

FLAT RIVER ACADEMY

REPORT ON FINANCIAL STATEMENTS
**(with required and additional
supplementary information)**

YEAR ENDED JUNE 30, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Flat River Academy

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Flat River Academy, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Flat River Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Flat River Academy as of June 30, 2021, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Flat River Academy's basic financial statements. The supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The additional supplementary 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 additional supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 additional supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2021 on our consideration of Flat River Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Flat River Academy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Flat River Academy's internal control over financial reporting and compliance.

Maney Costeiman PC

October 26, 2021

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Flat River Academy’s (Academy) annual financial report presents our discussion and analysis of the public school Academy’s financial performance during the fiscal year that ended on June 30, 2021. Please read it in conjunction with the Academy’s financial statements, which immediately follow this section.

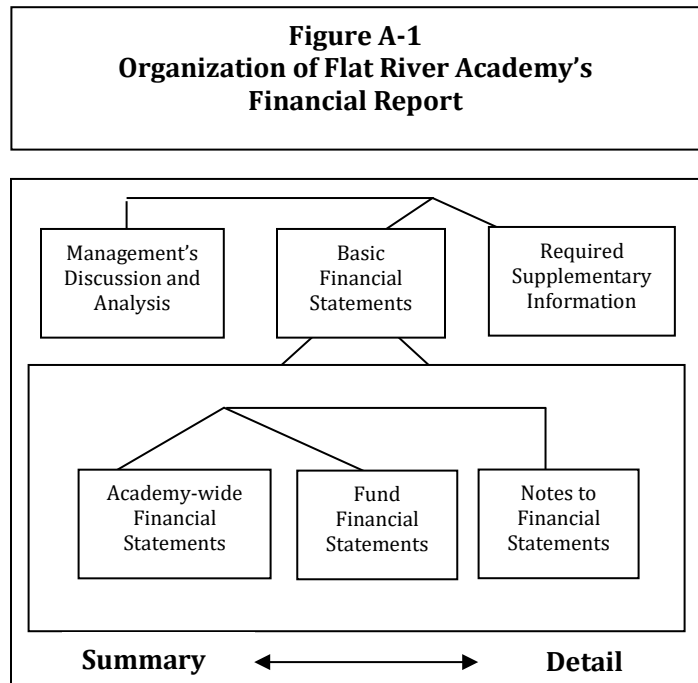
Financial Highlights

- The Academy had an increase in the fund balance in the general fund of \$7,927 compared to a budgeted increase of \$930. This gives the Academy a fund balance in the general fund of \$46,669.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management’s discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy:

- The first two statements are Academy-wide *financial statements* that provide both short-term and long-term information about the Academy’s overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Academy, reporting the Academy’s operations in more detail than the Academy-wide statements.
- The *governmental funds* statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy’s budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

Figure A-2 summarizes the major features of the Academy’s financial statements, including the portion of the Academy’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2: Major Features of the Academy-wide and Fund Financial Statements

	Academy-wide Statements	Governmental Funds
Scope	Entire Academy (except fiduciary funds)	All activities of the Academy that are not fiduciary
Required financial statements	* Statement of net position * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable

Academy-wide Statements

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the Academy’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the Academy’s net position and how they have changed. Net position - the difference between the Academy’s assets and liabilities, is one way to measure the Academy’s financial health or position.

- Over time, increases or decreases in the Academy’s net position is an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy’s enrollment, the condition of school buildings and other facilities, and the Academy’s ability to be competitive with other public school academies and area school academies.

Governmental activities - The Academy’s basic services are included here, such as regular and special education and administration. State foundation aid finances most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the Academy's funds, focusing on its more significant or "major" funds - not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by debt agreements.
- The Academy establishes other funds to control and manage money for particular purposes (like repaying its long-term debt).

The Academy has one kind of funds:

- Governmental funds - Most of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

Financial Analysis of the Academy as a Whole

Net position - the Academy's combined net position of (\$358,142) increased by \$148,826 during the year. See Figures A-3 and A-4. The total revenues decreased by 26.8% to \$1,720,011. The decrease is due to the larger write-off of accrued interest and principal amounts that were forgiven by the debtor during 2020. State aid foundation allowance included in revenue from state sources accounts for 59.7% of the Academy's revenue. The total cost of instruction increased by 12.7% to \$539,972 primarily due to an increase in student enrollment. Total support service increased by 7.5% to \$691,111.

Figure A-3		
Flat River Academy's Net Position		
	2021	2020
Current and other assets	\$ 854,719	\$ 878,551
Capital assets	1,632,931	1,694,734
Total assets	2,487,650	2,573,285
Deferred outflows	83,136	12,705
Net other postemployment benefit liability	19,517	2,176
Net pension liability	61,238	4,590
Other liabilities	122,535	153,573
Long-term liabilities	2,705,959	2,931,267
Total liabilities	2,909,249	3,091,606
Deferred inflows	19,679	1,352
Net position		
Net investment in capital assets	(1,002,069)	(1,190,266)
Restricted for debt service	600,624	640,625
Restricted for capital projects	4,272	4,271
Unrestricted	39,031	38,402
Total net position	\$ (358,142)	\$ (506,968)

Figure A-4		
Changes in Flat River Academy's Net Position		
	2021	2020
Revenues		
Program revenues		
Operating grants	\$ 423,528	\$ 290,120
General revenues		
State sources - unrestricted	1,027,036	862,878
Other local sources	269,447	1,196,131
Total general revenues	1,296,483	2,059,009
Total revenues	1,720,011	2,349,129
Expenses		
Instruction	539,972	478,999
Support services	691,111	642,991
Food service	92,641	88,841
Interest on long-term debt	179,400	212,631
Unallocated depreciation	68,061	69,958
Total expenses	1,571,185	1,493,420
Change in net position	\$ 148,826	\$ 855,709

Financial Analysis of the Academy's Funds

The Academy's general fund balance increased by \$7,927 to \$46,669. A transfer was made to the debt service fund from the general fund totaling \$173,490.

The fund balance in the debt service fund decreased by \$16,386. This is primarily from scheduled principal and interest payments.

General Fund Budgetary Highlights

Over the course of the year, the Academy revised the general fund annual operating budget when necessary. Changes were made in both the revenue and expenditure which reflected decrease in the anticipated state aid and actual salary figures for staff.

While the Academy's final budget for the general fund anticipated revenues and other financing sources would exceed expenditures and other financing uses by \$930 the actual results for the year showed revenues and other financing sources over expenditures and other financing uses of \$7,927.

