

**Flat Rock Community Schools**

**Financial Statements**

**June 30, 2023**



**YEO & YEO**

**BUSINESS SUCCESS  
PARTNERS**

## Table of Contents

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

# Flat Rock Community Schools

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## Members of the Board of Education

President	Norman Haase
Vice President	Frank Hamet
Secretary	Tara AuBuchon
Treasurer	Michelle Engelbert
Trustee	Ivy Nemeth
Trustee	Harry Montgomery
Trustee	Melissa Twehues

## Administration

Superintendent	Andrew Brodie
Business Manager	Carol Manley



## Independent Auditors' Report

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

### Report on the Audit of the Financial Statements

#### Opinions

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, 2023, and the related notes to the financial statements, which collectively comprise Flat Rock Community Schools' basic financial statements as listed in the table of contents.

In our opinion, based on our audit, 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, 2023, 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.

#### Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Flat Rock Community Schools, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Flat Rock Community Schools' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Flat Rock Community Schools' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Flat Rock Community Schools' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## **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, and 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 is the responsibility of management and, 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 24, 2023 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 24, 2023

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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**Flat Rock Community Schools**  
**Management’s Discussion and Analysis**  
**June 30, 2023**

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This section of Flat Rock Community Schools’ (the “School District”) annual financial report presents our discussion and analysis of the School District’s financial performance during the year ended June 30, 2023. Please read it in conjunction with the School 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 School District, presenting both an aggregate view of the School 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 School District’s operations in more detail than the district-wide financial statements by providing information about the School District’s most significant funds; the General Fund, Debt Service Fund, 2022 Bond Series I Fund, and 2022 Bond Series II Fund, with all other funds presented in one column as nonmajor funds.

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 School District is, “As a whole, what is the School 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 School District’s financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting method used by most private sector companies. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

**Flat Rock Community Schools**  
**Management's Discussion and Analysis**  
**June 30, 2023**

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These two statements report the School District's net position – the difference between assets and liabilities, as reported in the statement of net position – as one way to measure the School District's financial position. Over time, increases or decreases in the School District's net position – as reported in the statement of activities – are indicators of the School District's financial position. The relationship between revenues and expenses is the School District's operating results. However, the School 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 School District.

The statement of net position and the statement of activities report the governmental and business-type activities for the School District, which encompass all of the School 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 School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School 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 School District use the following accounting approach:

Governmental funds – All of the School 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 School 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 School 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.

**Flat Rock Community Schools**  
**Management's Discussion and Analysis**  
**June 30, 2023**

***The District as a Whole***

Recall that the statement of net position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position as of June 30, 2023 and 2022:

<b>Table 1</b>	<b>Governmental Activities</b>	
	<b>June 30</b>	
	<b>2023</b>	<b>2022</b>
<b>Assets</b>		
Current and other assets	\$ 42,737,686	\$ 21,359,493
Capital assets, net	31,960,533	26,135,883
Total assets	74,698,219	47,495,376
 <b>Deferred outflows of resources</b>	14,860,355	8,026,760
 <b>Liabilities</b>		
Current liabilities	4,456,221	3,310,890
Long-term liabilities	90,735,622	52,448,390
Total liabilities	95,191,843	55,759,280
 <b>Deferred inflows of resources</b>	6,848,777	16,037,931
 <b>Net Position (Deficit)</b>		
Net investment in capital assets	15,244,090	9,632,197
Restricted	352,501	-
Unrestricted	(28,078,637)	(25,907,272)
Total net position (deficit)	\$ (12,482,046)	\$ (16,275,075)

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

The School District's net position was a deficit of \$12,482,046 at June 30, 2023. Net investment in capital assets, totaling \$15,244,090 compares the original cost less depreciation of the School 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. The School District's food service program has restricted net position of \$352,501. The remaining amount of net position is an unrestricted deficit totaling \$28,078,637.

**Flat Rock Community Schools**  
**Management's Discussion and Analysis**  
**June 30, 2023**

The \$28,078,637 deficit in unrestricted net position, of the School District's governmental activities, represents the accumulated results of all past years' operations. A positive unrestricted net position balance would enable the School 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 School 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 June 30, 2023 and 2022.

<b>Table 2</b>	<b>Governmental Activities</b>	
	<b>June 30</b>	
	<b>2023</b>	<b>2022</b>
<b>Revenue</b>		
Program revenue		
Charges for services	\$ 801,823	\$ 568,407
Operating grants and contributions	7,863,730	5,687,994
General revenue		
Property taxes	5,330,227	5,058,138
State aid	17,217,798	15,666,408
Other	1,051,386	852,348
Total revenue	32,264,964	27,833,295
<b>Function/Program Expenses</b>		
Instruction	13,110,358	11,311,475
Supporting services	12,511,954	9,428,816
Food services	600,441	637,435
Athletics	580,717	463,024
Student and school activities	368,922	290,929
Interest on long-term debt	1,299,543	737,649
Total expenses	28,471,935	22,869,328
Change in net position	\$ 3,793,029	\$ 4,963,967

As reported in the statement of activities, the cost of all of our governmental activities this year was \$28,471,935. Certain activities were partially funded from those who benefited from the programs (\$801,823) or by other governments or organizations that subsidized certain programs with grants and contributions (7,863,730). The School District paid for the remaining "public benefit" portion of our governmental activities with \$5,330,227 in taxes, \$17,217,798 in state foundation allowance and \$1,051,386 with other revenue, i.e., interest, general entitlements and the Wayne County enhancement millage.

**Flat Rock Community Schools**  
**Management's Discussion and Analysis**  
**June 30, 2023**

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The School District experienced an increase in net position for the year ending June 30, 2023, of \$3,793,029. 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 School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of the School District's operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources.

***The District's Funds***

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

As the School District completed this year; the governmental funds reported a combined fund balance of \$38,707,796, which is an increase of \$20,411,467 from the prior year. The net increase in combined fund balance is due primarily to revenues exceeding expenditures in the General Fund and proceeds from the sale of the 2022 Series II bond.

***Major Funds***

The General Fund, the primary operating fund of the School District, ended the current year with an unassigned fund balance of \$9,304,488, which is an increase of \$189,538 from the prior year. The unassigned fund balance represents approximately 34% 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 decrease of \$28,762. The Debt Service fund balance is restricted to pay debt service obligations. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual debt service from bonds that have been issued. Considering the debt service required for 2022-2023 and the debt fund balance, the School District levied the same debt millage, of 11.22 mills, as in 2021-2022.

The fund balance of the 2022 Bond Series I Fund was \$652,404, a decrease of \$4,222,229 as the fund was used in the current year. The fund balance is restricted to fund future expenditures for construction projects and building improvements.

The fund balance of the 2022 Bond Series II Fund was \$24,969,274, an increase of \$24,969,274 as the fund was created in the current year. The fund balance is restricted to fund future expenditures for construction projects and building improvements.

***Nonmajor Funds***

The School Districts nonmajor funds consist of the Food Service Fund, School and Student Activities Fund, and the Capital Projects Fund. The Food Service Fund records the expenditures and receipts, both federal and non-federal, for the operations of the School District's meals for students. The School and Student Activities Fund maintains receipts and expenditures for student and school activities that benefit students and other school related groups. The Capital Projects Fund is assigned to fund future expenditures for acquiring new vehicles and equipment and for building improvements and repairs. As of June 30, 2023, the combined fund balance of the nonmajor funds was \$3,557,002, a decrease of \$265,252 from the prior year. The nonmajor fund balance is committed for school and student activities, restricted for food service expenditures, and assigned for capital projects.

**Flat Rock Community Schools**  
**Management's Discussion and Analysis**  
**June 30, 2023**

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**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 School 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, 2023, the budget was amended in March 2023 and June 2023. The June 2023 budget amendment was the final amendment for the fiscal year.

<b>Revenue:</b>			
Total Revenue - Original Budget	\$ 24,442,748		
Total Revenue - Final Budget	27,147,224		
Increase in Budgeted Revenue	\$ 2,704,476		11.1%

The School District's actual General Fund revenues were higher than the final budget by \$95,483, a variance of 0.4% from the final budget.

<b>Expenditures:</b>			
Total Expenditures - Original Budget	\$ 24,962,148		
Total Expenditures - Final Budget	28,024,076		
Increase in Budgeted Expenditures	\$ 3,061,928		12.3%

The School District's actual General Fund expenditures were less than the final budget by \$739,805, a variance of 2.6% from the final budget.

