

FLEX HIGH SCHOOL OF MICHIGAN

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

JUNE 30, 2021

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October 25, 2021

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Flex High School of Michigan

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 Flex High School of Michigan, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 Flex High School of Michigan, as of June 30, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

-I-

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Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2021, on our consideration of the Flex High School of Michigan'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 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 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 Flex High School of Michigan's internal control over financial reporting and compliance.

Lewis & Knopf, P.C.

LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

FLEX HIGH SCHOOL OF MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021

As management of Flex High School of Michigan, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2021.

Financial Highlights

- * The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$35,000 (net position).
- * The District's total net position increased by \$35,000.
- * The General Fund had an increase in fund balance of \$35,000. At the end of the year, the total fund balance for the General Fund was \$35,000.

Using this Annual Report

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

Reporting the District as a Whole

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

The statement of net position and the statement of activities present information about the following:

Governmental Activities - All of the District's basic services are considered to be governmental activities, including instruction, support services, community services and food services. Intergovernmental revenues (unrestricted and restricted State Aid), federal grants finance most of these activities. These two statements report the District's net position and changes therein. The change in net position provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as property tax base, political conditions at the State Capitol, student enrollment growth, birth rates, and facility conditions in arriving at their conclusion regarding the overall health of the District.

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

FLEX HIGH SCHOOL OF MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021

Reporting the District's Most Significant Funds

Fund Financial Statements - The fund financial statements provide detailed information about the most significant funds - not the District as a whole. The fund financial statements begin on page 3 and provide detailed information about the most significant funds. The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." The District's two types of funds: governmental funds and fiduciary funds use different accounting approaches as further discussed in the notes to the financial statements. In the fund financial statements, capital assets purchased by cash are reported as expenditures in the year of acquisition. No asset is reported.

Governmental Funds - Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources available to spend in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net position and the Statement of Activities) and governmental funds is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 3 and 5 of this report.

Additional Information - The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 7 - 15 of this report.

SUMMARY OF NET POSITION:

The following table provides a summary of the District's net position as of June 30, 2021, and 2020.

	<u>2021</u>	<u>2020</u>
Assets		
Total Assets	\$ 538,694	\$ 447,390
Liabilities		
Total Liabilities	<u>503,694</u>	<u>447,390</u>
Net Position		
Unrestricted	<u>35,000</u>	<u>0</u>
Total Net Position	\$ <u><u>35,000</u></u>	\$ <u><u>0</u></u>

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

FLEX HIGH SCHOOL OF MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021

RESULTS OF OPERATIONS:

For the fiscal year ended June 30, 2021, and 2020, the District wide results of operations were:

	<u>2021</u>	<u>2020</u>
Revenues		
Program Revenue		
Charges for Services	\$ 0	\$ 0
Operating Grants	<u>319,681</u>	<u>95,277</u>
Total Program Revenues	319,681	95,277
General Revenue		
State Sources-Unrestricted	1,770,221	1,171,059
Other General Revenue	<u>48,107</u>	<u>119,147</u>
Total General Revenues	<u>1,818,328</u>	<u>1,290,206</u>
Total Revenues	2,138,009	1,385,483
Expenditures		
Instructional	631,684	393,308
Support Services	<u>1,471,325</u>	<u>992,175</u>
Total Expenditures	<u>2,103,009</u>	<u>1,385,483</u>
Increase/(Decrease) in Net Position	35,000	0
Net Position – July 1	0	0
Net Position – June 30	<u>\$ 35,000</u>	<u>\$ 0</u>

The results of this year's operations for the District as a whole are reported in the statement of activities (see table above), which shows the changes in net position for fiscal years ended June 30, 2021, and 2020.

The District's net position increased by \$35,000 during the current fiscal year. The increase in net position differs from the change in fund balances and a reconciliation appears on page 6.

