilities and deferred inflows of resources	74,487,769
Net Position (Deficit)	
Net investment in capital assets	(1,915,971)
Unrestricted (deficit)	(25,370,175)
Total net position (deficit)	$ (27,286,146)

See Accompanying Notes to the Financial Statements

Flat Rock Community Schools
Statement of Activities
For the Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental activities				
Instruction	$ 11,557,912	$ 200,371	$ 3,317,114	$ (8,040,427)
Supporting services	7,607,105	-	23,363	(7,583,742)
Food services	492,830	141,359	407,006	55,535
Athletics	407,179	82,600	-	(324,579)
Community services	48,987	-	-	(48,987)
Interest on long-term debt	767,649	-	-	(767,649)
Unallocated depreciation	1,400,527	-	-	(1,400,527)
Total governmental activities	$ 22,282,189	$ 424,330	$ 3,747,483	(18,110,376)
General revenues				
Property taxes - levied for general purposes				1,570,212
Property taxes - levied for debt service				2,909,521
State aid - unrestricted				15,172,375
Interest and investment earnings				34,964
Other				773,298
Total general revenues				20,460,370
Change in net position				2,349,994
Net position - beginning, as restated				(29,636,140)
Net position - ending				$ (27,286,146)

See Accompanying Notes to the Financial Statements

Flat Rock Community Schools
Governmental Funds
Balance Sheet
June 30, 2018

	General Fund	Debt Fund	Capital Projects Fund	Nonmajor Governmental Fund	Total Governmental Funds
Assets					
Cash	$ 5,980,389	$ 40,328	$ -	$ 199,864	$ 6,220,581
Taxes receivable	45,174	67,621	-	-	112,795
Accounts receivable	3,686,259	-	-	17,807	3,704,066
Due from other funds	1,829	523	1,144,158	-	1,146,510
Inventory	-	-	-	3,668	3,668
Prepaid items	150,866	-	-	-	150,866
Total assets	$ 9,864,517	$ 108,472	$ 1,144,158	$ 221,339	$ 11,338,486
Liabilities					
Accounts payable	$ 272,516	$ -	$ 10,191	$ 340	$ 283,047
State aid anticipation note payable	1,785,723	-	-	-	1,785,723
Due to other funds	702,189	-	-	1,829	704,018
Payroll deductions and withholdings	353,515	-	-	-	353,515
Accrued expenditures	125,690	-	-	-	125,690
Accrued salaries payable	1,340,772	-	-	-	1,340,772
Unearned revenue	56,694	-	-	11,633	68,327
Total liabilities	4,637,099	-	10,191	13,802	4,661,092

Flat Rock Community Schools
Governmental Funds
Balance Sheet
June 30, 2018

	General Fund	Debt Fund	Capital Projects Fund	Nonmajor Governmental Fund	Total Governmental Funds
Deferred Inflows of Resources					
Unavailable revenue					
Enhancement millage	63,978	-	-	-	63,978
Fund Balance					
Non-spendable					
Inventory	-	-	-	3,668	3,668
Prepaid items	150,866	-	-	-	150,866
Restricted for					
Food service	-	-	-	203,869	203,869
Debt service	-	108,472	-	-	108,472
Assigned					
Capital projects	-	-	1,133,967	-	1,133,967
Unassigned	5,012,574	-	-	-	5,012,574
Total fund balance	5,163,440	108,472	1,133,967	207,537	6,613,416
Total liabilities and fund balance	$ 9,864,517	$ 108,472	$ 1,144,158	$ 221,339	$ 11,338,486

Flat Rock Community Schools
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2018

Total fund balances for governmental funds	$ 6,613,416
Total net position for governmental activities in the statement of net position is different because:	
Certain receivables are not available to pay for current period expenditures and, therefore, are unavailable in the funds	
Unavailable revenue	63,978
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	29,420,108
Deferred outflows (inflows) of resources	
Deferred outflows of resources resulting from debt refunding	272,042
Deferred inflows of resources resulting from the net pension liability	(2,773,369)
Deferred outflows of resources resulting from the net pension liability	6,221,725
Deferred inflows of resources resulting from the net OPEB liability	(302,441)
Deferred outflows of resources resulting from the net OPEB liability	616,050
Certain liabilities are not due and payable in the current period and are not reported in the funds	
Accrued interest	(147,292)
July and August contractual insurance benefits	(128,631)
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	(26,249,120)
Net OPEB liability	(8,946,028)
Compensated absences	(338,463)
Bonds payable	(28,340,603)
School bond loan payable	(3,304,748)
Net position of governmental activities	$ (27,286,146)

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, 2018

	General Fund	Debt Fund	Capital Projects Fund	Nonmajor Governmental Fund	Total Governmental Funds
Revenues					
Local sources	$ 1,879,157	$ 2,913,448	$ -	$ 138,496	$ 4,931,101
State sources	16,913,994	23,363	-	26,070	16,963,427
Federal sources	970,051	-	-	385,182	1,355,233
Interdistrict sources	1,365,052	-	-	-	1,365,052
Total revenues	21,128,254	2,936,811	-	549,748	24,614,813
Expenditures					
Current					
Education					
Instruction	10,964,465	-	-	-	10,964,465
Supporting services	7,187,350	-	-	-	7,187,350
Food services	-	-	-	465,759	465,759
Athletics	384,812	-		-	384,812
Community services	46,296	-	-	-	46,296
Intergovernmental payments	395,845	-	-	-	395,845
Capital outlay	517,498	-	66,033	-	583,531
Debt service					
Principal	88,027	3,705,000	-	-	3,793,027
Interest and other expenditures	34,210	1,030,976	-	-	1,065,186
Total expenditures	19,618,503	4,735,976	66,033	465,759	24,886,271
Excess (deficiency) of revenues over expenditures	1,509,751	(1,799,165)	(66,033)	83,989	(271,458)