Actual revenues were \$16,216 lower than budgeted. The actual expenditures were \$23,212 under budget primarily related to lower than anticipated operation and maintenance and transportation expenditures.

Capital Asset and Debt Administration

Capital Assets

As of the year ended June 30, 2021, the Academy had invested \$1,632,931 in capital assets net of accumulated depreciation as summarized in Figure A-5. This amount represents a net decrease of \$61,803 from the beginning of the year. Total depreciation expense for the year was \$68,061. More detailed information about capital assets can be found in Note 4 to the financial statements.

The Academy's capital assets are as follows:

	2021		2020	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	\$ 320,000	\$ -	\$ 320,000	\$ 320,000
Building and improvements	2,101,326	875,466	1,225,860	1,272,027
Land improvements	87,000	61,770	25,230	28,710
Furniture and fixtures	316,449	258,490	57,959	73,732
Office equipment	108,070	104,188	3,882	265
Total	\$ 2,932,845	\$ 1,299,914	\$ 1,632,931	\$ 1,694,734

Long-term Debt

The Academy entered into a Reverse Dutch Auction during 2021, as a result of this auction the Academy made a principal payment of \$149,750 for a reduction of the debt of \$250,000, resulting in \$100,250 of principal forgiveness. All prior deferred interest payments prior to this even were forgiven, resulting in interest totaling \$154,708 being forgiven. Total debt forgiveness during 2021 totaled \$254,958. Note 5 contains additional details related to the forbearance agreement.

Factors Bearing on the Academy's Future

At the time these financial statements were prepared and audited, the Academy was not aware of existing circumstances that could significantly affect its financial health in the future.

- The Academy has adopted a budget for the 2021/2022 fiscal year showing revenues exceeding expenditures by \$12,339.
- The Academy has extended the forbearance agreement with the debtholders to agreement to June 30, 2022.
- The Academy received an ESSER II allocation of \$162,928, and an ESSER II allocation of \$365,913. The projected use of funds are to address learning loss, make sure the school can routinely operate in a clean & safe environment, and overcome the impacts of the COVID 19 pandemic.

Contacting the Academy's Financial Management

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy at 9481 Jordan Road, Greenville, Michigan, 48838, phone (616) 754-9360.

BASIC FINANCIAL STATEMENTS

**FLAT RIVER ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2021**

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 32,895
Intergovernmental receivable	268,390
Prepays	4,553
Restricted cash	
Debt service	544,609
Capital projects	4,272
Capital assets not being depreciated	320,000
Capital assets, net of accumulated depreciation	1,312,931
TOTAL ASSETS	2,487,650
DEFERRED OUTFLOWS OF RESOURCES	
Related to pension	51,048
Related to other postemployment benefit	32,088
TOTAL DEFERRED OUTFLOWS OF RESOURCES	83,136
LIABILITIES	
Accounts payable	23,703
Accrued oversight fees	4,866
Accrued salaries and related items	78,960
Unearned revenues	15,006
Noncurrent liabilities	
Due in more than one year	
Certificates of participation	2,635,000
Accrued interest	70,959
Net pension liability	61,238
Net other postemployment benefit liability	19,517
TOTAL LIABILITIES	2,909,249
DEFERRED INFLOWS OF RESOURCES	
Related to pension	145
Related to other postemployment benefit	14,544
Related to state aid funding for pension	4,990
TOTAL DEFERRED INFLOWS OF RESOURCES	19,679
NET POSITION	
Net investment in capital assets	(1,002,069)
Restricted for debt service	600,624
Restricted for capital projects	4,272
Unrestricted	39,031
TOTAL NET POSITION	\$ (358,142)

See notes to financial statements.

**FLAT RIVER ACADEMY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021**

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Position
Governmental activities				
Instruction	\$ 539,972	\$ -	\$ 216,659	\$ (323,313)
Support services	691,111	-	102,306	(588,805)
Food service	92,641	-	104,563	11,922
Interest and fees on long-term debt	179,400	-	-	(179,400)
Unallocated depreciation	68,061	-	-	(68,061)
Total governmental activities	<u>\$ 1,571,185</u>	<u>\$ -</u>	<u>\$ 423,528</u>	<u>(1,147,657)</u>
General revenues				
State sources - unrestricted				1,027,036
Local sources				269,387
Investment earnings				<u>60</u>
Total general revenues				<u>1,296,483</u>
CHANGE IN NET POSITION				148,826
NET POSITION, beginning of year				<u>(506,968)</u>
NET POSITION, end of year				<u>\$ (358,142)</u>

See notes to financial statements.

**FLAT RIVER ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2021**

	General Fund	Debt Service Fund	Total Nonmajor Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 32,895	\$ -	\$ -	\$ 32,895
Receivables				
Intergovernmental receivable	268,390	-	-	268,390
Due from other funds	-	94,536	32,098	126,634
Prepays	4,553	-	-	4,553
Restricted cash	-	544,609	4,272	548,881
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 305,838</u>	<u>\$ 639,145</u>	<u>\$ 36,370</u>	<u>\$ 981,353</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 23,703	\$ -	\$ -	\$ 23,703
Accrued oversight fees	4,866	-	-	4,866
Accrued salaries and related items	78,960	-	-	78,960
Unearned revenues	15,006	-	-	15,006
Due to other funds	126,634	-	-	126,634
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u>249,169</u>	<u>-</u>	<u>-</u>	<u>249,169</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues	10,000	-	-	10,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
FUND BALANCES				
Nonspendable				
Prepays	4,553	-	-	4,553
Restricted				
Debt service	32,438	639,145	-	671,583
Food Service	-	-	32,098	32,098
Capital projects	-	-	4,272	4,272
Unassigned	9,678	-	-	9,678
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u>46,669</u>	<u>639,145</u>	<u>36,370</u>	<u>722,184</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 305,838</u>	<u>\$ 639,145</u>	<u>\$ 36,370</u>	<u>\$ 981,353</u>

See notes to financial statements.

**FLAT RIVER ACADEMY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2021**

Total governmental fund balance		\$ 722,184
Amounts reported for governmental activities in the statement of net position are different because:		
Deferred inflows of resources - unavailable revenues		10,000
Deferred outflows of resources - related to pensions		51,048
Deferred inflows of resources - related to pensions		(145)
Deferred outflows of resources - related to other post employment benefits		32,088
Deferred inflows of resources - related to other post employment benefits		(14,544)
Deferred inflows of resources - related to state funding for pension		(4,990)
Capital assets used in governmental activities are not financial resources and are not reported in the funds:		
The cost of the capital assets is	\$ 2,932,845	
Accumulated depreciation is	<u>(1,299,914)</u>	
		1,632,931
Long-term liabilities are not due and payable in the current period and are not reported in the funds:		
Certificates of participation		(2,635,000)
Accrued interest is not included as a liability in government funds, it is recorded when paid		(70,959)
Net other postemployment benefit liability		(19,517)
Net pension liability		<u>(61,238)</u>
Net position of governmental activities		<u><u>\$ (358,142)</u></u>

FLAT RIVER ACADEMY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2021

	General Fund	Debt Service Fund	Total Nonmajor Funds	Total Governmental Funds
REVENUES				
Local sources	\$ 14,429	\$ 59	\$ 2,001	\$ 16,489
State sources	1,117,256	-	5,421	1,122,677
Federal sources	223,388	-	97,142	320,530
TOTAL REVENUES	1,355,073	59	104,564	1,459,696
EXPENDITURES				
Current				
Instruction				
Basic programs	435,409	-	-	435,409
Added needs	87,321	-	-	87,321
Total instruction	522,730	-	-	522,730
Support services				
Pupil	81,912	-	-	81,912
Instructional staff	30,804	-	-	30,804
General administration	119,723	-	-	119,723
School administration	115,678	-	-	115,678
Business	1,178	40,185	-	41,363
Operation and maintenance	157,643	-	-	157,643
Transportation	134,787	-	-	134,787
Central	9,201	-	-	9,201
Total support services	650,926	40,185	-	691,111
Food service	-	-	98,899	98,899
Debt service	-	-	-	-
Principal retirement	-	149,750	-	149,750
TOTAL EXPENDITURES	1,173,656	189,935	98,899	1,462,490
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	181,417	(189,876)	5,665	(2,794)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	173,490	-	173,490
Transfers out	(173,490)	-	-	(173,490)
TOTAL OTHER FINANCING SOURCES (USES)	(173,490)	173,490	-	-
NET CHANGE IN FUND BALANCES	7,927	(16,386)	5,665	(2,794)
FUND BALANCES				
Beginning of year	38,742	655,531	30,705	724,978
End of year	<u>\$ 46,669</u>	<u>\$ 639,145</u>	<u>\$ 36,370</u>	<u>\$ 722,184</u>

See notes to financial statements.

**FLAT RIVER ACADEMY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021**

Net change in fund balances total governmental funds \$ (2,794)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	(68,061)
Capital outlay	6,258

Accrued interest on certificates of participation is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable, beginning of the year	46,267
Accrued interest payable, end of the year	(70,959)

Repayments of principal on long-term debt are expenditures in the governmental funds, but not in the statement of activities (where they are reductions of liabilities):

Forgiveness of debt	100,250
Principal repayment	149,750

Revenue reported on the accrual method in the statement of activities. In the governmental funds it is recorded on the modified accrual method and not considered available:

Unavailable revenue, beginning of the year	-
Unavailable revenue, end of the year	10,000

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Pension related items	(13,635)
Other postemployment benefit related items	(3,607)

Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to section 147c pension contributions made subsequent to the measurement period:

State aid funding for pension	(4,643)
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Change in net position of governmental activities \$ 148,826

FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Academy. All fiduciary activities are reported only in the fund financial statements. *Governmental activities* normally are supported by intergovernmental revenues.

Reporting Entity

Flat River Academy (the "Academy") is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Saginaw Valley State University is the authorizing governing body for the Academy and has contracted with the Academy to charter the public school through June 2025. Board members are approved by the authorizing governing body and have decision making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. The Academy receives funding from local, state, and federal sources and must comply with all of the requirements of these funding source entities. However, the Academy is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. In addition, the Academy's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board (GASB) Statements.

Basis of Presentation - Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the Academy's funds. Separate statements for each fund category are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Academy reports the following *major governmental funds*:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on certificates of participation.

The Academy reports the following *nonmajor governmental funds*:

The *special revenue fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The Academy accounts for its food service activity in the special revenue fund.

The *capital projects fund* accounts for the acquisition of fixed assets or construction of major capital projects.

FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation - Fund Financial Statements (continued)

During the course of operations the Academy has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are generally 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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

State and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amounts are received during the period or within the availability period for this revenue source (within 60 days of year-end).

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to public school academies based on information supplied by the academies.

**FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting (continued)

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The state revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as an intergovernmental receivable.

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

All other revenue items are generally considered to be measurable and available only when cash is received by the Academy.

Budgetary Information

Budgetary Basis of Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue fund.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Chief Administrative Officer submits to the Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
- b. Prior to July 1, the budget is legally adopted by Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
- c. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Directors.
- d. The budget was amended during the year with supplemental appropriations, the last one approved prior to year-end June 30, 2021. The Academy does not consider these amendments to be significant.

**FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash and Cash Equivalents

The Academy's cash and cash equivalents are considered to be cash on hand and demand deposit accounts.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital Assets

Capital assets, as summarized below, are reported in the government-wide financial statements. Capital assets are defined by the Academy as assets with an initial, individual cost of more than \$5,000 and a useful life in excess of one year. Group purchases are evaluated on a case by case basis. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Land and construction in progress, if any, are not depreciated. Capital assets of the Academy are depreciated using the straight line method over the following estimated useful lives:

<u>Capital Asset Classes</u>	<u>Lives</u>
Buildings and improvements	3 - 50
Land improvements	25
Furniture and fixtures	10 - 20
Office equipment	3-10

Defined Benefit Plans

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

**FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Deferred Outflows

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Academy has two items that qualify for reporting in this category. There are the deferred charges on pension and other postemployment benefits related items reported in the government-wide statement of net position. A deferred outflow is recognized for pension and other postemployment benefit related items. These amounts are expensed in the plan year in which they apply.

Deferred Inflows

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Academy has four items that qualify for reporting in this category. The first is restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension contributions subsequent to the measurement period. The second and third items are future resources yet to be recognized in relation to the pension and other postemployment benefit actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension and other postemployment benefit liability and the actual results. The amounts are amortized over a period determined by the actuary. The fourth is unavailable revenue is reported in connection with receivables for revenue that is not considered available and measurable to liquidate liabilities of the current period.

Net Position Flow Assumption

Sometimes the Academy will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Academy's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

Fund Balance Flow Assumptions

Sometimes the Academy will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Academy's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Academy itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Academy's highest level of decision-making authority. The Board of Directors is the highest level of decision-making authority for the Academy that can, by adoption of a board action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the board action remains in place until a similar action is taken (the adoption of another board action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the Academy for specific purposes but do not meet the criteria to be classified as committed. Intent can be expressed by the Board of Directors or by an official or body to which the board of directors delegates authority. The Board of Directors may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Revenues and Expenditures/Expenses

Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment. Unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related debt. Bond issuance costs are reported as expenses in the year in which they are incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS

As of June 30, 2021 the Academy had deposits subject to the following risks:

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2021, the Academy's general fund bank balance of \$31,446 was full insured under federal depository insurance coverage. Restricted cash - debt service contains debt service deposits of \$544,610 at June 30, 2021, of which, \$298,881 was exposed to custodial credit risk because it was uninsured and uncollateralized. Restricted cash - capital projects contains capital projects deposits of \$4,271 at June 30, 2021, that was fully insured under federal depository insurance coverage. The carrying value on the books for deposits at the end of the year was \$581,776.

The following summarizes the categorization of these amounts as of June 30, 2021:

	Primary Government
Cash and cash equivalents	\$ 32,895
Restricted cash and cash equivalents - debt service	544,609
Restricted cash and cash equivalents - capital projects	4,272
	\$ 581,776

Certain money market funds are restricted under the terms of the certificates of participation debt agreements primarily for debt service, operating reserves, and capital projects and maintenance and repair of the related facilities.

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2021 consist of the following:

Governmental units	
State aid	\$ 205,943
Federal	62,447
	\$ 268,390

Because of the Academy's favorable collection experience, no allowance for doubtful accounts has been recorded.

**FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - CAPITAL ASSETS

A summary of changes in the Academy's capital assets follows:

	<u>Balance July 1, 2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2021</u>
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 320,000	\$ -	\$ -	\$ 320,000
Capital assets, being depreciated				
Building and improvements	2,101,326	-	-	2,101,326
Land improvements	87,000	-	-	87,000
Furniture and fixtures	316,449	-	-	316,449
Office equipment	101,812	6,258	-	108,070
Depreciable capital assets	<u>2,606,587</u>	<u>6,258</u>	<u>-</u>	<u>2,612,845</u>
Accumulated depreciation				
Building and improvements	829,299	46,167	-	875,466
Land improvements	58,290	3,480	-	61,770
Furniture and fixtures	242,717	15,773	-	258,490
Office equipment	101,547	2,641	-	104,188
Total accumulated depreciation	<u>1,231,853</u>	<u>68,061</u>	<u>-</u>	<u>1,299,914</u>
Net depreciable capital assets	<u>1,374,734</u>	<u>(61,803)</u>	<u>-</u>	<u>1,312,931</u>
Net governmental capital assets	<u>\$ 1,694,734</u>	<u>\$ (61,803)</u>	<u>\$ -</u>	<u>\$ 1,632,931</u>

Depreciation for the fiscal year ended June 30, 2021 amounted to \$68,061. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - LONG-TERM OBLIGATIONS

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

	<u>Notes from Direct Borrowings and Direct Placements</u>
Balance, July 1, 2020	\$ 2,885,000
Repayments	149,750
Forgiveness of debt	<u>100,250</u>
Balance, June 30, 2021	2,635,000
Due within one year	<u>-</u>
Due in more than one year	<u><u>\$ 2,635,000</u></u>

Interest expense on long-term debt (government-wide) for the year ended June 30, 2021 was approximately \$183,000.

Long-term debt currently outstanding at June 30, 2021 is as follows:

Notes from Direct Borrowings and Direct Placements

2006 Series full term certificates of participation originally due in annual principal installments of \$90,000 to \$545,000 through February 1, 2036, plus interest at 6.5%.

\$ 2,635,000

The Academy's outstanding notes from direct borrowings and direct placements related to governmental activities of \$2,635,000 contains provisions that in an event of default, either by (1) unable to make principal or interest payments (2) false or misrepresentation is made to the lender (3) become insolvent or make an assignment for the benefit of its creditors (4) if the lender at any time in good faith believes that the prospect of payment of any indebtedness is impaired. Upon the occurrence of any default event, the outstanding amounts, including accrued interest become immediately due and payable.

**FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - LONG-TERM OBLIGATIONS (continued)

The annual requirements to amortize the certificates of participation outstanding as of June 30, 2021, are as follows:

Year Ending June 30,	Notes from Direct Borrowings and Direct Placements		Total
	Principal	Interest	
2022	\$ -	\$ -	\$ -
2023	70,000	342,552	412,552
2024	120,000	166,726	286,726
2025	130,000	158,926	288,926
2026	140,000	150,476	290,476
2027 - 2031	830,000	656,827	1,486,827
2032 - 2036	1,345,000	367,577	1,712,577
Total	<u>\$ 2,635,000</u>	<u>\$ 1,843,082</u>	<u>\$ 4,478,082</u>

The above principal maturities have been modified from the original terms of the debt agreements to disclose \$55,250 of principal due in fiscal year ended June 30, 2022 as being owed in the fiscal year June 30, 2023. The actual amount of future debt service payments may be modified with the debtholders after the report date. This may significantly impact the amounts to be paid in the current period and could have a significant impact on the cash flow of the Academy.

On January 29, 2021 the Academy completed a Reverse Dutch Auction and a total of \$250,000 aggregate principal amount was retired in lieu of the February 1, 2021 payment. A total of \$460,000 outstanding principal amounts of Certificates were tendered, with one bid of \$575/\$1,000 and all other Bids at \$600/\$1,000. All bids at the \$575 were accepted and all bids at the \$600 price level were prorated because total bids exceeded the \$150,000 amount of total available funds for this tender period. All accrued interest owing and outstanding on all Certificates as of January 29, 2021, totaling \$154,708 was waived in full. The Academy paid \$149,750 to cancel \$250,000 principal amounts of Certificates and no interest was paid.

As of the report date, the Academy has ratified a revised forbearance agreement, extending its terms until June 30, 2022 under substantially the same terms as the expiring agreement. The revised agreement continues to call for 20% of the state school aid allocated to the Academy to be deposited into an operating reserve account. The Academy has a good working relationship with the debtholder, and along with Mid-West Management Group continues to implement a turn-around plan to among other things, reestablish the pupil membership count and control expenses at levels adequate to pay all debt obligations as they come due. The debtholder has indicated a desire to continue to work with the Academy to implement the turn-around plan to achieve these results.

**FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The Michigan Public School Employees' Retirement System (MPERS) (System) 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. MPERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at www.michigan.gov/orsschools.

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 option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act.

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 of Michigan Investment Board serves as the investment fiduciary and custodian for the System.

Benefits Provided - Overall

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the plans offered by MPERS is as follows:

<u>Plan Name</u>	<u>Plan Type</u>	<u>Plan Status</u>
Basic	Defined Benefit	Closed
Member Investment Plan (MIP)	Defined Benefit	Closed
Pension Plus	Hybrid	Closed
Pension Plus 2	Hybrid	Open
Defined Contribution	Defined Contribution	Open

Benefits Provided - Pension

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

Prior to Pension reform of 2010 there were two plans commonly referred to as Basic and the Member Investment Plan (MIP). Basic Plan member's contributions range from 0% - 4%. On January 1, 1987, the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990, or later including Pension Plus Plan members, contribute at various graduated permanently fixed contribution rates from 3.0% - 7.0%.

**FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS**

Note 6 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employees' Retirement System (MPSERS) who became a member of MPSERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and 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 pension. Any changes to a member's pension 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 the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

An amount determined by the member's election of Option 1, 2, 3, or 4 described below:

Option 1 - Members voluntarily elected to increase their contributions to the pension fund as noted below and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they terminate public school employment.

- Basic plan members: 4% contribution
- Member Investment Plan (MIP)-Fixed, MIP-Graded, and MIP-Plus members: a flat 7% contribution

Option 2 - Members voluntarily elected to increase their contribution to the pension fund as stated in Option 1 and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they reach 30 years of service. If and when they reach 30 years of service, their contribution rates will return to the previous level in place as of the day before their transition date (0% for Basic plan members, 3.9% for MIP-Fixed, up to 4.3% for MIP-Graded, or up to 6.4% for MIP-Plus). The pension formula for any service thereafter would include a 1.25% pension factor.

Option 3 - Members voluntarily elected not to increase their contribution to the pension fund and maintain their current level of contribution to the pension fund. The pension formula for their years of service as of the day before their transition date will include a 1.5% pension factor. The pension formula for any service thereafter will include a 1.25% pension factor.

**FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Pension Reform 2012 (continued)

Option 4 - Members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the Defined Contribution plan for future service as of their transition date. As a DC participant they receive a 4% employer contribution to the tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS to a 457 account. They vest in employer contributions and related earnings in their 401(k)-account based on the following schedule: 50% at 2 years, 75% at 3 years, and 100% at 4 years of service. They are 100% vested in any personal contributions and related earnings in their 457 account. Upon retirement, if they meet age and service requirements (including their total years of service), they would also receive a pension (calculated based on years of service and final average compensation as of the day before their transition date and a 1.5% pension factor).

Members who did not make an election before the deadline defaulted to Option 3 as described above. Deferred or nonvested public school employees on September 3, 2012, who return to public school employment on or after September 4, 2012, will be considered as if they had elected Option 3 above. Returning members who made the retirement plan election will retain whichever option they chose.

Employees who first work on or after September 4, 2012 choose between two retirement plans: The Pension Plus Plan and a Defined Contribution that provides a 50% employer match up to 3% of salary on employee contributions.

Final Average Compensation (FAC) - Average of highest 60 consecutive months for Basic Plan members and Pension Plus members (36 months for MIP members). FAC is calculated as of the last day worked unless the member elected Option 4, in which case the FAC is calculated at the transition date.

Pension Reform of 2017

On July 13, 2017, the Governor signed Public Act 92 of 2017 into law. The legislation closed the Pension Plus plan to newly hired employees as of February 1, 2018 and created a new, optional Pension Plus 2 plan with similar plan benefit calculations but containing a 50/50 cost share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the Pension Plus 2 plan is 6%. Further, under certain adverse actuarial conditions, the Pension Plus 2 plan will close to new employees if the actuarial funded ratio falls below 85% for two consecutive years. The law included other provisions to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

Benefits Provided - Other Postemployment Benefit (OPEB)

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree health care 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.

**FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Retiree Healthcare Reform of 2012

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 will be deposited into their 401(k) accounts.

Regular Retirement (no reduction factor for age)

Eligibility - A Basic plan member may retire at age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, age 46 with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60th birthday and has credited service in each of the last 5 years. For Pension Plus Plan (PPP) members, age 60 with 10 years of credited service.

Annual Amount - The annual pension is paid monthly for the lifetime of a retiree. The calculation of a member's pension is determined by their pension election under PA 300 of 2012.

Member Contributions

Depending on the plan selected, member contributions range from 0% - 7% for pension and 0% - 3% for other postemployment benefits. Plan members electing the Defined Contribution plan are not required to make additional contributions.

Employer Contributions

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of pension benefits and OPEB. 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 normal cost is the annual cost assigned under the actuarial funding method, to the current and subsequent plan years. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis.

**FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Employer Contributions (continued)

Pension and OPEB contributions made in the fiscal year ending September 30, 2020 were determined as of the September 30, 2017 actuarial valuations. The pension and OPEB benefits, the unfunded (overfunded) actuarial accrued liabilities as of September 30, 2017 are amortized over a 19-year period beginning October 1, 2019 and ending September 30, 2038.

School districts' contributions are determined based on employee elections. There are several different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by the ORS. The range of rates is as follows:

	Pension	Other Postemployment Benefit
October 1, 2019 - September 30, 2020	13.39% - 19.59%	7.57% - 8.09%
October 1, 2020 - September 30, 2021	13.39% - 19.78%	7.57% - 8.43%

The Academy's pension contributions for the year ended June 30, 2021 were equal to the required contribution total. Total pension contributions were approximately \$6,000. Of the total pension contributions approximately \$6,000 was contributed to fund the Defined Benefit Plan and approximately \$0 was contributed to fund the Defined Contribution Plan.

The Academy's OPEB contributions for the year ended June 30, 2021 were equal to the required contribution total. Total OPEB contributions were approximately \$1,000. Of the total OPEB contributions approximately \$1,000 was contributed to fund the Defined Benefit Plan and approximately \$0 was contributed to fund the Defined Contribution Plan.

These amounts, for both pension and OPEB benefit, include contributions funded from State Revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (100% for pension and 0% for OPEB).

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

Pension Liabilities

The net pension liability was measured as of September 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2019 and rolled-forward using generally accepted actuarial procedures. The Academy's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined.

<i>MPSERS (Plan) Non-university Employers</i>	September 30, 2020	September 30, 2019
Total Pension Liability	\$ 85,290,583,799	\$ 83,442,507,212
Plan Fiduciary Net Position	\$ 50,939,496,006	\$ 50,325,869,388
Net Pension Liability	\$ 34,351,087,793	\$ 33,116,637,824
Proportionate Share	0.00018%	0.00001%
Net Pension Liability for the Academy	\$ 61,238	\$ 4,590

**FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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

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

For the year ended June 30, 2021, the Academy recognized pension expense of \$19,932.

At June 30, 2021, the Reporting Unit 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
Changes of assumptions	\$ 6,786	\$ -
Net difference between projected and actual plan investment earnings	257	-
Differences between expected and actual experience	936	(131)
Changes in proportion and differences between employer contributions and proportionate share of contributions	37,316	(14)
Reporting Unit's contributions subsequent to the measurement date	5,753	-
	\$ 51,048	\$ (145)

\$5,753, reported as deferred outflows of resources related to pensions resulting from Academy employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

Other amounts reported as deferred outflows of resources and (deferred inflows) of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30,	Amount
2021	\$ 14,500
2022	13,430
2023	11,850
2024	5,370

**FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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

OPEB Liabilities

The net OPEB liability was measured as of September 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2019 and rolled-forward using generally accepted actuarial procedures. The Academy's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined.

<u>MPERS (Plan) Non-university Employers</u>	<u>September 30, 2020</u>	<u>September 30, 2019</u>
Total OPEB liability	\$ 13,206,903,534	\$ 13,925,860,688
Plan fiduciary net position	\$ 7,849,636,555	\$ 6,748,112,668
Net OPEB liability	\$ 5,357,266,979	\$ 7,177,748,020
Proportionate share	0.00036%	0.00003%
Net OPEB liability for the District	\$ 19,517	\$ 2,176

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

For the year ended June 30, 2021, the Academy recognized OPEB expense of \$4,226.

At June 30, 2021, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual plan investment earnings	\$ 163	\$ -
Differences between expected and actual experience	-	(14,542)
Changes of assumptions	6,435	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	25,102	(2)
Reporting Unit's contributions subsequent to the measurement date	388	-
	<u>\$ 32,088</u>	<u>\$ (14,544)</u>

**FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

\$388, reported as deferred outflows of resources related to OPEB resulting from Academy employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year.

Other amounts reported as deferred outflows of resources and (deferred inflows) of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended September 30,</u>	<u>Amount</u>
2021	\$ 2,997
2022	3,224
2023	3,577
2024	3,756
2025	3,602

Actuarial Assumptions

Investment Rate of Return for Pension - 6.80% a year, compounded annually net of investment and administrative expenses for the MIP, Basic and Pension Plus groups and 6.00% a year, compounded annually net of investment and administrative expenses for Pension Plus 2 Plan.

Investment Rate of Return for OPEB - 6.95% a year, compounded annually net of investment and administrative expenses.

Salary Increases - The rate of pay increase used for individual members is 2.75% - 11.55%, including wage inflation at 2.75%.

Inflation - 3.0%.

Mortality Assumptions:

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.

Disabled Retirees: RP-2014 Male and Female Disabled Annuitant Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

**FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Assumptions (continued)

Experience Study - The annual actuarial valuation report of the System used for these statements is dated September 30, 2019. Assumption changes as a result of an experience study for the periods 2012 through 2017 have been adopted by the System for use in the determination of the total pension and OPEB liability beginning with the September 30, 2018 Comprehensive Annual Financial Report.

The Long-Term Expected Rate of Return on Pension and Other Postemployment Benefit Plan Investments - The pension rate was 6.80% (MIP, Basic, and Pension Plus Plan) and 6.00% for Pension Plus 2 Plan, and the other postemployment benefit rate was 6.95%, net of investment and administrative expenses was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension and 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.

Cost of Living Pension Adjustments - 3.0% annual non-compounded for MIP members.

Healthcare Cost Trend Rate for Other Postemployment Benefit - 7.0% for year one and graded to 3.5% in year fifteen.

Additional Assumptions for Other Postemployment Benefit Only - Applies to Individuals Hired Before September 4, 2012:

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 coverage 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.

The target asset allocation at September 30, 2020 and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return*</u>
Domestic Equity Pools	25.0%	5.6%
International Equity Pools	15.0%	7.4%
Private Equity Pools	16.0%	9.3%
Real Estate and Infrastructure Pools	10.0%	4.9%
Fixed Income Pools	10.5%	5.0%
Absolute Return Pools	9.0%	3.2%
Real Return/Opportunistic Pools	12.5%	6.6%
Short Term Investment Pools	2.0%	-0.1%
	<u>100.0%</u>	

* Long term rate of return are net of administrative expenses and 2.1% inflation.

**FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Assumptions (continued)

Rate of Return - For fiscal year ended September 30, 2020, the annual money-weighted rate of return on pension and OPEB plan investments, net of pension and OPEB plan investment expense, was 5.37% and 5.24% respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Pension Discount Rate - A single discount rate of 6.80% was used to measure the total pension liability (6.00% for the Pension Plus 2 Plan). This discount rate was based on the expected rate of return on pension plan investments of 6.80% (6.00% for the Pension Plus 2 Plan). The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions from school districts will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those 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.

OPEB Discount Rate - A single discount rate of 6.95% 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 6.95%. 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 school districts 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 Net Pension Liability to Changes in the Discount Rate - The following presents the Reporting Unit's proportionate share of the net pension liability calculated using a single discount rate of 6.80% (6.00% for the Pension Plus 2 Plan), as well as what the Reporting Unit'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 point higher than the current rate:

	Pension		
	1% Decrease	Discount Rate	1% Increase
Reporting Unit's proportionate share of the net pension liability	\$ 79,262	\$ 61,238	\$ 46,300

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate - The following presents the Reporting Unit's proportionate share of the net OPEB liability calculated using a single discount rate of 6.95%, as well as what the Reporting Unit'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 point higher than the current rate:

	Other Postemployment Benefits		
	1% Decrease	Discount Rate	1% Increase
Reporting Unit's proportionate share of the net other postemployment benefit liability	\$ 25,071	\$ 19,517	\$ 14,840

**FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Assumptions (continued)

Sensitivity to the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates - The following presents the Reporting Unit's proportionate share of the net other postemployment benefit liability calculated using the healthcare cost trend rate of 7.0% (decreasing to 3.5%), as well as what the Reporting Unit's proportionate share of the net other postemployment benefit liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Other Postemployment Benefit		
	Current		
	1% Decrease	Healthcare Cost Trend Rates	1% Increase
Reporting Unit's proportionate share of the net other postemployment benefits liability	\$ 14,661	\$ 19,517	\$ 25,039

Pension and OPEB Plan Fiduciary Net Position

Detailed information about the pension and OPEB's fiduciary net position is available in the separately issued Michigan Public School Employees' Retirement System 2020 Comprehensive Annual Financial Report.

Payable to the Pension and OPEB Plan - At year end the Academy is current on all required pension and other postemployment benefit plan payments. Amounts accrued at year end for accounting purposes are separately stated in the financial statements as a liability titled accrued retirement. These amounts represent current payments for June paid in July, accruals for summer pay primarily for teachers, and the contributions due from State Revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL).

NOTE 7 - TRANSFERS

Transfers between the governmental funds were as follows:

Transfers Out		Transfers In	
General fund	\$ 173,490	Debt Service	\$ 173,490

Transfers were made from the general fund to the debt service fund in accordance with the forbearance agreement.

**FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivable and payable balances at June 30, 2021 are as follows:

Receivable Fund		Payable Fund	
Debt service fund	\$ 94,536	General fund	\$ 126,634
Food Service	32,098		
	\$ 126,634		

The outstanding balances between funds results mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, (3) payments between funds are made.

On April 24, 2014 the Academy executed a third amendment to its financing agreement, assignment agreement and trust agreement with U.S. Bank. Under the terms of the amended agreements the Academy was able to waive certain debt service payments from the general fund to the debt service fund. Under the terms of the Forbearance agreement executed in September 2015 (Note 4), the Academy was able to draw down \$160,000 of protective advances; \$50,000 from the Certificate Account and \$110,000 from the Certificate Reserve Account. The protective advances were used in September and October of 2015 to pay approximately \$160,000 of trustee approved operating expenditures. The balance as of June 30, 2021 is the amount the General Fund has yet to pay to the debt service fund.

NOTE 9 - OVERSIGHT FEES

The Academy pays an administrative oversight fee of 3% of its state school aid discretionary and Proposal A obligation payments to Saginaw Valley State University Board of Trustees, as set forth by contract, to reimburse the University Board for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy’s compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2021, the Academy incurred expense of approximately \$27,000 for oversight fees.

NOTE 10 - MANAGEMENT AGREEMENT

The Academy maintains a management agreement with Midwest Schools Services, Inc. for operation of the Academy from July 1, 2020 through June 30, 2025. Under the terms of the management agreement, Midwest’s compensation for operating the Academy was 6% of state aid entitlement for the fiscal year ending June 30, 2021, plus certain other fees, as prorated for the term of service. The total management fee incurred through the year ended June 30, 2021 was approximately \$66,000. As of June 30, 2021 no amounts were owed to Midwest School Services, Inc.

NOTE 11 - PURCHASED SERVICES

The Academy leases all employee services from Midwest School Services, Inc. Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of Midwest School Services, Inc.

**FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 12 - LEASES

The Academy leased 3 buses under non-cancelable operating leases through June 2024. The bus lease expense for the year ended June 30, 2021 was approximately \$56,000.

The Academy leased two copiers under non-cancelable operating leases through November 2022 and May 2025. The copier lease expense for the year ended June 30, 2021 was approximately \$13,000.

Future minimum lease payments are as follows:

<u>June 30,</u>	<u>Total</u>
2022	\$ 71,945
2023	69,377
2024	69,377
2025	<u>5,747</u>
	<u>\$ 216,446</u>

NOTE 13 - RISK MANAGEMENT

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. To minimize the risk, the Academy carries commercial insurance.

NOTE 14 - CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustments 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 expenditures that may be disallowed by the grantor cannot be determined at this time, although the Academy expects such amounts, if any, to be immaterial.

NOTE 15 - UPCOMING ACCOUNTING PRONOUNCEMENTS

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017 and will be effective for the Academy's 2022 year end. The objective of this Statement is to increase the lawfulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

FLAT RIVER ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 15 - UPCOMING ACCOUNTING PRONOUNCEMENTS (continued)

In May 2020, the GASB issued Statement No. 96, *Subscription-based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The Academy is currently evaluating the impact this standard will have on the financial statements when adopted during the 2022-2023 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

**FLAT RIVER ACADEMY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2021**

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Local	\$ 2,600	\$ 14,429	\$ 14,429	\$ -
State sources	911,042	1,115,795	1,117,256	1,461
Federal sources	127,292	241,065	223,388	(17,677)
TOTAL REVENUES	<u>1,040,934</u>	<u>1,371,289</u>	<u>1,355,073</u>	<u>(16,216)</u>
EXPENDITURES				
Current				
Instruction				
Basic programs	378,062	433,753	435,409	(1,656)
Added needs	135,875	88,648	87,321	1,327
Total instruction	<u>513,937</u>	<u>522,401</u>	<u>522,730</u>	<u>(329)</u>
Support services				
Pupil	22,000	82,472	81,912	560
Instructional staff	18,410	30,054	30,804	(750)
General administration	99,664	120,590	119,723	867
School administration	117,374	117,731	115,678	2,053
Business	500	1,600	1,178	422
Operation and maintenance	122,285	164,623	157,643	6,980
Transportation	133,729	147,191	134,787	12,404
Central	10,600	10,206	9,201	1,005
Total support services	<u>524,562</u>	<u>674,467</u>	<u>650,926</u>	<u>23,541</u>
TOTAL EXPENDITURES	<u>1,038,499</u>	<u>1,196,868</u>	<u>1,173,656</u>	<u>23,212</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	2,435	174,421	181,417	6,996
OTHER FINANCING SOURCES (USES)				
Transfers out	-	(173,491)	(173,490)	1
NET CHANGE IN FUND BALANCE	<u>\$ 2,435</u>	<u>\$ 930</u>	7,927	<u>\$ 6,997</u>
FUND BALANCE				
Beginning of year			38,742	
End of year			<u>\$ 46,669</u>	

**FLAT RIVER ACADEMY
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST TEN FISCAL YEARS (DETERMINED AS OF PLAN YEAR ENDED SEPTEMBER 30)**

	<u>2020</u>	<u>2019</u>
Reporting Unit's proportion of net pension liability (%)	0.00018%	0.00001%
Reporting Unit's proportionate share of net pension liability	\$ 61,238	\$ 4,590
Reporting Unit's covered-employee payroll	\$ 34,000	\$ 2,750
Reporting Unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	180.11%	166.91%
Plan fiduciary net position as a percentage of total pension liability (Non-university employers)	59.72%	60.31%

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, the Academy presents information for those years for which information is available.

FLAT RIVER ACADEMY
SCHEDULE OF THE REPORTING UNIT'S PENSION CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST TEN FISCAL YEARS (DETERMINED AS OF THE YEAR ENDED JUNE 30)

	<u>2021</u>	<u>2020</u>
Statutorily required contributions	\$ 6,297	\$ 4,951
Contributions in relation to statutorily required contributions	<u>6,297</u>	<u>4,951</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Reporting Unit's covered-employee payroll	\$ 35,000	\$ 28,500
Contributions as a percentage of covered-employee payroll	17.99%	17.37%

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, the Academy presents information for those years for which information is available.

**FLAT RIVER ACADEMY
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE
SHARE OF THE NET OPEB LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST TEN FISCAL YEARS (DETERMINED AS OF PLAN YEAR ENDED SEPTEMBER 30)**

	<u>2020</u>	<u>2019</u>
Reporting Unit's proportion of net other postemployment benefit liability (%)	0.00036%	0.00003%
Reporting Unit's proportionate share of net other postemployment benefit liability	\$ 19,517	\$ 2,176
Reporting Unit's covered-employee payroll	\$ 34,000	\$ 2,750
Reporting Unit's proportionate share of net other postemployment benefit liability as a percentage of its covered-employee payroll	57.40%	79.13%
Plan fiduciary net position as a percentage of total other postemployment benefit liability (Non-university employers)	59.44%	48.46%

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, the Academy presents information for those years for which information is available.

FLAT RIVER ACADEMY
SCHEDULE OF THE REPORTING UNIT'S OPEB CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST TEN FISCAL YEARS (DETERMINED AS OF THE YEAR ENDED JUNE 30)

	<u>2021</u>	<u>2020</u>
Statutorily required other postemployment benefit contributions	\$ 620	\$ 2,175
Other postemployment benefit contributions in relation to statutorily required contributions	<u>620</u>	<u>2,175</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Reporting Unit's covered-employee payroll (OPEB)	\$ 35,000	\$ 28,500
Other postemployment benefit contributions as a percentage of covered-employee payroll	1.77%	7.63%

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, the Academy presents information for those years for which information is available.

**FLAT RIVER ACADEMY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2021**

NOTE 1 - PENSION INFORMATION

Benefit changes - there were no changes of benefit terms in 2020.

Changes of assumptions - there were no changes of assumptions in 2020.

NOTE 2 - OPEB INFORMATION

Benefit changes - there were no changes of benefit terms in 2020.

Changes of assumptions - the assumption changes for 2020 were:

Healthcare cost trend rate decreased to 7.00% Year 1 graded to 3.50% Year 15 from 7.50% Year 1 graded to 3.50% Year 12.

ADDITIONAL SUPPLEMENTARY INFORMATION

**FLAT RIVER ACADEMY
NONMAJOR GOVERNMENTAL FUND TYPES
COMBINING BALANCE SHEET
JUNE 30, 2021**

	Special Revenue Fund	Capital Projects Fund	Total Nonmajor Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Restricted cash	\$ -	\$ 4,272	\$ 4,272
Due from other funds	32,098	-	32,098
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 32,098</u>	<u>\$ 4,272</u>	<u>\$ 36,370</u>
FUND BALANCES			
Restricted			
Food service	\$ 32,098	\$ -	\$ 32,098
Capital projects	-	4,272	4,272
	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u>\$ 32,098</u>	<u>\$ 4,272</u>	<u>\$ 36,370</u>

**FLAT RIVER ACADEMY
NONMAJOR GOVERNMENTAL FUND TYPES
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2021**

	Special Revenue Fund	Capital Projects Fund	Total Nonmajor Funds
REVENUES			
Food sales	\$ 2,000	\$ -	\$ 2,000
State sources	5,421	-	5,421
Federal sources	97,142	-	97,142
Investment earnings	-	1	1
TOTAL REVENUES	104,563	1	104,564
EXPENDITURES			
Salaries	26,734	-	26,734
Benefits	4,074	-	4,074
Food	61,833	-	61,833
Capital Outlay	6,258	-	6,258
TOTAL EXPENDITURES	98,899	-	98,899
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	5,664	1	5,665
FUND BALANCES			
Beginning of year	26,434	4,271	30,705
End of year	<u>\$ 32,098</u>	<u>\$ 4,272</u>	<u>\$ 36,370</u>

**INDEPENDENT AUDITOR'S 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***

To the Board of Directors
Flat River Academy

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Flat River Academy as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Flat River Academy's basic financial statements and have issued our report thereon dated October 26, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Flat River Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Flat River Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of Flat River Academy's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Flat River Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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.

Manes Costeiran PC

October 26, 2021

October 26, 2021

To the Board of Education
Flat River Academy

In planning and performing our audit of the financial statements of Flat River Academy as of and for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered Flat River Academy' internal control over financial reporting (internal control) as a basis for designing our auditing 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 Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted one matter involving the internal control and other operational matters that is presented for your consideration. This letter does not affect our report dated October 26, 2021 on the financial statements of Flat River Academy. We will review the status of this comment during our next audit engagement. Our comment and recommendation, which has been discussed with appropriate members of management, is intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss this comment in further detail at your convenience, perform any additional study of this matter, or assist you in implementing the recommendation. Our comment is summarized as follows.

Food Service Fund Balance

Per Michigan Department of Education (MDE) guidelines, school food authorities (SFA) must operate food services on a nonprofit basis. We noted that the food service fund balance exceeded the three months' operating expenditures allowed. MDE requires that the SFA spend down the excess by the end of the next school year. We recommend that Flat River Academy develop a plan to spend down the excess by June 30, 2021.

This report is intended solely for the information and use of management, and others within the Academy, and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Maner Costerisan PC

October 26, 2021

To the Board of Education
Flat River Academy

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Flat River Academy for the year ended June 30, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. 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. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Flat River Academy are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during fiscal year 2021. We noted no transactions entered into by the Academy during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 financial statements were:

Estimates have been used to calculate the net pension liability and the net other postemployment benefit liability.

We evaluated the key factors and assumptions used to develop the balance of the net pension liability and net other postemployment benefit liability in determining that they are reasonable in relation to the financial statements taken as a whole.

Management’s determination of the estimated life span of the capital assets.

We evaluated the key factors and assumptions used by management to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole. In addition, certain amounts included in capital assets have been estimated based on an outside appraisal company.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. We did not identify any sensitive disclosures.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 26, 2021.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the required supplementary information (RSI) which are required and supplement 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.

We were engaged to report on the other supplementary information, which accompany the financial statements but are not RSI. With respect to this other 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 other supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Board of Education and management of Flat River Academy and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Maney Costeiran PC