

FLEX HIGH SCHOOL OF MICHIGAN

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

JUNE 30, 2019

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October 28, 2019

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, 2019, 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, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

-I-

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 28, 2019, 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's Discussion and Analysis

The Management Discussion and Analysis provides an overview of the Flex High School of Michigan' financial activities for the fiscal year ended June 30, 2019. Flex High School of Michigan operates under an agreement whereby the managing educational service provider must provide services regardless of whether actual revenue meets the level projected in the budget, and assumes the risk of funding shortfalls during the term of the agreement.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the Academy's basic financial statements. The Academy's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

The Academy contracts with

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Academy's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the Academy's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Academy is improving or deteriorating.

The statement of activities presents information about the change in the Academy's net position for the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused sick days).

Both of the government-wide financial statements distinguish functions of the Academy that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Academy include instruction, support services, and community services. The Academy has no business-type activities as of and for the year ending June 30, 2019.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Academy, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Academy are governmental funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Academy maintains one governmental fund. Information is presented separately on the governmental funds balance sheet and on the governmental funds statement of revenues, expenditures, and changes in fund balances for major funds which includes the general fund.

Flex High School of Michigan

The Academy adopts an annual appropriated budget for its general fund. Budgetary comparison statements or schedules have been provided for the general fund herein to demonstrate compliance with that budget.

Notes to the Financial Statements. The notes 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 the financial statements can be found after the basic financial statements of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management's discussion and analysis and the budgetary comparison schedule which can be found immediately following the notes to the financial statements.

Government-wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. Liabilities and deferred inflows of resources equaled assets and deferred outflows of resources at close of the fiscal year, the Academy's first year of operations.

	Net Position Governmental Activities June 30, 2019	
Assets		
Cash and Cash Equivalents	\$	3,882
Accounts Receivable		72,608
Due from Other Governmental Units		475,643
Total Assets		<u>552,133</u>
Liabilities		
Accounts Payable		<u>538,261</u>
Total Liabilities		<u>538,261</u>
Net Position		
Unrestricted		-
Total Net Position	\$	<u><u>-</u></u>

Flex High School of Michigan

Changes in Net Position Governmental Activities		June 30, 2019
Revenues		
Operating Grants & Contributions - Instruction	\$	40,164
State School Aid - Unrestricted		729,037
Miscellaneous		72,608
Total Revenue		841,809
Expenditures		
Instructional		284,756
Support Services		557,053
Total Expenditures		841,809
Change in Net Position		
Net Position - July 1		-
Net Position - June 30	\$	-

Financial Analysis of the Government's Funds

The Academy uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds. The focus of the Academy's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Academy's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Academy. At the end of the current fiscal year total fund balance was \$0.

General Fund Budgetary Highlights

During the fiscal year ended June 30, 2019, 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 \$841,810. That amount is less than the final budget estimate of \$1,045,981. The variance was \$204,171 or 20%. The variance was due to conservative expense budgeting of during the first year of operation for the school and not requiring as large of a capital contribution from the management company.

The actual expenditures and other financing uses of the general fund were \$841,810, which is below the final budget estimate of \$1,045,981. The variance was \$204,171, or 20%. The variance was due to conservative expense budgeting of during the first year of operation for the school and not requiring as large of a capital contribution from the management company.

The general fund had total revenues of \$841,810 and total expenditures of \$841,810 with a net increase in fund balance of \$0 and an ending fund balance of \$0.

Flex High School of Michigan

Factors Affecting the Academy's Future

The following factors were considered in preparing the Academy's budget for the 2019-20 fiscal year:

- The Academy will continue to realign its general fund expenditure budget to approximate expected revenues.
- The Academy's foundation allowance is set by the State of Michigan and is dependent on the state's economic condition.

Requests for Information

This financial report is designed to provide a general overview of the Academy's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Michael Springs, Principal, 4121 M L King Avenue, Flint, Michigan, 48505.

BASIC FINANCIAL STATEMENTS

FLEX HIGH SCHOOL OF MICHIGAN
STATEMENT OF NET POSITION
JUNE 30, 2019

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	\$3,882
Accounts Receivable	72,608
Due from Other Governmental Units	<u>475,643</u>
 <u>TOTAL ASSETS</u>	 \$552,133
 <u>LIABILITIES</u>	
Accounts Payable	552,133
 <u>NET POSITION</u>	
Unrestricted	<u>0</u>
 <u>TOTAL NET POSITION</u>	 <u><u>\$0</u></u>

See notes to the financial statements.

FLEX HIGH SCHOOL OF MICHIGAN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

<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	\$284,757	\$0	\$40,164	(\$244,593)
Support Services	557,053	0	0	(557,053)
<u>TOTALS</u>	<u>\$841,810</u>	<u>\$0</u>	<u>\$40,164</u>	<u>(\$801,646)</u>
General Revenues:				
State Sources - Unrestricted				729,038
Other General Revenues				72,608
Total General Revenues and Transfers				<u>\$801,646</u>
Change in Net Position				\$0
Net Position - Beginning of Year				<u>0</u>
<u>Net Position - End of Year</u>				<u>\$0</u>

See notes to the financial statements.

FLEX HIGH SCHOOL OF MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019

	<u>General Fund</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	\$3,882
Accounts Receivable	72,608
Due from Other Governmental Unit:	<u>475,643</u>
<u>TOTAL ASSETS</u>	<u>\$552,133</u>
<u>LIABILITIES</u>	
Accounts Payable	\$552,133
<u>FUND BALANCES</u>	
Unassigned	<u>0</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$552,133</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, 2019

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

FLEX HIGH SCHOOL OF MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	General Funds
<u>REVENUES</u>	
State Sources	\$749,939
Federal Sources	16,570
Interdistrict Sources	2,693
Total Revenues	\$769,202
<u>EXPENDITURES</u>	
Instruction	284,757
Support Services	557,053
Total Expenditures	\$841,810
(Deficiency) of Revenues (Under) Expenditures	(\$72,608)
<u>OTHER FINANCING SOURCES</u>	
Other Transfers	72,608
Net Change in Fund Balance	\$0
<u>FUND BALANCE - BEGINNING OF YEAR</u>	0
<u>FUND BALANCE - END OF YEAR</u>	\$0

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, 2019

Total net change in fund balances - governmental funds \$0

There are no reconciling differences

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$0

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) GOVERNMENT-WIDE FUND 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 primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Intergovernmental payments, and other items not properly included among program revenue are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C) MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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 conforming 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 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)

C) MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION
(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.

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

When an expense is incurred for the purpose for which both restricted and unrestricted net position or fund balance are available, the School District's policy is to first apply restricted resources. When an expense is incurred for purposes which amounts in any of the unrestricted fund balance classifications could be used, it is the School District's policy to spend funds in this order: committed, assigned, and unassigned.

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 unrestricted state aid.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Revenue not meeting this definition is classified as a deferred inflow of resources. For this purpose, the School 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 claims and judgments, are recorded only when payment is due.

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

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) 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.

Certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity.

FLEX HIGH SCHOOL OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D) CASH AND CASH EQUIVALENTS/INVESTMENTS (Continued)

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by no less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

E) 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, 2019 is primarily composed of amounts due from other governmental units.

F) 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.

G) 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, 2019, the District has no assets which meet their capitalization threshold.

H) 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)

I) FUND BALANCE

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.

The District would typically use restricted fund balance first, followed by committed resources, and then assigned resources as appropriate opportunities arise, but reserve the right to selectively spend unassigned resources first to defer the use of these classified funds.

J) NET POSITION

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

K) 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.

L) 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.

FLEX HIGH SCHOOL OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M) 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.

N) 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, 2019. The District does not consider these amendments to be significant.

2) DEPOSITS AND INVESTMENTS

As of June 30, 2019, the District had no investments.

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.

FLEX HIGH SCHOOL OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS

2) DEPOSITS AND INVESTMENTS (Continued)

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.

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, 2019, \$0 of the District's bank balance of \$3,882 was exposed to custodial credit risk.

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.

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.

Deposits	<u>\$3,882</u>
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FLEX HIGH SCHOOL OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS

3) RECEIVABLES

Receivables at June 30, 2019, 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	\$ 474,291
Other	1,352
	<hr/>
<u>TOTAL GOVERNMENTAL ACTIVITIES</u>	<u>\$ 475,643</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, 2019.

5) OPERATING LEASE

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

The District leases a room at 4121 Martin Luther King Dr., Flint, Michigan on a month-to-month basis from a relative of one of its board members. The lease requires monthly payments of \$3,750.

Future rent maturities (excluding operating expenses) are as follows:

June 30, 2020	\$ 120,666
June 30, 2021	120,666
June 30, 2022	120,666
June 30, 2023	120,666
June 30, 2024	80,444
	<hr/>
<u>TOTAL</u>	<u>\$ 563,108</u>

6) UPCOMING ACCOUNTING PRONOUNCEMENT

A) Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, was issued by the GASB in January 2017 and will be effective for the District's 2020 year end. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Districts with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

FLEX HIGH SCHOOL OF MICHIGAN
NOTES TO FINANCIAL STATEMENTS

6) UPCOMING ACCOUNTING PRONOUNCEMENT

- B) Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017 and will be effective for the District's 2021 year end. 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.

REQUIRED SUPPLEMENTARY
INFORMATION

FLEX HIGH SCHOOL OF MICHIGAN
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
<u>REVENUES</u>				
Local Sources	\$3,000	\$3,000	\$2,693	(\$307)
State Sources	476,125	383,686	749,939	366,253
Federal Sources	0	18,192	16,570	(1,622)
Total Revenues	\$479,125	\$404,878	\$769,202	\$364,324
<u>EXPENDITURES</u>				
Instruction	360,304	387,172	284,757	102,415
Student Services	14,000	32,302	36,861	(4,559)
Instructional Support	16,000	19,122	3,100	16,022
General Administration	43,374	40,511	23,097	17,414
School Administration	114,597	178,335	159,295	19,040
Business Administration	73,962	39,480	28,534	10,946
Operation & Maintenance of Plant	159,000	153,777	140,692	13,085
Transportation	17,820	5,000	6,475	(1,475)
Support Services - Other	215,068	190,282	158,999	31,283
Total Expenditures	\$1,014,125	\$1,045,981	\$841,810	\$204,171
<u>OTHER FINANCING SOURCES (USES)</u>				
Net Change in Fund Balance	\$0	\$0	\$0	\$0
<u>FUND BALANCE - BEGINNING OF YEAR</u>			0	
<u>FUND BALANCE - END OF YEAR</u>			\$0	

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 did not have any significant expenditure budget variances.



October 28, 2019

**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, 2019, 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 28, 2019.

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) 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 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 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.

Lewis & Knopf, P.C.

LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS



October 28, 2019

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, 2019. 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 20, 2019. 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 2018-2019. 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 28, 2019.

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