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, 2018

	General Fund	Debt Fund	Capital Projects Fund	Nonmajor Governmental Fund	Total Governmental Funds
Other Financing Sources (Uses)					
Proceeds from school bond loan fund	-	1,809,000	-	-	1,809,000
Transfers in	11,500	-	600,000	107	611,607
Transfers out	(600,107)	-	-	(11,500)	(611,607)
Total other financing sources (uses)	(588,607)	1,809,000	600,000	(11,393)	1,809,000
Net change in fund balance	921,144	9,835	533,967	72,596	1,537,542
Fund balance - beginning	4,242,296	98,637	600,000	134,941	5,075,874
Fund balance - ending	$ 5,163,440	$ 108,472	$ 1,133,967	$ 207,537	$ 6,613,416

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, 2018

Net change in fund balances - Total governmental funds	$ 1,537,542
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	17,370
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	(1,400,527)
Capital outlay	270,273
Sale of capital assets (net book value)	(2,000)
Expenses are recorded when incurred in the statement of activities.	
Interest	(33,070)
Benefit claims	(1,388)
Compensated absences	45,235
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	(1,829,959)
Net change in the deferred inflow of resources related to the net pension liability	1,473,271
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	89,647
Net change in the deferred inflow of resources related to the net OPEB liability	(131,034)
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	(1,809,000)
Repayments of long-term debt	3,793,027
Amortization of bond premium	411,579
Amortization of deferred amount on debt refunding	(73,853)
Amortization of bond discount	(7,119)
Change in net position of governmental activities	$ 2,349,994

See Accompanying Notes to the Financial Statements

Flat Rock Community Schools
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2018

	Private Purpose Trust Funds Scholarships	Agency Funds
Assets		
Cash	$ 141,338	$ 698,419
Accounts receivable	2,185	-
Due from other funds	2,382	-
Total assets	145,905	$ 698,419
Liabilities		
Accounts payable	-	$ 16,421
Due to other funds	-	444,874
Due to agency fund activities	-	237,124
Total liabilities	-	$ 698,419
Net Position		
Assets held for scholarships and loans	$ 145,905	

Flat Rock Community Schools
Fiduciary Funds
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2018

	Private Purpose Trust Funds
	Scholarships
Additions	
Local sources	$ 23,811
Deductions	
Scholarships	19,300
Change in net position	4,511
Net position - beginning	141,394
Net position - ending	$ 145,905

See Accompanying Notes to the Financial Statements

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.

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, 2018, 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.

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 (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. 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.

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 (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. 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. Deferred amounts on bond refundings are included in the district-wide financials 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 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 services 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 MPSERS Unfunded Actuarial Accrued Liabilities (UAAL) Stabilization defined benefit pension statutorily required contributions.

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

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

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

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

Assigned – amounts intended to be used for specific purposes, as determined by the Board of 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 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. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services. It also requires additional note disclosures and required supplementary information. Statement No. 75 is effective for the fiscal year ending June 30, 2018.

Statement No. 85, *Omnibus 2017* addresses practice issues that were identified during implementation and application of certain GASB Statements. This statement covers issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits), which is effective for the fiscal year ending June 30, 2018.

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

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

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

Statement No. 87, *Leases* increases the usefulness of the 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. 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.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. It requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reporting in a business-type activity or enterprise fund. Interest cost incurred before the end of a construction period should be recognized as an expenditure for financial statements prepared using the current financial resources measurement. The requirements of this Statement are effective for the fiscal year ending June 30, 2021.

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. Individual amendments were not material in relation to the original appropriations.

Excess of Expenditures over Appropriations

The School District did not have significant expenditure budget variances.

Note 3 - Deposits and Investments

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

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash	$ 6,220,581	$ 839,757	$ 7,060,338

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

Deposits (checking, savings accounts, money markets, certificates of deposit)	$ 7,060,338

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, $6,694,803 of the School District's bank balance of $7,194,803 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.

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	-	-	48,432,204
Site improvements	208,288	-	-	208,288
Equipment and furniture	10,084,435	87,113	199,396	9,972,152
Buses and other vehicles	1,446,157	183,160	205,998	1,423,319
Total capital assets being depreciated	60,171,084	270,273	405,394	60,035,963
Less accumulated depreciation for				
Buildings and additions	18,741,426	1,177,754	-	19,919,180
Site improvements	196,902	735	-	197,637
Equipment and furniture	9,579,975	135,946	199,396	9,516,525
Buses and other vehicles	1,100,419	86,092	203,998	982,513
Total accumulated depreciation	29,618,722	1,400,527	403,394	30,615,855
Net capital assets being depreciated	30,552,362	(1,130,254)	2,000	29,420,108
Net capital assets	$ 30,589,592	$ (1,130,254)	$ 2,000	$ 29,457,338

Note 5 - Interfund Receivables, Payables, and Transfers

Individual interfund receivable and payable balances at year end were:

Due From Fund	Due to Fund	Amount
General fund	Capital projects fund	$ 1,144,158
General fund	Debt fund	523
Nonmajor fund	General fund	1,829
Agency fund	General fund	444,874
General fund	Trust fund	2,382

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	$ -	$ 11,500	$ 11,500
Capital projects fund	600,000	-	600,000
Nonmajor governmental funds	107	-	107
	$ 600,107	$ 11,500	$ 611,607

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.