A schedule showing the School 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, 2023 and 2022, the School District had \$31,960,533 and \$26,135,883, respectively, invested in a broad range of capital assets, including land, buildings, vehicles, furniture and equipment. The School District's capital assets increased during the year by \$5,824,650 or 22%, from last year. This increase was primarily due to various projects throughout the school district and purchase of equipment. Current year capital asset additions include construction-in-progress, buildings and additions, vehicles, equipment, and land. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At June 30, 2023, the School District had \$39,230,000 in general obligation bonds outstanding versus \$21,440,000 in the previous year – a net increase of \$17,790,000 due to principal payments of \$5,820,000 related to the outstanding bond issues and the new issuance of \$23,610,000.

**Flat Rock Community Schools**  
**Management's Discussion and Analysis**  
**June 30, 2023**

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The School 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 School District's boundaries. The School District's outstanding general obligation debt of \$39,230,000 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 School District's 2023-24 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 2023-24 fiscal year will be 90% of the October 2023 student count and 10% of the February 2023 student count. The 2023-24 General Fund budget was adopted in June 2023, based on an estimate of 1,747 students, which is an assumed slight decrease of 8 students from the final blended count in 2022-23. Approximately 73% of the General Fund revenue is derived from State sources. Under state law, the School District cannot assess additional property tax revenue for general operations. As a result, the School 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 2023-24 school year, we anticipate that the fall student count will be consistent with the estimate used in creating the 2023-24 General Fund budget. Once the final student count and related per pupil funding are validated, state law requires the School District to amend the budget if actual School District resources are not sufficient to fund original appropriations.

Since the School 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 School 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

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**Flat Rock Community Schools**  
**Statement of Net Position**  
**June 30, 2023**

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	<u>Governmental Activities</u>
<b>Assets</b>	
Cash	\$ 7,326,707
Investments	30,776,810
Taxes receivable	868
Accounts receivable	4,450,392
Inventory	7,170
Prepaid items	175,739
Capital assets not being depreciated	4,827,197
Capital assets - net of accumulated depreciation	<u>27,133,336</u>
 Total assets	 <u>74,698,219</u>
 <b>Deferred Outflows of Resources</b>	
Deferred amount relating to the net pension liability	11,708,997
Deferred amount relating to the net OPEB liability	<u>3,151,358</u>
 Total deferred outflows of resources	 <u>14,860,355</u>

See Accompanying Notes to the Financial Statements

**Flat Rock Community Schools**  
**Statement of Net Position**  
**June 30, 2023**

	Governmental Activities
<b>Liabilities</b>	
Accounts payable	973,575
Payroll deductions and withholdings	564,588
Accrued expenditures	600,158
Accrued salaries payable	1,580,397
Unearned revenue	737,503
Long-term liabilities	
Net pension liability	39,809,755
Net OPEB liability	2,236,044
Due within one year	3,704,839
Due in more than one year	<u>44,984,984</u>
Total liabilities	<u>95,191,843</u>
<b>Deferred Inflows of Resources</b>	
Deferred amount on debt refunding	40,628
Deferred amount on net pension liability	2,118,199
Deferred amount on net OPEB liability	<u>4,689,950</u>
Total deferred inflows of resources	<u>6,848,777</u>
<b>Net Position</b>	
Net investment in capital assets	15,244,090
Restricted for	
Food service	352,501
Unrestricted (deficit)	<u>(28,078,637)</u>
Total net position	<u>\$ (12,482,046)</u>

See Accompanying Notes to the Financial Statements



**Flat Rock Community Schools**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2023**

	General Fund	Debt Service Fund	Capital Projects		Nonmajor Governmental Funds	Total Governmental Funds
			2022 Bond Series II Fund	2022 Bond Series I Fund		
<b>Assets</b>						
Cash	\$ 6,533,039	\$ 33,464	\$ -	\$ -	\$ 760,204	\$ 7,326,707
Investments	3,757,136	-	24,968,650	1,905,167	145,857	30,776,810
Taxes receivable	380	488	-	-	-	868
Accounts receivable	4,445,987	-	-	-	4,405	4,450,392
Due from other funds	1,047,050	95,604	624	-	2,876,660	4,019,938
Inventory	-	-	-	-	7,170	7,170
Prepaid items	175,739	-	-	-	-	175,739
<b>Total assets</b>	<b>\$ 15,959,331</b>	<b>\$ 129,556</b>	<b>\$ 24,969,274</b>	<b>\$ 1,905,167</b>	<b>\$ 3,794,296</b>	<b>\$ 46,757,624</b>
<b>Liabilities</b>						
Accounts payable	\$ 610,494	\$ -	\$ -	\$ 357,965	\$ 5,116	\$ 973,575
Due to other funds	2,972,888	-	-	894,798	152,252	4,019,938
Payroll deductions and withholdings	564,588	-	-	-	-	564,588
Accrued expenditures	173,827	-	-	-	-	173,827
Accrued salaries payable	1,580,397	-	-	-	-	1,580,397
Unearned revenue	576,910	80,667	-	-	79,926	737,503
<b>Total liabilities</b>	<b>6,479,104</b>	<b>80,667</b>	<b>-</b>	<b>1,252,763</b>	<b>237,294</b>	<b>8,049,828</b>

See Accompanying Notes to the Financial Statements

**Flat Rock Community Schools**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2023**

	General Fund	Debt Service Fund	Capital Projects		Nonmajor Governmental Funds	Total Governmental Funds
			2022 Bond Series II Fund	2022 Bond Series I Fund		
<b>Fund Balances</b>						
Non-spendable						
Inventory	-	-	-	-	7,170	7,170
Prepaid items	175,739	-	-	-	-	175,739
Restricted for						
Food service	-	-	-	-	345,331	345,331
Debt service	-	48,889	-	-	-	48,889
Capital projects	-	-	24,969,274	652,404	-	25,621,678
Committed for student activities	-	-	-	-	417,378	417,378
Assigned						
Capital projects	-	-	-	-	2,787,123	2,787,123
Unassigned	<u>9,304,488</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,304,488</u>
 Total fund balances	<u>9,480,227</u>	<u>48,889</u>	<u>24,969,274</u>	<u>652,404</u>	<u>3,557,002</u>	<u>38,707,796</u>
 Total liabilities and fund balances	<u>\$ 15,959,331</u>	<u>\$ 129,556</u>	<u>\$ 24,969,274</u>	<u>\$ 1,905,167</u>	<u>\$ 3,794,296</u>	<u>\$ 46,757,624</u>

See Accompanying Notes to the Financial Statements

**Flat Rock Community Schools**  
**Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position**  
**June 30, 2023**

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<b>Total fund balances for governmental funds</b>	<b>\$ 38,707,796</b>
Total net position for governmental activities in the statement of net position is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	
Capital assets not being depreciated	4,827,197
Capital assets - net of accumulated depreciation	27,133,336
Deferred outflows (inflows) of resources	
Deferred inflows of resources resulting from debt refunding	(40,628)
Deferred inflows of resources resulting from the net pension liability	(2,118,199)
Deferred outflows of resources resulting from the net pension liability	11,708,997
Deferred inflows of resources resulting from the net OPEB liability	(4,689,950)
Deferred outflows of resources resulting from the net OPEB liability	3,151,358
Certain liabilities are not due and payable in the current period and are not reported in the funds	
Accrued interest	(273,594)
July and August contractual insurance benefits	(152,737)
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	(39,809,755)
Net OPEB liability	(2,236,044)
Compensated absences	(348,388)
Bonds payable	(42,297,493)
School bond loan payable	(5,731,234)
Accrued interest on school bond loan and revolving loan funds	<u>(312,708)</u>
<b>Net position of governmental activities</b>	<b><u>\$ (12,482,046)</u></b>

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, 2023**

	General Fund	Debt Service Fund	Capital Projects		Nonmajor Governmental Funds	Total Governmental Funds
			2022 Bond Series II Fund	2022 Bond Series I Fund		
<b>Revenues</b>						
Local sources	\$ 1,933,663	\$ 3,622,481	\$ 160,453	\$ 169,992	\$ 524,552	\$ 6,411,141
State sources	19,965,293	45,101	-	-	34,233	20,044,627
Federal sources	3,456,687	-	-	-	477,445	3,934,132
Interdistrict sources	1,875,064	-	-	-	-	1,875,064
<b>Total revenues</b>	<b>27,230,707</b>	<b>3,667,582</b>	<b>160,453</b>	<b>169,992</b>	<b>1,036,230</b>	<b>32,264,964</b>
<b>Expenditures</b>						
Current						
Education						
Instruction	12,789,588	-	-	-	-	12,789,588
Supporting services	12,205,617	-	-	20,966	-	12,226,583
Food services	-	-	-	-	586,817	586,817
Student and school activities	-	-	-	-	368,922	368,922
Athletics	567,540	-	-	-	-	567,540
Intergovernmental payments	251,929	-	-	-	-	251,929
Capital outlay	1,469,597	-	-	4,371,255	333,743	6,174,595
Debt service						
Principal	-	4,290,000	-	-	-	4,290,000
Interest and other expenditures	-	743,664	-	-	-	743,664
Bond issuance costs	-	14,538	216,242	-	-	230,780
Payment to bond refunding escrow agent	-	1,526,152	-	-	-	1,526,152
<b>Total expenditures</b>	<b>27,284,271</b>	<b>6,574,354</b>	<b>216,242</b>	<b>4,392,221</b>	<b>1,289,482</b>	<b>39,756,570</b>
Excess (deficiency) of revenues over expenditures	(53,564)	(2,906,772)	(55,789)	(4,222,229)	(253,252)	(7,491,606)

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, 2023**

	General Fund	Debt Service Fund	Capital Projects		Nonmajor Governmental Funds	Total Governmental Funds
			2022 Bond Series II Fund	2022 Bond Series I Fund		
<b>Other Financing Sources (Uses)</b>						
Proceeds from issuance of bonds	-	1,345,000	22,265,000	-	-	23,610,000
Premium on issuance of bond	-	200,297	2,760,063	-	-	2,960,360
Proceeds from school bond loan and revolving loan funds	-	1,332,713	-	-	-	1,332,713
Transfers in	12,000	-	-	-	-	12,000
Transfers out	-	-	-	-	(12,000)	(12,000)
Total other financing sources (uses)	12,000	2,878,010	25,025,063	-	(12,000)	27,903,073
Net change in fund balances	(41,564)	(28,762)	24,969,274	(4,222,229)	(265,252)	20,411,467
Fund balances - beginning	9,521,791	77,651	-	4,874,633	3,822,254	18,296,329
Fund balances - ending	<u>\$ 9,480,227</u>	<u>\$ 48,889</u>	<u>\$ 24,969,274</u>	<u>\$ 652,404</u>	<u>\$ 3,557,002</u>	<u>\$ 38,707,796</u>

See Accompanying Notes to the Financial Statements

**Flat Rock Community Schools**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2023**

<b>Net change in fund balances - Total governmental funds</b>	<b>\$ 20,411,467</b>
Total change in net position reported for governmental activities in the statement of activities is different because:	
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	(1,553,420)
Capital outlay	7,379,570
Sale of capital assets (net book value)	(1,500)
Expenses are recorded when incurred in the statement of activities.	
Interest	(350,285)
Benefit claims	3,931
Compensated absences	(27,758)
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	(15,467,210)
Net change in deferrals of resources related to the net pension liability	14,060,814
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	(668,478)
Net change in deferrals of resources related to the net OPEB liability	2,298,413
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	(27,903,073)
Repayments of long-term debt	5,816,152
Amortization of bond premium	90,256
Amortization of deferred amount on debt refunding	<u>(295,850)</u>
<b>Change in net position of governmental activities</b>	<b><u>\$ 3,793,029</u></b>

See Accompanying Notes to the Financial Statements

**Flat Rock Community Schools**  
**Notes to the Financial Statements**  
**June 30, 2023**

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**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**

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

**Flat Rock Community Schools**  
**Notes to the Financial Statements**  
**June 30, 2023**

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current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

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.

2022 Bond Series I Fund – The 2022 Bond Series I Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically for acquiring new school sites, buildings, equipment, and for building improvements. The fund is kept open until the purpose for which the fund was created has been accomplished.

2022 Bond Series II Fund – The 2022 Bond Series II Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically for acquiring new school sites, buildings, equipment, and for building improvements. The fund is kept open until the purpose for which the fund was created has been accomplished.

Additionally, the School District reports the following fund types:

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

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

**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, 2023, 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 Fund	11.22000

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

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

**Flat Rock Community Schools**  
**Notes to the Financial Statements**  
**June 30, 2023**

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*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 service lives of the employees and retirees in the plans. The School District also

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

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

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

In the School District’s fund financial statements, the face amount of the debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses.

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

**Flat Rock Community Schools**  
**Notes to the Financial Statements**  
**June 30, 2023**

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accordance with the benefit terms. Investments are reported at fair value.

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

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

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

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

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

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

Assigned – amounts intended to be used for specific purposes, as determined by the Board of Education. The Board of Education has granted the Superintendent the authority to assign funds. Residual amounts in governmental funds other than the General Fund are automatically assigned by their nature.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments, and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School District's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the School District's policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires

**Flat Rock Community Schools**  
**Notes to the Financial Statements**  
**June 30, 2023**

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

**Upcoming Accounting and Reporting Changes**

Statement No. 100, *Accounting Changes and Error Corrections*, improves the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. More understandable, reliable, relevant, consistent and comparable information will be provided to financial statement users for making decisions or assessing accountability. Additionally, the display and note disclosure requirements will result in more consistent, decision useful,

understandable and comprehensive information for users about accounting changes and error corrections. This statement is effective for the year ending June 30, 2024.

Statement No. 101, *Compensated Absences*, updates the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This statement is effective for the year ending June 30, 2025.

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.

**Flat Rock Community Schools**  
**Notes to the Financial Statements**  
**June 30, 2023**

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year.

**Excess of Expenditures over Appropriations**

During the year, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

Function	Final Budget	Amount of Expenditures	Budget Variances
School and Student Activities Fund	\$ 347,200	\$ 368,922	\$ 21,722

**Compliance - Bond Proceeds**

The 2022 Bond Series I Fund and 2022 Bond Series II Fund include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, management believes the School District has complied, in all material respects, with the applicable provisions of Section 1351a of the Revised School Code. The following is a summary of the revenue and expenditures in the 2022 Bond Series I Fund and 2022 Bond Series II Fund from the inception of the fund through the current fiscal year:

	2022 Bond Series I Fund	2022 Bond Series II Fund
Revenues	\$ 5,170,155	\$ 25,185,516
Expenditures	4,517,751	216,242
	<u>\$ 652,404</u>	<u>\$ 24,969,274</u>

**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
Cash	\$ 7,326,707
Investments	<u>30,776,810</u>
	<u>\$ 38,103,517</u>

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

Deposits (checking, savings accounts, money markets, certificates of deposit)	\$ 7,326,707
Investments in securities, mutual funds, and similar vehicles	<u>30,776,810</u>
Total	<u>\$ 38,103,517</u>

As of year end, the School District had the following investments:

Investment	Carrying Value	Maturities	Rating	Rating Organization
External investment pools:				
Michigan Liquid Asset Fund (MILAF):				
MILAF + Portfolio				
Cash Management Class	\$ 5,162,261	6 months average	AAAm	Standard and Poor's
MAX Class	<u>25,614,549</u>	6 months average	AAAm	Standard and Poor's
	<u>\$ 30,776,810</u>			

**Flat Rock Community Schools**  
**Notes to the Financial Statements**  
**June 30, 2023**

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The valuation method for investments measured at net asset value (NAV) per share (or its equivalent) is discussed below.

As of June 30, 2023, the net asset value of the School District's investment in MILAF + Portfolio was \$30,776,810. Participation in the investment pool has not resulted in any unfunded commitments. Shares are available to be redeemed upon proper notice without restrictions under normal operating conditions. There are no limits to the number of redemptions that can be made provided the School District has sufficient shares to meet the redemption request. In the event of an emergency that would make the determination of net asset value not reasonably practical, the Trust's Board of Trustees may suspend the right of withdrawal or postpone the date of payment. The net asset value ("NAV") per share of the MILAF+ Portfolio is calculated as of the close of business each business day by dividing the net position of that Portfolio by the number of its outstanding shares. It is the MILAF+ Portfolio's objective to maintain a NAV of \$1.00 per share, however, there is no assurance that this objective will be achieved. The exact price for share transactions will be determined based on the NAV next calculated after receipt of a properly executed order. The number of shares purchased or redeemed will be determined by the NAV.

Interest rate risk – The School District does have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

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

Concentration of credit risk – The School District has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that, in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of year-end, \$7,157,451 of the School District's bank balance of \$7,659,951 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of year-end, none of the School District's investments were exposed to custodial credit risk.

**Flat Rock Community Schools**  
**Notes to the Financial Statements**  
**June 30, 2023**

**Note 4 - Capital Assets**

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

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 47,230	\$ 290,000	\$ -	\$ 337,230
Construction-in-progress	579,380	4,489,967	579,380	4,489,967
Total capital assets not being depreciated	626,610	4,779,967	579,380	4,827,197
Capital assets being depreciated				
Buildings and additions	48,458,561	2,722,485	-	51,181,046
Site improvements	710,186	-	-	710,186
Equipment and furniture	8,814,219	72,781	-	8,887,000
Buses and other vehicles	1,799,536	383,717	183,280	1,999,973
Total capital assets being depreciated	59,782,502	3,178,983	183,280	62,778,205
Less accumulated depreciation for				
Buildings and additions	24,618,955	1,231,109	-	25,850,064
Site improvements	230,688	20,811	-	251,499
Equipment and furniture	8,238,398	139,027	-	8,377,425
Buses and other vehicles	1,185,188	162,473	181,780	1,165,881
Total accumulated depreciation	34,273,229	1,553,420	181,780	35,644,869
Net capital assets being depreciated	25,509,273	1,625,563	1,500	27,133,336
Net capital assets	\$ 26,135,883	\$ 6,405,530	\$ 580,880	\$ 31,960,533

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

**Governmental activities**

Instruction	\$ 759,159
Supporting services	725,741
Food services	34,832
Athletics	33,688
Total governmental activities	<u>\$ 1,553,420</u>

**Construction Contracts**

As of year end, the School District had the following construction contracts in progress:

Project	Total Contract	Remaining Construction Commitment at Year End	Contract Payable at Year End
	Bobcean Elementary	\$ 3,050,785	\$ 1,860,026
Barnes Elementary	1,174,942	757,464	38,422
Simpson Middle School	1,597,404	1,264,423	18,812
Flat Rock Community High School	4,960,137	2,626,085	194,816
Community Building	364,974	150,277	9,020
Total	<u>\$ 11,148,242</u>	<u>\$ 6,658,275</u>	<u>\$ 357,965</u>

Contracts payable at year end represent actual contractor billings of \$357,965 and are recorded as a 2022 Bond Series I Fund liability. All projects are expected to be complete by December 31, 2025.

**Note 5 - Interfund Receivables, Payables, and Transfers**

Individual interfund receivable and payable balances at year end were:

Payable Fund	Receivable Fund	Amount
General Fund	Debt Fund	\$ 95,604
General Fund	Nonmajor Funds	2,876,660
2022 Bond Series I Fund	General Fund	894,798
Nonmajor Funds	General Fund	152,252
General Fund	2022 Bond Series II Fund	624
		<u>\$ 4,019,938</u>

**Flat Rock Community Schools**  
**Notes to the Financial Statements**  
**June 30, 2023**

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:

	<u>Transfers Out</u>
<b>Transfers in</b>	Nonmajor
General Fund	Governmental
	Funds
	<u>\$ 12,000</u>

These transfers were made to cover indirect costs generated by the Nonmajor Governmental Funds.

**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:

Deposits	\$ 161,605
Grant and categorical aid payments received prior to meeting all eligibility requirements	575,898
<b>Total</b>	<b>\$ 737,503</b>

**Note 7 - Long-Term Debt**

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

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Bonds and notes payable					
General obligation bonds	\$ 21,440,000	\$ 23,610,000	\$ 5,820,000	\$ 39,230,000	\$ 3,670,000
Premium on bonds	265,993	2,960,361	158,861	3,067,493	-
Discount on bonds	(31,824)	-	(31,824)	-	-
Total bonds payable	21,674,169	26,570,361	5,947,037	42,297,493	3,670,000
Notes from direct borrowings and direct placements					
School Bond Loan	4,398,521	1,332,713	-	5,731,234	-
Accrued interest - SBLF and SLRF	144,959	167,749	-	312,708	-
Total notes from direct borrowings and direct placements	4,543,480	1,500,462	-	6,043,942	-
Other liabilities					
Compensated absences	320,630	37,110	9,352	348,388	34,839
<b>Total</b>	<b>\$ 26,538,279</b>	<b>\$ 28,107,933</b>	<b>\$ 5,956,389</b>	<b>\$ 48,689,823</b>	<b>\$ 3,704,839</b>

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

**Flat Rock Community Schools**  
**Notes to the Financial Statements**  
**June 30, 2023**

General obligation bonds payable at year end consist of the following:

<p>\$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 \$1,605,000 to \$1,695,000 through May 1, 2025; interest at 5.00%</p> <p>\$14,445,000 2016 Refunding Bonds, Series B for the current refunding of a portion of the School Bond Loan; due one installment of \$2,065,000 May 2024; interest at 2.86%</p> <p>\$5,225,000 2019 Refunding Bonds for the current refunding of a portion of the School Bond Loan; due in annual installments of \$1,715,000 to \$1,785,000 through May 1, 2028; interest at 2.38% to 2.47%</p> <p>\$5,000,000 2022 School Building and Site Bonds, Series I; due in annual installments of \$50,000 to \$300,000 through May 1, 2052; interest at 4.00% to 5.00%</p> <p>\$22,265,000 2022 School Building and Site Bonds, Series II; due in annual installments of \$360,000 to \$1,580,000 through May 1, 2052; interest at 5.00 to 5.25%</p> <p>\$1,345,000 2022 Refunding Bond for the current refunding of a portion of the School Bond Loan; due in one installment of \$1,345,000 on May 1, 2029; interest at 5%</p>	<p>\$ 3,300,000</p> <p>2,065,000</p> <p>5,255,000</p> <p>5,000,000</p> <p>22,265,000</p> <p><u>1,345,000</u></p> <p><u>\$ 39,230,000</u></p>
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Future principal and interest requirements for bonded debt are as follows:

<b>Year Ending June 30,</b>	Bonds	
	Principal	Interest
2024	\$ 3,670,000	\$ 1,728,334
2025	1,695,000	1,639,394
2026	1,765,000	1,554,644
2027	1,805,000	1,511,327
2028	1,835,000	1,465,987
2029 - 2033	4,660,000	6,527,900
2034 - 2038	4,350,000	5,540,000
2039 - 2043	5,495,000	4,388,626
2044 - 2048	6,975,000	2,892,956
2049 - 2052	6,980,000	917,288
<b>Total</b>	<b>\$ 39,230,000</b>	<b>\$ 28,166,456</b>

The general obligation bonds are payable from the Debt Service Fund. As of year end, the fund had a balance of \$48,889 to pay this debt. Future debt and interest will be payable from future tax levies.

**Advance Refunding**

On April 13, 2023, the School District issued general obligation bonds of \$1,345,000 (par value) with an interest rate of 5.00% to advance refund term bonds with an interest rate of 3.00% and a par value of \$1,530,000. The term bonds mature on May 1, 2029. The general obligation bond was issued at a premium and after paying issuance costs of \$14,550, the net proceeds were \$1,545,297. The net proceeds from the issuance of the general obligation bond was deposited with an escrow agent to provide debt service payments until the term bonds mature. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the School District's financial statements.

**Flat Rock Community Schools**  
**Notes to the Financial Statements**  
**June 30, 2023**

As a result of the advance refunding, the School District increased its total debt service requirements by \$143,148, which resulted in a net present value savings of \$68,619.

**Deferred Amount on Refunding**

The advance refundings resulted in a difference between the reacquisition price and the net carrying amount of the old debt. These amounts are reported in the accompanying statement of net position as a deferred outflow of resources and are being charged to activities as follows:

Series	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
2016 Refunding, Series A	5/1/2025	\$ 57,577	\$ -	\$ 57,577	\$ -
2022 Refunding Bond, Series II	5/1/2029	-	40,628	-	40,628
2019 Refunding	5/1/2028	238,273	-	238,273	-
		<u>\$ 295,850</u>	<u>\$ 40,628</u>	<u>\$ 295,850</u>	<u>\$ 40,628</u>

**State School Bond Loan and School Revolving Loan Funds**

The State School Bond Loan consists of a borrowing agreement with the State of Michigan for the purpose of meeting the financing of current debt maturities on the School District's various bonds. The bond election, as passed by the voters, specified that the School District debt millage would not exceed the pre-bond vote millage, but instead the election permitted the School District to extend this levy. Since the monies generated by the millage are presently not sufficient to cover the entire debt service requirements of the School District, it has been necessary for the School District to borrow additional funds to meet debt service requirements. The School District has agreed to repay the loan amount with interest at rates and at times to be determined by the State Treasurer. Changes to the school bond loan for the year ended June 30, 2023, are as follows:

	Principal	Interest	Total
Beginning balance	\$ 4,398,521	\$ 144,959	\$ 4,543,480
Additions	<u>1,332,713</u>	<u>167,749</u>	<u>1,500,462</u>
Ending balance	<u>\$ 5,731,234</u>	<u>\$ 312,708</u>	<u>\$ 6,043,942</u>

**Compensated Absences**

Accrued compensated absences at year end, consist of \$348,388 of accrued sick bank hours, additional retirement incentives and severance pay. The amount anticipated to be paid out over the next year is included within the amounts listed as due within one year.

**Note 8 - Net Investment in Capital Assets**

The composition of net investment in capital assets as of June 30, 2022, was as follows:

Capital assets	
Capital assets not being depreciated	\$ 4,827,197
Capital assets, net of accumulated depreciation	<u>27,133,336</u>
Total capital assets	<u>31,960,533</u>
Unspent bond proceeds	<u>25,621,678</u>
Related debt	
General obligation bonds	39,230,000
Unamortized bond premiums	3,067,493
Deferred charge on bond refunding	<u>40,628</u>
Total related debt	<u>42,338,121</u>
Net investment in capital assets	<u>\$ 15,244,090</u>

**Flat Rock Community Schools**  
**Notes to the Financial Statements**  
**June 30, 2023**

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**Note 9 - Risk Management**

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

The School District is self-insured for health, dental and vision benefits paid on behalf of its employees. Payments are made to the insurance administrators monthly based on actual claims and administration fees. The health plan provides a stop-loss provision of \$100,000 per contract and 125% 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:

	2023	2022
Estimated liability at the beginning of the year	\$ (3,367)	\$ 189,305
Estimated claims incurred including changes in estimates	1,910,477	1,386,350
Claim payments	(1,733,298)	(1,579,022)
Estimated (asset) liability end of year	\$ 173,812	\$ (3,367)

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 \$344 of unemployment compensation expense for the year. No provision has been made for possible future claims.

**Note 10 - Pension Plan**

**Plan Description**

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

The System's 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](http://www.michigan.gov/orsschools)

**Benefits Provided**

Benefit provisions of the defined benefit pension plan are established by State statute, which may be 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

**Flat Rock Community Schools**  
**Notes to the Financial Statements**  
**June 30, 2023**

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, 2021 valuation will be amortized over an 17-year period beginning Oct. 1, 2021 and ending Sept. 30, 2038.

The schedule below summarizes pension contribution rates in effect for plan year ended September 30, 2022.

Pension Contribution Rates		
Benefit Structure	Member	Employer
Basic	0.0 - 4.0%	20.14%
Member Investment Plan	3.0 - 7.0%	20.14%
Pension Plus	3.0 - 6.4%	17.22%
Pension Plus 2	6.2%	19.93%
Defined Contribution	0.0%	13.73%

Required contributions to the pension plan from the School District were \$3,602,780 for the year ending September 30, 2022.

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

At June 30, 2023, the School District reported a liability of \$39,809,755 for its proportionate share of the MPERS net pension liability. The net pension liability was measured as of September 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2021. 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, 2022, the School District's proportion was .1059 percent, which was an increase of .0030 percent from its proportion measured as of September 30, 2021.

For the plan year ending September 30, 2022, the School District recognized pension expense of \$5,047,785 for the measurement period. For the reporting period ending June 30, 2023, the School District recognized total pension contribution expense of \$3,836,038.

Section 147c of the State School Aid Act (MCL 388.1747c) was amended to include a one-time distribution to districts, intermediate districts, and other participating entities of MPERS, which is referred to as Section 147c(2). Section 147c(2) is required to be forwarded to the state's ORS as additional assets being contributed to the retirement

**Flat Rock Community Schools**  
**Notes to the Financial Statements**  
**June 30, 2023**

system. This funding is a one-time, state payment toward the MPERS unfunded liability and not part of the actuarially determined contributions and therefore not included in the above pension expense, pension contributions or related deferred inflows/outflows of resources. For the period ending June 30, 2023, the School District recognized in their financial statements an additional amount related to Section 147c(2) of \$1,055,887 in total pension expense and offset in state revenues.

At June 30, 2023, 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	\$ 398,236	\$ (89,010)	\$ 309,226
Changes of assumptions	6,840,742	-	6,840,742
Net difference between projected and actual earnings on pension plan investments	93,354	-	93,354
Changes in proportion and differences between the School District contributions and proportionate share of contributions	809,675	(216,159)	593,516
Total to be recognized in future	8,142,007	(305,169)	7,836,838
School District contributions subsequent to the measurement date	3,566,990	(1,813,030)	1,753,960
Total	\$ 11,708,997	\$ (2,118,199)	\$ 9,590,798

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 ending

June 30, 2024. The School District will offset the contribution expense in the year ended June 30, 2024 with the 147c supplemental income received subsequent to the measurement date which is included in the deferred inflows of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows during the following plan years:

Deferred (Inflow) and Deferred Outflow of Resources by Year (To Be Recognized in Future Pension Expenses)	
2023	\$ 2,196,902
2024	1,729,379
2025	1,544,206
2026	2,366,351
	\$ 7,836,838

**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, 2021
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 2.75%

**Flat Rock Community Schools**  
**Notes to the Financial Statements**  
**June 30, 2023**

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

Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2018 valuation. The total pension liability as of September 30, 2022, is based on the results of an actuarial valuation date of September 30, 2021, 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 is 4.3922 years.

Recognition period for assets is 5 years.

Full actuarial assumptions are available in the 2022 MPERS Annual Comprehensive Financial Report found on the ORS website at [www.michigan.gov/orsschools](http://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, 2022, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	25.0 %	5.1 %
Private Equity Pools	16.0	8.7
International Equity	15.0	6.7
Fixed Income Pools	13.0	( 0.2)
Real Estate and Infrastructure Pools	10.0	5.3
Absolute Return Pools	9.0	2.7
Real Return/Opportunistic Pools	10.0	5.8
Short Term Investment Pools	2.0	(0.5)
	100.0%	

*\*Long-term rates of return are net of administrative expenses and 2.2% inflation.*

**Rate of Return**

For the plan year ended September 30, 2022, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was (4.18)%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Flat Rock Community Schools**  
**Notes to the Financial Statements**  
**June 30, 2023**

**Discount Rate**

A discount rate of 6.00% was used to measure the total pension liability (6.00% for the Pension Plus plan, 6.00% for the Pension Plus 2, hybrid plans provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 6.00% (6.00% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 6.00% (6.00% for the Pension plus plan, 6.00% for the Pension Plus 2 plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

1% Decrease *	Current Single Discount Rate Assumption *	1% Increase *
5.00%	6.00%	7.00%
\$ 52,534,086	\$ 39,809,755	\$ 29,324,332

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

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

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS Annual Comprehensive Financial Report, available on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

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

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

**Note 11 - Postemployment Benefits Other Than Pensions (OPEB)**

**Plan Description**

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

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

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

# Flat Rock Community Schools

## Notes to the Financial Statements

### June 30, 2023

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The System's financial statements are available on the ORS website at [www.michigan.gov/orsschools](http://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 with 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, 2021 valuation will be amortized over an 17-year period beginning Oct. 1, 2021 and ending Sept. 30, 2038.

**Flat Rock Community Schools**  
**Notes to the Financial Statements**  
**June 30, 2023**

The schedule below summarizes OPEB contribution rates in effect for plan year 2022.

OPEB Contribution Rates		
Benefit Structure	Member	Employer
Premium Subsidy	3.0%	8.09%
Personal Healthcare Fund (PHF)	0.0%	7.23%

Required contributions to the OPEB plan from the School District were \$804,164 for the year ended September 30, 2022.

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

At June 30, 2023, the School District reported a liability of \$2,236,044 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2021. 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, 2022, the School District's proportion was .1056 percent, which was an increase of .0029 percent from its proportion measured as of September 30, 2021.

For the plan year ending September 30, 2022, the School District recognized OPEB expense of (\$814,088) for the measurement period. For the reporting period ending June 30, 2023, the School District recognized total OPEB contribution expense of \$815,944.

At June 30, 2023, 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	\$ -	\$ (4,379,553)	\$ (4,379,553)
Changes of assumptions	1,993,058	(162,286)	1,830,772
Net difference between projected and actual earnings on OPEB plan investments	174,764	-	174,764
Changes in proportion and differences between the School District contributions and proportionate share of contributions	<u>277,196</u>	<u>(148,111)</u>	<u>129,085</u>
Total to be recognized in future	2,445,018	(4,689,950)	(2,244,932)
School District contributions subsequent to the measurement date	<u>706,340</u>	<u>-</u>	<u>706,340</u>
Total	<u>\$ 3,151,358</u>	<u>\$ (4,689,950)</u>	<u>\$ (1,538,592)</u>

**Flat Rock Community Schools**  
**Notes to the Financial Statements**  
**June 30, 2023**

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, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows during the following plan years:

Deferred (Inflow) and Deferred Outflow of Resources by Year  
 (To Be Recognized in Future OPEB Expenses)

2023	\$	(819,710)
2024		(760,324)
2025		(646,824)
2026		(12,879)
2027		(11,721)
Thereafter		6,526
		\$ (2,244,932)

**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, 2021
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 2.75%
- Investment Rate of Return: 6.00% net of investment expenses

- Projected Salary Increases: 2.75 – 11.55%, including wage inflation of 2.75%
- Healthcare Cost Trend Rate: Pre-65: 7.75% Year 1 graded to 3.5% Year 15; 3.0% Year 120 Post-65: 5.25% Year 1 graded to 3.5% Year 15; 3.0% Year 120
- Mortality:
  - Retirees: RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
  - Active: RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

*Other Assumptions:*

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

Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2018 valuation. The total OPEB liability as of September 30, 2022, is based on the results of an actuarial valuation date of September 30, 2021, 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 is 6.2250.

**Flat Rock Community Schools**  
**Notes to the Financial Statements**  
**June 30, 2023**

Recognition period for assets in years is 5.0000.

Full actuarial assumptions are available in the 2022 MPSERS Annual Comprehensive Financial Report found on the ORS website at [www.michigan.gov/orsschools](http://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, 2022, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	25.0 %	5.1 %
Private Equity Pools	16.0	8.7
International Equity	15.0	6.7
Fixed Income Pools	13.0	(0.2)
Real Estate and Infrastructure Pools	10.0	5.3
Absolute Return Pools	9.0	2.7
Real Return/Opportunistic Pools	10.0	5.8
Short Term Investment Pools	2.0	(0.5)
	<u>100.0%</u>	

\*Long-term rates of return are net of administrative expenses and 2.2% inflation.

**Rate of Return**

For the plan year ended September 30, 2022, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was (4.99)%. 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 6.00% 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 6.00%. 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 6.00%, 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 5.00%	Current Discount Rate 6.00%	1% Increase 7.00%
<u>\$ 3,750,748</u>	<u>\$ 2,236,044</u>	<u>\$ 960,475</u>

**Flat Rock Community Schools**  
**Notes to the Financial Statements**  
**June 30, 2023**

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

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

1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
\$ 936,348	\$ 2,236,044	\$ 3,694,978

**OPEB Plan Fiduciary Net Position**

Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued 2022 MPSERS Annual Comprehensive Financial Report, available on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

**Payables to the OPEB Plan**

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

**Note 12 - Contingent Liabilities**

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time, although the School District expects such amounts, if any, to be immaterial. A separate report on federal compliance has been issued for the year June 30, 2023.

**Note 13 - Tax Abatements**

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

For the fiscal year ended June 30, 2023, the School District’s property tax revenues were reduced by \$119,675 under these programs.

## REQUIRED SUPPLEMENTARY INFORMATION

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**Flat Rock Community Schools**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule - General Fund**  
**For the Year Ended June 30, 2023**

	<u>Budgeted Amounts</u>			Over (Under) Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Local sources	\$ 1,894,413	\$ 1,923,860	\$ 1,933,663	\$ 9,803
State sources	18,217,360	19,960,131	19,965,293	5,162
Federal sources	3,132,730	3,451,241	3,456,687	5,446
Interdistrict sources	1,186,245	1,799,992	1,875,064	75,072
	<u>24,430,748</u>	<u>27,135,224</u>	<u>27,230,707</u>	<u>95,483</u>
<b>Total revenues</b>				
	<u>24,430,748</u>	<u>27,135,224</u>	<u>27,230,707</u>	<u>95,483</u>
<b>Expenditures</b>				
Instruction				
Basic programs	9,397,410	10,077,226	9,873,907	(203,319)
Added needs	2,769,061	2,936,998	2,915,681	(21,317)
Supporting services				
Pupil	2,190,213	2,328,596	2,277,437	(51,159)
Instructional staff	1,149,076	1,162,967	1,141,510	(21,457)
General administration	475,234	539,160	527,400	(11,760)
School administration	1,511,842	1,621,063	1,591,377	(29,686)
Business	513,022	585,618	553,800	(31,818)
Operations and maintenance	3,620,266	4,049,895	3,979,711	(70,184)
Pupil transportation services	1,254,627	1,473,166	1,429,301	(43,865)
Central	633,155	718,664	705,081	(13,583)
Athletics	557,200	576,640	567,540	(9,100)
Intergovernmental payments	450,000	350,000	251,929	(98,071)
Capital outlay	440,792	1,604,083	1,469,597	(134,486)
	<u>24,961,898</u>	<u>28,024,076</u>	<u>27,284,271</u>	<u>(739,805)</u>
<b>Total expenditures</b>				
	<u>24,961,898</u>	<u>28,024,076</u>	<u>27,284,271</u>	<u>(739,805)</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(531,150)</u>	<u>(888,852)</u>	<u>(53,564)</u>	<u>835,288</u>

**Flat Rock Community Schools**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule - General Fund**  
**For the Year Ended June 30, 2023**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Other Financing Sources (Uses)</b>				
Transfers in	12,000	12,000	12,000	-
Transfers out	(250)	-	-	-
Total other financing sources (uses)	<u>11,750</u>	<u>12,000</u>	<u>12,000</u>	<u>-</u>
Net change in fund balance	(519,400)	(876,852)	(41,564)	835,288
Fund balance - beginning	<u>9,521,791</u>	<u>9,521,791</u>	<u>9,521,791</u>	<u>-</u>
Fund balance - ending	<u>\$ 9,002,391</u>	<u>\$ 8,644,939</u>	<u>\$ 9,480,227</u>	<u>\$ 835,288</u>

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

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
A. School District's proportion of net pension liability (%)	0.1059%	0.1028%	0.1021%	0.1042%	0.1044%	0.1013%	0.0979%	0.0981%	0.1014%	
B. School District's proportionate share of net pension liability	\$ 39,809,755	\$ 24,342,545	\$ 35,079,911	\$ 34,503,963	\$ 31,379,405	\$ 26,249,120	\$ 24,419,161	\$ 23,966,862	\$ 22,328,383	
C. School District's covered payroll	\$ 10,253,092	\$ 9,273,447	\$ 8,975,597	\$ 8,935,956	\$ 9,016,583	\$ 8,616,880	\$ 8,230,997	\$ 8,184,273	\$ 8,821,072	
D. School District's proportionate share of net pension liability as a percentage of its covered payroll	388%	262%	391%	386%	348%	305%	297%	293%	253%	
E. Plan fiduciary net position as a percentage of total pension liability	60.77%	72.60%	59.72%	60.31%	62.36%	64.21%	63.27%	63.17%	66.20%	

**Note Disclosures**

Changes of benefit terms: There were no changes of benefit terms in plan fiscal year 2022.

Changes of benefit assumptions: There were no changes of benefit assumptions in plan fiscal year 2022.

**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,									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
A. Statutorily required contributions	\$ 3,836,038	\$ 3,087,231	\$ 3,053,448	\$ 2,808,486	\$ 2,774,272	\$ 2,677,044	\$ 2,197,947	\$ 1,892,943	\$ 1,574,345	
B. Contributions in relation to statutorily required contributions	<u>3,836,038</u>	<u>3,087,231</u>	<u>3,053,448</u>	<u>2,808,486</u>	<u>2,774,272</u>	<u>2,677,044</u>	<u>2,197,947</u>	<u>1,892,943</u>	<u>1,574,345</u>	
C. Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
D. School District's covered payroll	\$ 10,417,868	\$ 9,685,793	\$ 9,157,791	\$ 8,979,824	\$ 9,003,323	\$ 8,976,480	\$ 8,510,084	\$ 7,968,178	\$ 8,506,430	
E. Contributions as a percentage of covered payroll	36.82%	31.87%	33.34%	31.28%	30.81%	29.82%	25.83%	23.76%	18.51%	

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

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
A. School District's proportion of the net OPEB liability (%)	0.1056%	0.1027%	0.1013%	0.1023%	0.1062%	0.1010%				
B. School District's proportionate share of the net OPEB liability	\$ 2,236,044	\$ 1,567,566	\$ 5,426,276	\$ 7,343,476	\$ 8,438,319	\$ 8,946,028				
C. School District's covered payroll	\$ 10,253,092	\$ 9,273,447	\$ 8,975,597	\$ 8,935,956	\$ 9,016,583	\$ 8,616,880				
D. School District's proportionate share of the net OPEB liability as a percentage of its covered payroll	22%	17%	60%	82%	94%	104%				
E. Plan fiduciary net position as a percentage of total OPEB liability	83.09%	87.33%	59.44%	48.46%	42.95%	36.39%				

**Note Disclosures**

Changes of benefit terms: There were no changes of benefit terms in plan fiscal year 2022.