FLEX HIGH SCHOOL OF MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2021

General Fund Budgeting and Operating Highlights

The District's budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund. During the fiscal year ended June 30, 2021, the District amended the budget of the General Fund twice. State law requires that the budget be amended to ensure that expenditures do not exceed appropriation. A schedule showing the District's General Fund original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

The General Fund actual revenue and other financing sources was \$2,138,009, this amount was greater than the final budget estimate of \$2,060,195. The variance was \$77,814 or 4%. The General Fund actual expense and other financing uses was \$2,103,009, this amount was greater than the final budget estimate of \$2,015,713. The variance was \$87,296 or 4%. The variances were due to conservative revenue budgeting and a greater than expected surplus of revenue of expense requiring a greater management fee to be paid at year end.

The General Fund had total revenues of \$2,138,009 and total expenditures of \$2,103,009 with a net increase in fund balance of \$35,000 and an ending fund balance of \$35,000.

Economic Factors and Next Year's Budget

The following factors will affect the District in the future and were considered in preparing the District's budget for the 2021-22 fiscal year:

- * Foundation allowance of \$8,700 an increase of nearly \$600 over the prior year.
- * The continuing increase of student enrollment.
- * Relief grants due to Covid-19 impact.

The Flex High School of Michigan's 2021/2022 adopted budget is as follows:

Revenues	\$ 2,741,829
Expenditures	<u>2,786,311</u>
Projected (Decrease) to Fund Balance	\$ <u><u>(44,482)</u></u>

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact Flex High School of Michigan.

BASIC FINANCIAL STATEMENTS

FLEX HIGH SCHOOL OF MICHIGAN
STATEMENT OF NET POSITION
JUNE 30, 2021

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	\$72,763
Accounts Receivable	81,632
Due from Other Governmental Units	<u>384,299</u>
<u>TOTAL ASSETS</u>	\$538,694
<u>LIABILITIES</u>	
Accounts Payable	474,958
Salaries Payable	<u>28,736</u>
Total Liabilities	\$503,694
	<u>NET POSITION</u>
<u>NET POSITION</u>	
Unrestricted	<u>35,000</u>
<u>TOTAL NET POSITION</u>	<u><u>\$35,000</u></u>

See notes to the financial statements.

FLEX HIGH SCHOOL OF MICHIGAN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenue Program Specific Operating Grants and Contributions</u>	<u>Governmental Activities Net (Expense) Revenue & Change in Net Position</u>
Governmental Activities:				
Instruction	\$631,684	\$0	\$319,681	(\$312,003)
Support Services	1,471,325	0	0	(1,471,325)
<u>TOTALS</u>	<u>\$2,103,009</u>	<u>\$0</u>	<u>\$319,681</u>	<u>(\$1,783,328)</u>
General Revenues:				
State Sources - Unrestricted				1,770,221
Other General Revenues				48,107
Total General Revenues and Transfers				<u>\$1,818,328</u>
Change in Net Position				<u>\$35,000</u>
Net Position - Beginning of Year				<u>0</u>
<u>Net Position - End of Year</u>				<u>\$35,000</u>

See notes to the financial statements.

FLEX HIGH SCHOOL OF MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2021

	<u>General Fund</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	\$72,763
Accounts Receivable	81,632
Due from Other Governmental Unit:	<u>384,299</u>
<u>TOTAL ASSETS</u>	<u>\$538,694</u>
<u>LIABILITIES</u>	
Accounts Payable	\$474,958
Salaries Payable	<u>28,736</u>
Total Liabilities	\$503,694
<u>FUND BALANCES</u>	
Assigned - Subsequent Year Expenditures	<u>35,000</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$538,694</u>

See notes to the financial statements.

FLEX HIGH SCHOOL OF MICHIGAN
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2021

Total Governmental Fund Balances:	\$35,000
There are no reconciling differences	<u>0</u>
<u>TOTAL NET POSITION -</u> <u>GOVERNMENTAL ACTIVITIES</u>	<u>\$35,000</u>

See notes to the financial statements.