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	$ 11,633
Grant and categorical aid payments received prior to meeting all eligibility requirements	56,694
Total	$ 68,327

Note 7 - Leases

Operating Lease

The School District leases 18 copy machines under a non-cancelable operating lease. Total costs for the leases were approximately $44,000 for the year. The future minimum lease payments for these leases are as follows:

Year ending June 30,	
2019	$ 8,140

Note 8 - 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.

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

	Beginning Balance	Proceeds	Repayments	Ending Balance
State aid anticipation note	$ 1,814,278	$ 2,000,000	$ 2,028,555	$ 1,785,723

The state aid anticipation note agreement includes an irrevocable set-aside of $214,278 at year end that is considered defeased debt and not included in the ending balance.

Note 9 - 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. 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
Government obligation and energy bonds	$ 30,895,000	$ -	$ 3,785,000	$ 27,110,000	$ 3,820,000
School bond loan	1,439,595	1,865,153	-	3,304,748	-
Capital lease	8,027	-	8,027	-	-
Compensated absences	383,698	21,672	66,907	338,463	-
Premium on bonds	1,668,405	-	411,579	1,256,826	-
Discount on bonds	(33,342)	-	(7,119)	(26,223)	-
Total	$ 34,361,383	$ 1,886,825	$ 4,264,394	$ 31,983,814	$ 3,820,000

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

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%	$	5,770,000
$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%		10,020,000
$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%		11,320,000
Total general obligation bonded debt	$	27,110,000

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

		Principal		Interest		Total
Year Ending June 30,						
2019	$	3,820,000	$	903,388	$	4,723,388
2020		3,925,000		798,844		4,723,844
2021		4,025,000		694,572		4,719,572
2022		4,155,000		568,304		4,723,304
2023		4,290,000		414,724		4,704,724
2024 - 2025		6,895,000		397,277		7,292,277
Total	$	27,110,000	$	3,777,109	$	30,887,109

The 2008, 2013 and 2016 general obligation bonds are payable from the Debt Service Fund. As of year end, the fund had a balance of $108,472 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, 2018 is $272,042.

State School Bond Loan

The school bond loan represents amounts borrowed from the State of Michigan School Bond Loan program to supplement property tax revenue for making payments on the School District's general obligation bonds. Although interest accrues each year, no payment is due until such time as the School District's property tax revenue is sufficient to support the debt service requirements on the general obligation bonds. Changes to the school bond loan for the year ended June 30, 2018, are as follows:

		Principal		Interest		Total
Beginning balance	$	1,430,822	$	8,773	$	1,439,595
Additions		1,809,000		56,153		1,865,153
Ending balance	$	3,239,822	$	64,926	$	3,304,748

Compensated Absences

Accrued compensated absences at year end, consist of $338,463 of accrued sick bank hours, additional retirement incentives and severance pay. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year.

Note 10 - 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:

	2018	2017
Estimated liability at the beginning of the year	$ 197,096	$ 122,896
Estimated claims incurred including changes in estimates	1,283,425	1,455,427
Claim payments	(1,378,659)	(1,381,227)
Estimated liability end of year	$ 101,862	$ 197,096

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 11 - 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.

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, 2016 valuation will be amortized over a 20-year period for the 2016 fiscal year.

The schedule below summarizes pension contribution rates in effect for fiscal year 2017.

Pension Contribution Rates		
Benefit Structure	Member	Employer
Basic	0.0 - 4.0%	19.03%
Member Investment Plan	3.0 - 7.0%	19.03%
Pension Plus	3.0 - 6.4%	18.40%
Defined Contribution	0.0%	15.27%

Required contributions to the pension plan from the School District were $2,375,840 for the year ending September 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
At June 30, 2018, the School District reported a liability of $26,249,120 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2016. 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, 2017, the School District's proportion was 0.1013 percent, which was an increase of 0.0034 percent from its proportion measured as of September 30, 2016. At September 30, 2017, the total pension expense for the School District was $2,709,835.

At June 30, 2018, 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	$ 228,123	$ 128,799	$ 99,324
Changes of assumptions	2,875,800	-	2,875,800
Net difference between projected and actual earnings on pension plan investments	-	1,254,881	(1,254,881)
Changes in proportion and differences between the School District contributions and proportionate share of contributions	637,002	329,906	307,096
Total to be recognized in future	3,740,925	1,713,586	2,027,339
School District contributions subsequent to the measurement date	2,480,800	1,059,783	1,421,017
Total	$6,221,725	$ 2,773,369	$3,448,356

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, 2019. 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 Outflow of Resources by Year

(To Be Recognized in Future Pension Expenses)

2018	$	467,274
2019		955,171
2020		566,847
2021		38,047
	$	2,027,339

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, 2016
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 3.5%
- Investment Rate of Return:
  - MIP and Basic Plans (Non-Hybrid): 7.5%
  - Pension Plus Plan (Hybrid): 7.0%
- Projected Salary Increases: 3.5 - 12.3%, including wage inflation at 3.5%
- Cost-of-Living Pension Adjustments: 3% Annual Non-Compounded for MIP Members

- Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, 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: 4.5188