Changes of benefit assumptions: There were no changes of benefit assumptions in plan fiscal year 2022.

**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,									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
A. Statutorily required contributions	\$ 815,944	\$ 762,376	\$ 748,358	\$ 718,169	\$ 705,065	\$ 677,414				
B. Contributions in relation to statutorily required contributions	<u>815,944</u>	<u>762,376</u>	<u>748,358</u>	<u>718,169</u>	<u>705,065</u>	<u>677,414</u>				
C. Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>				
D. School District's covered payroll	\$ 10,417,868	\$ 9,685,793	\$ 9,157,791	\$ 8,979,824	\$ 9,003,323	\$ 8,976,480				
E. Contributions as a percentage of covered payroll	7.83%	7.87%	8.17%	8.00%	7.83%	7.55%				

**Flat Rock Community Schools**

**Single Audit**

**June 30, 2023**



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## Table of Contents

	<b>Page</b>
Single Audit	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
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	3
Schedule of Expenditures of Federal Awards	6
Notes to the Schedule of Expenditures of Federal Awards	9
Schedule of Findings and Questioned Costs	10
Summary Schedule of Prior Audit Findings	12

## **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  
Flat Rock, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Flat Rock Community Schools, as of and for the year ended June 30, 2023, 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 24, 2023.

#### **Report on 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) as a basis for designing 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 or significant deficiencies may exist that were not identified.

## Report on 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 financial statements. 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 24, 2023



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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  
Flat Rock, Michigan

#### **Report on Compliance for Each Major Federal Program**

##### **Opinion on Each Major Federal Program**

We have audited Flat Rock Community Schools' compliance with the types of compliance requirements identified as subject to audit 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, 2023. 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.

In our opinion, Flat Rock Community Schools complied, in all material respects, with the 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, 2023.

##### **Basis for Opinion on Each Major Federal Program**

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Flat Rock Community Schools and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Flat Rock Community Schools' compliance with the compliance requirements referred to above.

## Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or agreements applicable to Flat Rock Community Schools' federal programs.

## Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Flat Rock Community Schools' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Flat Rock Community Schools' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Flat Rock Community Schools' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Flat Rock Community Schools' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Flat Rock Community Schools' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## Report on 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 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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, 2023, 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 24, 2023, which contained unmodified opinions on those financial statements. Our audit was performed 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 24, 2023

**Flat Rock Community Schools**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2023**

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal AL Number	Approved Grant Amount	Accrued (Unearned) Revenue at July 1,2022	Expenditures (Memo Only) Prior Year	Current Year Expenditures	Current Year Receipts	Accrued (Unearned) Revenue at June 30, 2023
<b>U.S. Department of Agriculture</b>							
Child Nutrition Cluster							
Passed through Michigan Department of Education							
National School Lunch Program							
Non-Cash Assistance							
Entitlement	10.555	\$ 53,519	\$ -	\$ -	\$ 53,519	\$ 53,519	\$ -
Entitlement - Bonus	10.555	672	-	-	672	672	-
Total Non-Cash Assistance			-	-	54,191	54,191	-
Cash Assistance							
221960 National School Lunch Program - Section 11	10.555	35,923	-	-	35,923	35,923	-
231960 National School Lunch Program - Section 11	10.555	282,595	-	-	282,595	282,595	-
220910 Supply Chain Assistance Funds (Round 1)	10.555	37,746	(37,746)	-	37,746	-	-
220910 Supply Chain Assistance Funds (Round 2)	10.555	38,372	-	-	-	38,372	(38,372)
230910 Supply Chain Assistance Funds (Round 3)	10.555	20,693	-	-	-	20,693	(20,693)
Total Cash Assistance			(37,746)	-	356,264	377,583	(59,065)
Total National School Lunch Program			(37,746)	-	410,455	431,774	(59,065)
National School Breakfast Program							
221970 National School Breakfast Program	10.553	7,125	-	-	7,125	7,125	-
231970 National School Breakfast Program	10.553	59,237	-	-	59,237	59,237	-
Total National School Breakfast Program			-	-	66,362	66,362	-
Total Child Nutrition Cluster			(37,746)	-	476,817	498,136	(59,065)
Pandemic EBT Administrative Costs Grants							
Passed through Michigan Department of Education							
220980 P-EBT Local Costs Grant (2022)	10.649	628	-	-	628	628	-
<b>Total U.S. Department of Agriculture</b>			(37,746)	-	477,445	498,764	(59,065)

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, 2023**

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal AL Number	Approved Grant Amount	Accrued (Unearned) Revenue at July 1,2022	Expenditures (Memo Only) Prior Year	Current Year Expenditures	Current Year Receipts	Accrued (Unearned) Revenue at June 30, 2023
<b>U.S. Department of Education</b>							
Title I Grants to Local Educational Agencies							
Passed through Michigan Department of Education							
221530 2122 Title I, Part A	84.010	288,792	84,395	275,269	-	84,395	-
231530 2223 Title I, Part A	84.010	323,368	-	-	288,066	218,097	69,969
Total Title I Grants to Local Educational Agencies			<u>84,395</u>	<u>275,269</u>	<u>288,066</u>	<u>302,492</u>	<u>69,969</u>
Special Education Cluster							
Passed through Wayne County Regional Educational Service Agency							
220450 2122 IDEA Flowthrough	84.027	770,400	159,492	616,251	154,149	302,627	11,014
230450 2223 IDEA Flowthrough	84.027	697,984	-	-	694,343	486,338	208,005
Total Special Education Cluster			<u>159,492</u>	<u>616,251</u>	<u>848,492</u>	<u>788,965</u>	<u>219,019</u>
Career and Technical Education - Basic Grants to States							
Passed through Huron School District							
233520 231225 Perkins	84.048	69,932	-	-	69,932	69,932	-
English Language Acquisition State Grants							
Passed through Wayne County Regional Educational Service Agency							
2122 Title III, Part A	84.365	605	605	605	-	605	-
2223 Title III, Part A	84.365	2,232	-	-	2,150	-	2,150
Total English Language Acquisition State Grants			<u>605</u>	<u>605</u>	<u>2,150</u>	<u>605</u>	<u>2,150</u>
Supporting Effective Instruction State Grants							
Passed through Michigan Department of Education							
220520 2122 Title II, Part A	84.367	76,731	5,511	62,039	-	5,511	-
230520 2223 Title II, Part A	84.367	71,960	-	-	48,041	42,329	5,712
Total Supporting Effective Instruction State Grants			<u>5,511</u>	<u>62,039</u>	<u>48,041</u>	<u>47,840</u>	<u>5,712</u>

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, 2023**

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal AL Number	Approved Grant Amount	Accrued (Unearned) Revenue at July 1,2022	Expenditures (Memo Only) Prior Year	Current Year Expenditures	Current Year Receipts	Accrued (Unearned) Revenue at June 30, 2023
Student Support and Academic Enrichment Program							
Passed through Michigan Department of Education							
220750 2122 Title IV, Part A	84.424	21,264	6,421	21,264	-	6,421	-
230750 2223 Title IV, Part A	84.424	19,957	-	-	19,957	9,944	10,013
Total Student Support and Academic Enrichment Program			<u>6,421</u>	<u>21,264</u>	<u>19,957</u>	<u>16,365</u>	<u>10,013</u>
Education Stabilization Fund							
Passed through Michigan Department of Education							
211202 2122 GEER II - Teacher & Support Staff Payments	84.425C	54,250	1,717	49,967	-	1,717	-
213712 2021 ESSER II Funds - Formula	84.425D	921,034	417,973	417,973	503,061	921,034	-
213722 2122 ESSER II Funds - Formula (21/22 23b Sum Schl)	84.425D	132,312	81,198	81,198	-	81,198	-
213722 2122 ESSER II Funds - Formula (20/21 23b Sum Schl)	84.425D	56,888	56,888	56,888	-	56,888	-
213742 2122 ESSER II Funds - Formula (22/23 23b Cr Recov)	84.425D	11,505	-	-	11,505	11,505	-
213742 2122 ESSER II Funds - Formula (21/22 23b Cr Recov)	84.425D	100,449	40,171	40,171	-	40,171	-
213742 2122 ESSER II Funds - Formula (20/21 23b Cr Recov)	84.425D	27,746	27,746	27,746	-	27,746	-
213762 2122 ESSER II Funds - Formula (Bechmrk Assess)	84.425D	14,950	14,950	14,950	-	14,950	-
213782 2223 ESSER II Funds - Formula (98c Learning Loss)	84.425D	93,428	-	-	87,909	62,707	25,202
			<u>638,926</u>	<u>638,926</u>	<u>602,475</u>	<u>1,216,199</u>	<u>25,202</u>
213713 2122 ESSER III - Formula	84.425U	2,069,984	194,346	194,346	1,561,432	1,634,027	121,751
211012 2122 MV ARP Homeless II	84.425W	8,550	-	-	8,550	-	8,550
Total Education Stabilization Fund			<u>834,989</u>	<u>883,239</u>	<u>2,172,457</u>	<u>2,851,943</u>	<u>155,503</u>
<b>Total U.S. Department of Education</b>			<u>1,091,413</u>	<u>1,858,667</u>	<u>3,449,095</u>	<u>4,078,142</u>	<u>462,366</u>
<b>U.S. Department of Health and Human Services</b>							
Medicaid Cluster							
Passed through Wayne County Regional Education Service Agency							
Medicaid Outreach	93.778	7,592	-	-	7,592	5,496	2,096
<b>Total Federal Financial Assistance</b>			<u>\$ 1,053,667</u>	<u>\$ 1,858,667</u>	<u>\$ 3,934,132</u>	<u>\$ 4,582,402</u>	<u>\$ 405,397</u>

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, 2023**

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**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 (the School District) under programs of the federal government for the year ended June 30, 2023. 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 the School District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the School District.

**Note 2 - Summary of Significant Accounting Policies**

**Expenditures**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance 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 CMS Grant Auditor Report (GAR) 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, 2023**

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**Section I – Summary of Auditors’ Results**

*Financial Statements*

Type of report the auditor issued on whether the financial statements were prepared in accordance with Generally Accepted Accounting Principles:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ yes   X   no
- Significant deficiency(ies) identified \_\_\_\_\_ yes   X   none reported
- Noncompliance material to financial statements noted? \_\_\_\_\_ yes   X   no

*Federal Awards*

Internal control over major federal programs:

- Material weakness(es) identified? \_\_\_\_\_ yes   X   no
- Significant deficiency(ies) identified \_\_\_\_\_ yes   X   none reported

Type of auditors’ report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

\_\_\_\_\_ yes   X   no

Identification of major federal programs:

*Assistance Listing Number(s)*

*Name of Federal Program or Cluster*

84.425C, 84.425D, 84.425U, 84.425W  
84.027

Education Stabilization Fund  
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

**Flat Rock Community Schools  
Schedule of Findings and Questioned Costs  
June 30, 2023**

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**Section II – *Government Auditing Standards* Findings**

There were no *Government Auditing Standards* findings for the year ended June 30, 2023.

**Section III – Federal Award Findings**

There were no findings or questioned costs for Federal Awards for the year ended June 30, 2023.

**Flat Rock Community Schools  
Summary Schedule of Prior Audit Findings  
June 30, 2023**

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**Section IV – Prior Audit Findings**

***Government Auditing Standards Findings***

There were no *Government Auditing Standards* findings for the year ended June 30, 2022.

**Federal Award Findings**

There were no findings or questioned costs for Federal Awards for the year ended June 30, 2022.

October 24, 2023

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

We have audited the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Flat Rock Community Schools (the School District) as of and for the year ended June 30, 2023. We are required to communicate certain matters to you in accordance with generally accepted auditing standards that are related to internal control and the audit.

Our communication includes the following appendices:

- I. Auditors' Communication of Significant Matters with Those Charged with Governance
- II. Matters for Management's Consideration

Matters for management's consideration are not required to be communicated but we believe are valuable for management.

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

This information is intended solely for the information and use of management, the Board of Education, and others within the School District, and is not intended to be, and should not be, used by anyone other than these 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 generally accepted auditing standards, and *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated May 12, 2023. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Audit Matters

##### 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 the footnotes of the financial statements. The School District has adopted the following Governmental Accounting Standards Board Statement effective July 1, 2022:

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

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 other postemployment (OPEB) liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.
- Incurred but not reported health benefits. The estimate is derived by using historical claims and information provided by the third-party administrator.

We have evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

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

A significant risk is an identified and assessed risk of material misstatement that, in the auditors' professional judgment, requires special audit consideration. Within our audit, we focused on the following areas.

- Management override of controls
- Improper revenue recognition
- Implementation of new accounting standard
- Information Technology General Controls (ITGC)

### Accounting Standards and Regulatory Updates

The Governmental Accounting Standards Board has released additional Statements. Details regarding these Statements are described in the footnotes of the financial statements.

Implementation Guide No 2021-1, *Implementation Guidance Update-2021* has an amended response related to the capitalization of assets purchased as a group. Under the amended guidance, governments *should* capitalize individual items when the purchase in the aggregate is considered significant, even if the individual items are less than the capitalization threshold of the government. The effective date for implementation is for reporting periods beginning after June 15, 2023 (effectively, for the first year ended June 30, 2024 or later) and requires retroactive implementation.

### Difficulties Encountered in Performing the Audit

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

### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial and communicate them to the appropriate level of management. Management has corrected all such misstatements except as discussed below.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Management has determined that the effects of the uncorrected misstatements summarized below are immaterial both individually and in the aggregate, to the financial statements taken as a whole. The uncorrected misstatements or the matters underlying them could potentially cause future period financial statements to be materially misstated, even though, in our judgment, such uncorrected misstatements are immaterial to the financial statements under audit.

District-Wide Financial Statements	Over (Under) Stated						
	Total Assets	Total Liabilities	Total Net Assets	Beginning Net Assets	Revenues	Expenditures	Change in Net Assets
Decription							
Deferred amounts on refunding	\$ -	\$ -	\$ -	\$ 295,850	\$ -	\$ 295,850	\$ (295,850)

  

Fund Financial Statements - General Fund	Over (Under) Stated						
	Total Assets	Total Liabilities	Total Net Assets	Beginning Net Assets	Revenues	Expenditures	Change in Net Assets
Decription							
Recording the right-to-use asset and liability for subscription-based IT agreements	\$ -	\$ -	\$ -	\$ -	\$ (43,745)	\$ (43,745)	\$ -

## **Disagreements with Management**

For purposes of this letter, a disagreement with management is 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 that no such disagreements arose during the course of our audit.

## **Management Representations**

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

## **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**

We applied certain limited procedures to management's discussion and analysis and the remaining required supplementary information (RSI) as described in the table of contents of the financial statements that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

## **Report on Other Supplementary Information**

We were engaged to report on other supplementary information as described in the table of contents of the financial statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

## **Appendix II**

### **Matters for Management’s Consideration**

In planning and performing our audit of the financial statements of Flat Rock Community Schools (the School District) as of and for the year ended June 30, 2023, we considered the School District’s 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 the following matter for management’s consideration that is an opportunity for strengthening internal controls. This letter does not affect our report dated October 24, 2023, on the financial statements of the School District.

#### **Net Cash Resources**

As a result of the COVID-19 pandemic and flexibilities awarded related to eligibility and food distribution, meal claim revenues were in excess of anticipated amounts. A proportional increase to expenditures did not occur, resulting in the continuation of net cash resources exceeding the three-month average expenditure requirement included in the federal regulations. The noncompliance has not been determined to be material to the federal program or the financial statements, as it has not resulted in questioned costs, or negatively impacted the program; as the School District is actively working on using the funds to enhance the program. However, the School District must continue to take action to return to compliance. They may reduce lunch prices in a manner that is consistent with the paid lunch equity provisions, improve food quality, or take other action designed to improve the program. We recommend that the School District look at possible enhancements to the program in order to develop a spend down plan to return to compliance with this requirement.