FLEX HIGH SCHOOL OF MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2021

	General Funds
<u>REVENUES</u>	
Local Sources	\$21,471
State Sources	1,944,813
Federal Sources	132,471
Interdistrict Sources	12,618
Total Revenues	\$2,111,373
<u>EXPENDITURES</u>	
Instruction	631,684
Support Services	1,471,325
Total Expenditures	\$2,103,009
Excess of Revenues Over Expenditures	\$8,364
<u>OTHER FINANCING SOURCES</u>	
Other Transfers	26,636
Net Change in Fund Balance	\$35,000
<u>FUND BALANCE - BEGINNING OF YEAR</u>	0
<u>FUND BALANCE - END OF YEAR</u>	\$35,000

See notes to the financial statements.

FLEX HIGH SCHOOL OF MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

Total net change in fund balances - governmental funds	\$35,000
There are no reconciling differences	<u>0</u>
<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	<u>\$35,000</u>

See notes to the financial statements.

FLEX HIGH SCHOOL OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Flex High School of Michigan (the "District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the District:

A) REPORTING ENTITY

The District was formed as a charter school District pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The District received its initial charter approval from Central Michigan University on May 15, 2018. The agreement calls for a fee of 3% of unrestricted state aid revenue.

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships with of the District. Based on application of the criteria, the District does not contain component units.

The District receives funding from local, state, federal and inter-district government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

B) 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. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

C) BASIS OF PRESENTATION - FUND FINANCIAL STATEMENTS

The fund financial statements provide information about the District's funds, including its fiduciary funds (if any). Separate statements for each fund category - governmental and fiduciary - 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 School District reports the following major governmental fund:

General Fund - The General Fund is the District's primary operating fund. It accounts for all financial resources of the District.

D) MEASUREMENT FOCUS, BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to the financial statements is determined by its 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 are primarily related to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

FLEX HIGH SCHOOL OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D) MEASUREMENT FOCUS, BASIS OF ACCOUNTING (Continued)

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

Fiduciary Fund Financial Statements (if any) are reported using the economic resources measurement focus and the accrual basis of accounting, except for the recognition of certain liabilities to the beneficiaries of a fiduciary activity. Liabilities to beneficiaries are recognized when an event has occurred that compels the District to disburse fiduciary resources.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Revenue not meeting this definition is classified as a deferred inflow of resources. For this purpose, the District considers revenue to be available if it is 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.

State and federal aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the District.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all unrestricted state aid.

E) CASH AND CASH EQUIVALENTS/INVESTMENTS

Cash and cash equivalents include amounts in demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

In accordance with Michigan Compiled Laws, the District is authorized to invest in the following investment vehicles:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration (NCUA), but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
- c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.

FLEX HIGH SCHOOL OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E) CASH AND CASH EQUIVALENTS/INVESTMENTS (Continued)

- d. The United States government or federal agency obligations repurchase agreements.
- e. Bankers acceptances of United States banks.
- f. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

F) RECEIVABLES

The District considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. The balance of accounts receivable at June 30, 2021 is primarily composed of amounts due from other governmental units.

G) PREPAID COSTS

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both government-wide and fund financial statements.

H) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

As of June 30, 2021, the District has no assets which meet their capitalization threshold.

I) DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

Deferred Outflows

In addition to assets, the statement of financial 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 or fund balance that applies to a future period(s) and thus, will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any of this type of item.

Deferred Inflows

In addition to liabilities, the statement of financial 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 District does not have any of this type of item.

FLEX HIGH SCHOOL OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) NET POSITION FLOW ASSUMPTION

Sometimes the District 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 District's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

K) FUND BALANCE FLOW ASSUMPTION

Sometimes the District 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 District'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.

L) FUND BALANCE POLICIES

Fund balances for each of the District's governmental funds are displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- * Nonspendable fund balance - amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- * Restricted fund balance - amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.
- * Committed fund balance - amounts that have been formally set aside by specific purposes. Commitments are made and can be rescinded only via resolution of the Board of Education.
- * Assigned fund balance - amounts the District intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. The intent is expressed by the Board of Education.
- * Unassigned fund balance - amounts that are available for any purpose; these amounts can be reported only in the District's General Fund.