Recognition period for assets in years is 5.0000

Full actuarial assumptions are available in the 2017 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, 2017, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.6 %
Alternative Investment Pools	18.0	8.7
International Equity	16.0	7.2
Fixed Income Pools	10.5	(0.1)
Real Estate and Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.0
Short Term Investment Pools	2.0	(0.9)
	100.0%	

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

Rate of Return
For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 13.24%. 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 7.5% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid 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 7.5% (7.0% for the Pension Plus 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 7.5% (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 (Non-Hybrid/Hybrid)* 6.5% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 7.5% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 8.5% / 8.0%
$ 34,193,873	$ 26,249,120	$ 19,560,144

**The Basic plan and the Member Investment Plan (MIP) are non-hybrid plans. Pension Plus is a hybrid plan, with a defined benefit (pension) component and a defined contribution (DC) component.*

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

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

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

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

Note 12 - Postemployment Benefits Other Than Pensions (OPEB)

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 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.

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, 2016 valuation will be amortized over a 20-year period for the 2017 fiscal year.

The schedule below summarizes OPEB contribution rates in effect for fiscal year 2017.

OPEB Contribution Rates

Benefit Structure	Member	Employer
Premium Subsidy	3.0%	5.91%
Personal Healthcare Fund (PHF)	0.0%	5.69%

Required contributions to the OPEB plan from the School District were $786,503 for the year ended September 30, 2017.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB
At June 30, 2018, the School District reported a liability of $8,946,028 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2016. 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, 2017, the School District's proportion was 0.1010 percent, which was the same percent from its proportion measured as of September 30, 2016. At September 30, 2017, the total OPEB expense for the School District was $598,391.

At June 30, 2018, 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	$ -	$ 95,249	$ (95,249)
Net difference between projected and actual earnings on OPEB plan investments	-	207,192	(207,192)
Changes in proportion and differences between the School District contributions and proportionate share of contributions	56	-	56
Total to be recognized in future	56	302,441	(302,385)
School District contributions subsequent to the measurement date	615,994	-	615,994
Total	$ 616,050	$ 302,441	$ 313,609

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, 2019. 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) of Resources by Year (To Be Recognized in Future OPEB Expenses)		
2018	$	(73,073)
2019		(73,073)
2020		(73,073)
2021		(73,073)
2022		(10,093)
	$	(302,385)

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, 2016
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 3.5%
- Investment Rate of Return: 7.5%
- Projected Salary Increases: 3.5 - 12.3%, including wage inflation at 3.5%
- Healthcare Cost Trend Rate: 7.5% Year 1 graded to 3.5% Year 12
- Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

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 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total OPEB liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, 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: 5.4744

Recognition period for assets in years is 5.0000

Full actuarial assumptions are available in the 2017 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, 2017, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.6 %
Alternative Investment Pools	18.0	8.7
International Equity	16.0	7.2
Fixed Income Pools	10.5	(0.1)
Real Estate and Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.0
Short Term Investment Pools	2.0	(0.9)
	100.0%	

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

Rate of Return
For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 11.82%. 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 7.5% 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 7.5%. 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 7.5%, 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 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
$ 10,478,384	$ 8,946,028	$ 7,645,537

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 6.5%	Current Healthcare Cost Trend Rate 7.5%	1% Increase 8.5%
$ 7,576,083	$ 8,946,028	$ 10,501,505

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2017 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 13 - 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, 2018.

Note 14 - 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, 2018, the School District's property tax revenues were reduced by $17,651 under these programs.

Note 15 – Prior Period Adjustment

As indicated in Note 1, the School District has adopted Government Accounting Standards Board Statement 75. This required the School District to record their proportionate share of the net OPEB liability and OPEB expense. Previously, these amounts were not recorded on the School District's statements. The standards require this change to be applied retroactively. The impact of this change is to reduce beginning net position in the statement of activities as of July 1, 2017 by $8,591,032, restating it from ($21,045,108) to ($29,636,140).

REQUIRED SUPPLEMENTARY INFORMATION

Flat Rock Community Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2018

	Budgeted Amounts			Over (Under)
	Original	Final	Actual	Budget
Revenues				
Local sources	$ 1,789,649	$ 1,872,744	$ 1,879,157	$ 6,413
State sources	15,953,961	16,885,079	16,913,994	28,915
Federal sources	852,839	972,965	970,051	(2,914)
Interdistrict sources	911,458	1,135,611	1,365,052	229,441
Total revenues	19,507,907	20,866,399	21,128,254	261,855
Expenditures				
Instruction				
Basic programs	8,584,929	9,161,081	8,977,750	(183,331)
Added needs	1,883,657	2,002,991	1,986,715	(16,276)
Supporting services				
Pupil	1,498,536	1,601,893	1,589,224	(12,669)
Instructional staff	1,068,369	1,044,282	995,233	(49,049)
General administration	385,761	386,399	374,317	(12,082)
School administration	1,146,713	1,154,295	1,133,133	(21,162)
Business	376,693	383,098	384,592	1,494
Operations and maintenance	1,594,050	1,635,744	1,538,446	(97,298)
Pupil transportation services	771,270	795,946	754,681	(41,265)
Central	484,347	437,850	417,724	(20,126)
Athletics	381,500	389,705	384,812	(4,893)
Community services	49,975	48,557	46,296	(2,261)
Intergovernmental payments	511,517	511,517	395,845	(115,672)
Capital outlay	523,700	527,177	517,498	(9,679)
Debt service				
Principal	88,027	88,027	88,027	-
Interest and fiscal charges	33,513	29,648	34,210	4,562
Total expenditures	19,382,557	20,198,210	19,618,503	(579,707)

Flat Rock Community Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2018

	Budgeted Amounts			Over
	Original	Final	Actual	(Under) Budget
Excess (deficiency) of revenues over expenditures	125,350	668,189	1,509,751	841,562
Other Financing Sources (Uses)				
Transfers in	12,500	11,500	11,500	-
Transfers out	(10,000)	(600,500)	(600,107)	(393)
Total other financing sources (uses)	2,500	(589,000)	(588,607)	(393)
Net change in fund balance	127,850	79,189	921,144	841,955
Fund balance - beginning	4,242,296	4,242,296	4,242,296	-
Fund balance - ending	$ 4,370,146	$ 4,321,485	$ 5,163,440	$ 841,955

Flat Rock Community Schools
Required Supplementary Information
Budgetary Comparison Schedule - Debt Fund
For the Year Ended June 30, 2018

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Over (Under) Budget
Revenues				
Local sources	$ 2,920,125	$ 2,911,440	$ 2,913,448	$ 2,008
State sources	23,363	23,363	23,363	-
Total revenues	2,943,488	2,934,803	2,936,811	2,008
Expenditures				
Debt service				
Principal	3,705,000	3,705,000	3,705,000	-
Interest	1,039,270	1,028,695	1,030,976	2,281
Total expenditures	4,744,270	4,733,695	4,735,976	2,281
Excess (deficiency) of revenues over expenditures	(1,800,782)	(1,798,892)	(1,799,165)	(273)
Other Financing Sources (Uses)				
Proceeds from school bond loan fund	1,900,000	1,809,000	1,809,000	-
Net change in fund balance	99,218	10,108	9,835	(273)
Fund balance - beginning	98,637	98,637	98,637	-
Fund balance - ending	$ 197,855	$ 108,745	$ 108,472	$ (273)

Flat Rock Community Schools
Required Supplementary Information
Budgetary Comparison Schedule - Capital Projects Fund
For the Year Ended June 30, 2018

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Over (Under) Budget
Expenditures				
Capital outlay	$ 50,000	$ 150,145	$ 66,033	$ (84,112)
Other Financing Sources (Uses)				
Transfers in	-	600,000	600,000	-
Net change in fund balance	(50,000)	449,855	533,967	84,112
Fund balance - beginning	600,000	600,000	600,000	-
Fund balance - ending	$ 550,000	$ 1,049,855	$ 1,133,967	$ 84,112

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)

	June 30,									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
A. Reporting unit's proportion of net pension liability (%)	0.10130%	0.09788%	0.09812%	0.10137%						
B. Reporting unit's proportionate share of net pension liability	$ 26,249,120	$ 24,419,161	$ 23,966,862	$ 22,328,383						
C. Reporting unit's covered-employee payroll	$ 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	305%	297%	293%	253%						
E. Plan fiduciary net position as a percentage of total pension liability	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 2017.

Changes of benefit assumptions: There were no changes of benefit assumptions in plan fiscal year 2017.

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,									
		2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
A.	Statutorily required contributions	$ 2,677,044	$ 2,197,947	$ 1,892,943	$ 1,574,345						
B.	Contributions in relation to statutorily required contributions	2,677,044	2,197,947	1,892,943	1,574,345						
C.	Contribution deficiency (excess)	$ -	$ -	$ -	$ -						
D.	Reporting unit's covered-employee payroll	$ 8,976,480	$ 8,510,084	$ 7,968,178	$ 8,506,430						
E.	Contributions as a percentage of covered-employee payroll	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)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
A. Reporting unit's proportion of the net OPEB liability (%)	0.1010%									
B. Reporting unit's proportionate share of the net OPEB liability	$ 8,946,028									
C. Reporting unit's covered-employee payroll	$ 8,616,880									
D. Reporting unit's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	104%									
E. Plan fiduciary net position as a percentage of total OPEB liability	36.39%									

Note Disclosures

Changes of benefit terms: There were no changes of benefit terms in plan fiscal year 2017.

Changes of benefit assumptions: There were no changes of benefit assumptions in plan fiscal year 2017.

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,									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
A. Statutorily required contributions	$ 677,414									
B. Contributions in relation to statutorily required contributions	677,414									
C. Contribution deficiency (excess)	$ -									
D. Reporting unit's covered-employee payroll	$ 8,976,480									
E. Contributions as a percentage of covered-employee payroll	7.55%									

RECEIVED
By Rebecca Dean at 9:53 am, Oct 29, 2018

Flat Rock Community Schools

Single Audit Report

June 30, 2018

YEO & YEO
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Contents

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

Independent Auditors' Report

Management and the Board of Education
Flat Rock Community Schools

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Flat Rock Community Schools as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Flat Rock Community Schools' basic financial statements, and have issued our report thereon dated October 19, 2018.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered Flat Rock Community Schools' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Flat Rock Community Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Flat Rock Community Schools' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Flat Rock Community Schools' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

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

Yeo & Yeo, P.C.

Ann Arbor, MI
October 19, 2018

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Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditors' Report

Management and the Board of Education
Flat Rock Community Schools

Report on Compliance for Each Major Federal Program
We have audited Flat Rock Community Schools' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Flat Rock Community Schools' major federal programs for the year ended June 30, 2018. Flat Rock Community Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility
Our responsibility is to express an opinion on compliance for each of Flat Rock Community Schools' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Flat Rock Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Flat Rock Community Schools' compliance.

Opinion on Each Major Federal Program

In our opinion, Flat Rock Community Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of Flat Rock Community Schools is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Flat Rock Community Schools' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Flat Rock Community Schools' internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the 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, 2018, and the related notes to the financial statements, which collectively comprise Flat Rock Community Schools' basic financial statements. We issued our report thereon dated October 19, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Yeo & Yeo, P.C.

Ann Arbor, MI
October 19, 2018

Flat Rock Community Schools
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Amount	Accrued (Unearned) Revenue at July 1, 2017	Expenditures (Memo Only) Prior Year	Current Year Expenditures	Current Year Receipts	Accrued (Unearned) Revenue at June 30, 2018
U.S. Department of Agriculture							
Child Nutrition Cluster							
Passed through Michigan Department of Education							
Non-Cash Assistance							
National School Lunch Program							
Entitlement	10.555	$ 30,723	$ -	$ -	$ 30,723	$ 30,723	$ -
Cash Assistance							
171970 National School Breakfast Program	10.553	65,323	2,452	59,119	6,204	8,656	-
181970 National School Breakfast Program		61,756	-	-	61,756	58,555	3,201
171960 National School Lunch Program - Section 11	10.555	266,117	7,622	239,107	27,010	34,632	-
181960 National School Lunch Program - Section 11		257,163	-	-	257,164	247,834	9,330
			10,074	298,226	352,134	349,677	12,531
Total Child Nutrition Cluster			10,074	298,226	382,857	380,400	12,531
Child and Adult Care Food Program							
Passed through Michigan Department of Education							
171920 Meal Reimbursement	10.558	2,126	316	2,036	90	406	-
181920 Meal Reimbursement		2,235	-	-	2,235	1,921	314
Total Child and Adult Care Food Program			316	2,036	2,325	2,327	314
Total U.S. Department of Agriculture			10,390	300,262	385,182	382,727	12,845
U.S. Department of Education							
Title I Cluster							
Passed through Michigan Department of Education							
171530-1617 Title I, Part A	84.010	418,003	360,628	360,628	-	360,628	-
181530-1718 Title I, Part A		403,702	-	-	351,821	283,479	68,342
Total Title I Cluster			360,628	360,628	351,821	644,107	68,342

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Flat Rock Community Schools
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Amount	Accrued (Unearned) Revenue at July 1, 2017	Expenditures (Memo Only) Prior Year	Current Year Expenditures	Current Year Receipts	Accrued (Unearned) Revenue at June 30, 2018
Special Education Cluster							
Passed through Wayne County Regional Educational Service Agency							
170450 1617 IDEA Flowthrough	84.027	469,265	209,968	469,265	-	209,968	-
180450 1718 IDEA Flowthrough		531,637	-	-	531,637	342,514	189,123
Total Special Education Cluster			209,968	469,265	531,637	552,482	189,123
Career and Technical Education							
Passed through Huron School District							
173520-171225 Perkins	84.048	26,857	11,416	26,857	-	11,416	-
183520-181225 Perkins		21,719	-	-	21,719	13,372	8,347
Total Career and Technical Education			11,416	26,857	21,719	24,788	8,347
English Language Acquision State Grants							
Passed through Wayne County Regional Educational Service Agency							
1718 Title III, Part A	84.365	3,238	-	-	1,491	-	1,491
Improving Teacher Quality							
Passed through Michigan Department of Education							
170520-1617 Title II, Part A	84.367	96,743	56,489	56,489	-	56,489	-
180520-1718 Title II, Part A		107,592	-	-	47,108	-	47,108
Total Improving Teacher Quality			56,489	56,489	47,108	56,489	47,108
Student Support and Academic Enrichment Program							
Passed through Michigan Department of Education							
180750-1718 Title IV, Part A	84.424	10,000	-	-	10,000	10,000	-
Total U.S. Department of Education			638,501	913,239	963,776	1,287,866	314,411
U.S. Department of Health and Human Services							
Medical Assistance Program							
Passed through Wayne County Regional Educational Service Agency							
Medicaid Outreach	93.778	6,275	-	3,447	6,275	4,225	2,050
Total Federal Financial Assistance			$ 648,891	$ 1,216,948	$ 1,355,233	$ 1,674,818	$ 329,306

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Flat Rock Community Schools
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2018

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Flat Rock Community Schools under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Flat Rock Community Schools, it is not intended to and does not present the financial position or changes in financial positions of Flat Rock Community Schools.

Note 2 – Summary of Significant Accounting Policies

Expenditures

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, where applicable, either the cost principles contained in the Uniform Guidance or OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments* where certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate

Flat Rock Community Schools has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 – Reconciliation to the Financial Statements

The federal revenues per the financial statements are in agreement with the schedule of expenditures of federal awards.

Note 4 – Subrecipients

No amounts were provided to subrecipients.

Note 5 – Michigan Department of Education Disclosures

The federal amounts reported on the grant auditor report are in agreement with the schedule of expenditures of federal awards.

The amounts reported on the recipient entitlement balance report agree with the schedule of expenditures of federal awards for U.S.D.A. donated food commodities.

Flat Rock Community Schools
Schedule of Findings and Questioned Costs
June 30, 2018

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

• Material weakness(es) identified?	______ yes	X no
• Significant deficiencies identified that are not considered to be material weaknesses?	______ yes	X none reported
Noncompliance material to financial statements noted?	______ yes	X no

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?	______ yes	X no
• Significant deficiencies identified that are not considered to be material weaknesses?	______ yes	X none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with §200.516(a)?	______ yes	X no

Flat Rock Community Schools
Schedule of Findings and Questioned Costs
June 30, 2018

Identification of major programs:

CFDA Number(s)	*Name of Federal Program or Cluster*
84.027	Special Education Cluster

Dollar threshold used to distinguish between type A and type B programs:	$ 750,000
Auditee qualified as low-risk auditee?	__X__ yes _____ no

Section II – Government Auditing Standards Findings

There were no findings or questioned costs for Government Auditing Standards for the year ended June 30, 2018.

Section III – Federal Award Findings

There were no findings or questioned costs for Federal Awards for the year ended June 30, 2018.

Section IV – Prior Audit Findings

There were no prior audit findings for the year ended June 30, 2017.

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October 19, 2018

Management and the Board of Education
Flat Rock Community Schools
28639 Division Street
Flat Rock, MI 48134

We have completed our audit of the 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, 2018, and have issued our report dated October 19, 2018. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The first appendix to this letter sets forth those communications as follows:

I. Auditors' Communication of Significant Matters with Those Charged with Governance

In addition, we have identified additional matters that are not required to be communicated but we believe are valuable for management:

II. Matters for Management's Consideration

We discussed these matters with various personnel in the School District during the audit and with management. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Education, and others within the School District, and are not intended to be and should not be used by anyone other than those specified parties.

Yeo & Yeo, P.C.

Ann Arbor, Michigan

Appendix I
Auditors' Communication of Significant Matters with Those Charged with Governance

Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* and Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated June 1, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note 1 of the financial statements. The School District has adopted the new Governmental Accounting Standards Board Statements as noted in the notes to the financial statements, effective July 1, 2017.

We noted no transactions entered into by the School District during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- The useful lives of its capital assets. Useful lives are estimated based on the expected length of time during which the asset is able to deliver a given level of service.

- Net pension liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.

- Net OPEB liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.

- Management's estimate of the incurred but not reported (INBR) health and prescription insurance claims, which is based on past history of what was paid in months after June 2018 for claims relating to June 30, 2018 and prior.

Disclosures in the financial statements are neutral, consistent and clear.

Accounting Standards and Regulatory Updates

Accounting Standards
The Governmental Accounting Standards Board has released the following Statements:

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

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The criteria generally is on (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. 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.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. It requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reporting in a business-type activity or enterprise fund. Interest cost incurred before the end of a construction period should be recognized as an expenditure for financial statements prepared using the current financial resources measurement. The requirements of this Statement are effective for the fiscal year ending June 30, 2021.

The School District is evaluating the impact the above pronouncements will have on its financial reporting.

<u>Regulatory and Other Updates</u>

<u>Cybersecurity Posture</u>
Cybersecurity posture, an overall measure of cybersecurity strength, is more prevalent than ever as organizations continue to face cybersecurity risks. Billions of emails are sent every day, some of which contain attachments with malicious files or malicious embedded links aimed at negatively impacting unsuspecting organizations. A recent study showed as many as four out of five U.S. companies have suffered from an attack.

Not only can a successful attack cost thousands of dollars and put a strain on IT resources while remediation efforts are underway, but sensitive information may be breached.

Risk assessment is a first step in mitigating cybersecurity risks and improving your School District's overall cybersecurity posture. The National Institute of Standards and Technology published *Framework for Improving Critical Infrastructure Cybersecurity*, which "enables organizations, regardless of size, degree of cybersecurity risk, or cybersecurity sophistication, to apply the principles and best practices of risk management to improving the security and resilience of critical infrastructure." The framework is designed to cover five areas including identification, protection, detection, responsiveness and recovery. The publication can be found at www.nist.gov.

Placing significant emphasis on evaluating your School District's cybersecurity posture, and channeling sufficient resources towards proper risk assessment, implementation, and education will reduce the likelihood of a cybersecurity threat, and help lessen the impact of a breach.

Uniform Guidance – Implementation of Federal Grant Procurement Standards

In May 2017, the federal government granted an additional one-year delay for implementation of the procurement standards under the Uniform Guidance. The grace period was extended through December 25, 2017. Therefore entities with fiscal years beginning on or after December 26, 2017 must have procurement standards, for federal expenditures, that meet the more stringent requirements of 2 CFR 200.317 to 326. For school districts, it will apply to fiscal year 2019 and therefore, must be in place starting July 1, 2018. It is imperative that your procurement policies – whatever they are documented as – be followed. The Uniform Guidance and the old guidance in the OMB Circulars provide minimum requirements that must be covered by an entity's procurement policies. If an entity's policies are stricter than the federal rules, the entity policies still must be followed. As you adopt new procurement policies, we also recommend that you consider separate policies for federal and non-federal expenditures to ease the administrative burden of certain federal requirements.

Fiscal Year (FY) 2019 School Aid

The School Aid budget for FY 2019 was signed in June, 2018. Following are some significant highlights of the bill:

- The per pupil Foundation Grants for FY 2019 will increase by a range of $120 to $240 using the "2X formula." The increase will be added to the FY 2018 foundation grant resulting in the lowest foundation for FY 2018 being $7,871 and the maximum state guaranteed foundation being $8,409.
- The Pupil Membership Blend will remain at 90% of the current school year October count and 10% of the prior school year February count.
- The Section 31a At-Risk funding is maintained at $499,000,000. Eligibility expanded to include grades K-12, from K-3, and shall use resources to address early literacy and numeracy through an evidence-based framework that uses data-driven problem solving though a multi-tiered system of supports. Adds language that for schools in which more than 40% of pupils are identified as At-Risk, a district may use the funds it receives to implement schoolwide reforms that are guided by the district's comprehensive needs assessment and are included in the district improvement plan. Allows for up to 5% to be used for professional development.
- The per pupil funding under Section 20f will be equal to the per pupil funding in 2017-18.
- A new Section 31m has been created as a separate account to improve mental health and support services for K-12 pupils. A deposit of $30 million has been allocated for this purpose.
- A new Section 54d appropriates $5 million in grant funds for intermediate districts to provide pilot programs for children from birth to 3 years of age with developmental disability and/or delay.
- Section 147c has a MPSERS rate cap funding set at $1.03 billion, which is an increase of $72 million. The rate cap is estimated at $690 per pupil.
- Section 147e includes $37.6 million allocated as a direct reimbursement for additional retirement costs for specific qualified participants due to PA 92 of 2017.

Budget Assumptions & Early Warning
Each school district that has a General Fund balance less than 5% of total unrestricted general revenue for either of the 2015-2016 or 2016-2017 school fiscal years is required to submit budget assumptions to the Center for Educational Performance and Information (CEPI).

Uniform Budgeting and Accounting Act (UBAA)
The UBAA establishes budget and accounting requirements for local governments and school districts, including public school academies. It also establishes oversight requirements for MDE as well as the Michigan Attorney General. Material violations of the UBAA, including but not limited to General Fund deficits, should be reported as financial statement findings in the audit report. UBAA states that if it becomes apparent during the year that the probable revenues will be less than the budgeted revenues, the fiscal officer shall present recommendations to the legislative body which, if fiscal adopted, would prevent expenditures from exceeding available revenues for the fiscal year. UBAA states that an officer of the School District shall not incur expenditures against an appropriation account in excess of the amount appropriated by the board. Noncompliance includes, but is not limited to, over-expending the budget authorized by the board. MDE is analyzing the General Fund only, and at the total revenues, expenditures and financing sources (uses) levels, rather than at the line item level. MDE has stated a 0% tolerance for UBAA noncompliance.

Current Operating Expenditures (COE) for UAAL
Effective FY 2019, the percentage change in Current Operating Expenditures (COE) from one year to the next will be used to adjust the payroll on which the UAAL rate is charged. FY 2017 reported payroll will be adjusted by the percent change in COE from 2016 to 2017 to establish the FY19 adjusted payroll. The capped UAAL rate of 20.96% continues to be used in the calculation. ORS has put examples on their website to walk the School District through the calculation.

- UAAL contributions will no longer be calculated on member wages reported throughout the FY.
- This did not affect the 2018 fiscal year, but will impact the 2019 fiscal year.
- The FY 2019 payment process for contributions will be spread out over all Employer Statements in State FY 2019 (October 2018 through September 2019).

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial, and communicate them to the appropriate level of management. There were no misstatements detected as a result of audit procedures that were more than trivial.

There were no uncorrected misstatements that were more than trivial.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other Accountants

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

Other Audit Findings or Issues

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

Emphasis of Matters in Independent Auditors' Report

Our report will include the following emphasis of matter paragraph:

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, during the year ended June 30, 2018, the School District adopted GASB Statement no. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinions are not modified with respect to this matter.

Other Reports

Other information that is required to be reported to you is included in the: Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*; Independent Auditors' Report on Compliance For Each Major Federal Program; Independent Auditors' Report on Internal Control Over Compliance; Independent Auditors' Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance; and the Schedule of Findings and Questioned Costs. Please read all information included in those reports to ensure you are aware of relevant information.

Report on Required Supplementary Information

With respect to the required supplementary information accompanying the financial statements, which includes management's discussion and analysis, 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, schedule of the school district's OPEB contributions, and budgetary comparison information, we 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 regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

Appendix II
Matters for Management's Consideration

In planning and performing our audit of the financial statements of Flat Rock Community Schools as of and for the year ended June 30, 2018, we considered Flat Rock Community Schools' internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

However, during our audit we became aware of a couple matters for management's consideration that are opportunities for strengthening internal controls. This letter does not affect our report dated October 19, 2018, on the financial statements of Flat Rock Community Schools. Our comments and recommendations regarding those matters are:

Written Policies
Board of education members are currently required to disclose conflicts of interest and abstain from voting on matters in which they may have a conflict of interest. However, Flat Rock Community Schools does not have a procedure in place to accumulate and report conflicts of interest or document the lack of conflicts of interest. We recommend Flat Rock Community Schools' conflict of interest policy be updated to include an annual disclosure of conflicts of interest. The disclosure should be completed by each board of education member and note the lack of conflicts of interest or list any potential conflicts of interest. Board of education members should continue to bring forth any conflicts of interest as they become known.

Unclaimed Property Policy
The State of Michigan requires entities to escheat unclaimed property, including uncashed checks, once a specific period of time has elapsed, which ranges from one year to three years, depending on the nature of the unclaimed property. We noted checks outstanding greater than one year totaling $5,276. We recommend that management review the State of Michigan unclaimed property laws and properly handle unclaimed property in the future.