In the general fund, the goal of the District shall be to maintain a minimum unassigned fund balance of no less than 5% of the preceding year's expenditures.

M) REVENUES

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.

FLEX HIGH SCHOOL OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N) USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

O) MICHIGAN PUBLIC SCHOOL ACCOUNTING MANUAL

The accompanying financial statements have been prepared on a basis substantially consistent with the Michigan Public School Accounting Manual (Bulletin 1022), which outlines the accounting procedures and policies for school districts required by the Michigan State Board of Education.

P) BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue fund. The capital projects fund is appropriated on a project-length basis. Other funds do not have appropriated budgets.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods or services (i.e., purchase orders, contracts, and commitments). The District does not utilize encumbrance accounting.

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

1. The Director submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School 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.
4. 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 School Board.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to yearend June 30, 2021. The District does not consider these amendments to be significant.

Q) ECONOMIC DEPENDENCY

The District receives approximately 83% of its operating revenue through the foundation allowance from the State of Michigan.

FLEX HIGH SCHOOL OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS

2) DEPOSITS AND INVESTMENTS

As of June 30, 2021, the District had no investments.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2021, \$0 of the District's bank balance of \$72,763 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying value on the books for deposits at the end of the year was \$72,763.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

Fair value measurement. The District is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

The asset or liability's fair measurement level with the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The District does not have any investments subject to the fair value measurement.

FLEX HIGH SCHOOL OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS

3) RECEIVABLES – DUE FROM OTHER GOVERNMENTAL UNITS

Receivables at June 30, 2021, consist of accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	<u>\$ 384,299</u>

4) SHORT-TERM DEBT

The District has various options for short-term financing including state aid anticipation notes and lines of credit. The District entered into no short-term financing arrangements during the fiscal year ended June 30, 2021.

5) OPERATING LEASE

The District entered into a five year and two month sub lease for its school facilities (1245 South Center Rd, Burton, Michigan) with their management company, commencing on January 1, 2019, and expiring on February 28, 2024. The lease requires monthly payments of \$10,056 plus the District's share of the operating expenses of \$2,406 each month. Per the lease agreement, the share of operating expenses may be adjusted annually based on the Consumer Price Index.

The District leases their premises at 4945 & 4939 Clio Road, Flint, Michigan from Clio & Pierson, LLC. The lease commenced on April 14, 2020 and expires on April 30, 2025. The lease requires monthly payments of \$9,145 plus the District's share of the operating expenses which total \$1,975 each month.

On November 20, 2019 the District entered into a copier lease with MRC Smart Technology Solutions. The lease call for 36 monthly payments of \$448 and expires November 20, 2022.

On January 9, 2020 the District entered into a copier lease with Xerox. The lease call for 36 monthly payments of \$452 and expires January 9, 2023.

Expenditures under the leases for the year ended June 30, 2021 was \$311,743. Future rent maturities (excluding operating expenses) are as follows:

June 30, 2022	\$ 293,784
June 30, 2023	287,936
June 30, 2024	245,598
June 30, 2025	<u>111,200</u>
<u>TOTAL</u>	<u>\$ 938,518</u>

6) RISK MANAGEMENT

The District is exposed to various risks of loss related to property loss, torts, errors and omissions. The District purchases commercial insurance coverage to cover potential claims, and management believes this coverage is sufficient to protect the District from any significant adverse financial impact.

FLEX HIGH SCHOOL OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS

7) COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, the District is involved in various pending or threatened legal actions. The District believe that any ultimate liability arising from these actions will not have a material adverse effect on its financial position.

The District participates in a number of federal and state programs that require compliance with specific terms and conditions and are subject to audits by the contracting agencies. Management believes that the effect of any disallowed expenditures would be immaterial to the financial statements.

8) UPCOMING ACCOUNTING PRONOUNCEMENTS

Statement No. 87, Leases, was issued by the GASB in June 2017. The objective of this Statement is to increase the usefulness 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. The requirements of this Statement are effective for the fiscal year ending June 30, 2022.

Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. It requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reporting in a business-type activity or enterprise fund. Interest cost incurred before the end of a construction period should be recognized as an expenditure for financial statements prepared using the current financial resources measurement. The requirements of this Statement are effective for the fiscal year ending June 30, 2022.

Statement No. 91, Conduit Debt Obligations provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This statement is effective for the year ending June 30, 2023.

Statement No. 93, Replacement of Interbank Offered Rates establishes accounting and financial reporting requirements related to the replacement of IBORs in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The requirements of this Statement apply to the financial statements of all state and local governments. This statement is effective for the year ending June 30, 2022.

FLEX HIGH SCHOOL OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS

8) UPCOMING ACCOUNTING PRONOUNCEMENTS (Continued)

Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. This statement is effective for the year ending June 30, 2023.

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. This statement is effective for the year ending June 30, 2023.

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

REQUIRED SUPPLEMENTARY
INFORMATION

FLEX HIGH SCHOOL OF MICHIGAN
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2021

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Local Sources	\$3,000	\$3,000	\$34,089	\$31,089
State Sources	1,202,668	1,864,099	1,944,813	80,714
Federal Sources	62,748	166,460	132,471	(33,989)
Total Revenues	<u>\$1,268,416</u>	<u>\$2,033,559</u>	<u>\$2,111,373</u>	<u>\$77,814</u>
<u>EXPENDITURES</u>				
Instruction	542,978	702,578	631,684	70,894
Student Services	57,950	109,128	113,336	(4,208)
Instructional Support	0	7,726	1,045	6,681
General Administration	80,000	89,125	393,358	(304,233)
School Administration	213,212	239,772	209,515	30,257
Business Administration	52,100	56,029	51,160	4,869
Operation & Maintenance of Plant	513,498	496,972	468,479	28,493
Transportation	15,000	2,425	1,813	612
Support Services - Other	191,589	311,958	232,619	79,339
Total Expenditures	<u>\$1,666,327</u>	<u>\$2,015,713</u>	<u>\$2,103,009</u>	<u>(\$87,296)</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Net Change in Fund Balance	<u>\$0</u>	<u>\$44,482</u>	<u>\$35,000</u>	<u>(\$9,482)</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>			<u>0</u>	
<u>FUND BALANCE - END OF YEAR</u>			<u>\$35,000</u>	

FLEX HIGH SCHOOL OF MICHIGAN
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits District's to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The District increased/decreased budgeted amounts during the year in response to changes in funding and related expenditures.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

During the year, Flex High school of Michigan has the following expenditure budget variances.

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Student Services	\$109,128	\$113,336	(\$4,208)
General Administration	89,125	393,358	(304,233)

The variance was due to conservative revenue budgeting and a greater than expected surplus of revenue which required a greater management fee to be paid at year end.



October 25, 2021

**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 Education of
Flex High School of Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Flex High School of Michigan, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Flex High School of Michigan's basic financial statements, and have issued our report thereon dated October 25, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Flex High School of Michigan's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Flex High School of Michigan's internal control. Accordingly, we do not express an opinion on the effectiveness of Flex High School of Michigan'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 Flex High School of Michigan'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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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.

Lewis & Knopf, P.C.

LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS



October 25, 2021

To the Board of Education of
Flex High School of Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Flex High School of Michigan 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. We have communicated such information in our letter to you dated June 23, 2021. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Flex High School of Michigan 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 2020-2021. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly 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 each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the 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 25, 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 governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to 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.

Restriction on Use

This information is intended solely for the use of the Board of Education and management of Flex High School of Michigan and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Lewis & Knopf, P.C.

LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS