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FRANKFORT-ELBERTA AREA SCHOOLS

FRANKFORT, MICHIGAN

JUNE 30, 2022



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FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2022

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August 5, 2022

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Frankfort-Elberta Area Schools
Frankfort, Michigan

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Frankfort-Elberta Area Schools, Frankfort, Michigan as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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 Frankfort-Elberta Area Schools, as of June 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Frankfort-Elberta Area Schools and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Frankfort-Elberta Area Schools'

ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Frankfort-Elberta Area Schools' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Frankfort-Elberta Area Schools' ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as identified in the table of contents, on pages iv-xii and 37-42 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with

auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Frankfort-Elberta Area Schools' basic financial statements. The accompanying combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2022, on our consideration of Frankfort-Elberta Area Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Frankfort-Elberta Area Schools' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Frankfort-Elberta Area Schools' internal control over financial reporting and compliance.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

MANAGEMENT’S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2022

This section of Frankfort-Elberta Area Schools (“the District”) annual report presents our discussion and analysis of the District’s financial performance during the year ended June 30, 2022. Please read it in conjunction with the District’s financial statements, which immediately follow this section.

This discussion and analysis is intended to serve as an introduction to the District’s basic financial statements. The basic financial statements consist of the following three components: the government-wide financial statements, fund financial statements, and the notes to basic financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Financial Highlights Section

Government-Wide

- The liabilities and deferred inflows of resources of the District exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by \$2,071,811, creating a deficit net position amount. Of this amount net capital assets net of related debt was \$7,659,806.
- The District’s total net deficit decreased by \$1,252,380.

Fund Level

- As of the close of the current fiscal year, the District’s governmental funds reported combined ending fund balances of \$9,940,794, an increase of \$6,521,555 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,378,786.

Overview of the Financial Statements

Government-Wide Financial Statements

The government-wide statements provide short-term and long-term financial information about the District’s overall financial status. These statements are required by generally accepted accounting principles (GAAP) as described in the Government Accounting Standards Board (GASB) Statement No. 34. The district-wide financial statements are compiled using full accrual basis of accounting and more closely represent financial statements presented by business and industry. The Statement of Net Position includes all of the District’s assets and liabilities. All of the year’s revenue and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

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

Over time, increases and decreases in the District’s net position are indicators of whether its financial position is improving or deteriorating, respectively.

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

MANAGEMENT’S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2022

To assess the overall health of the District requires consideration of additional non-financial factors, such as changes in the District’s property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District’s activities are all shown in one category titled “Governmental Activities”. These activities, including instruction, supporting services, food service, other transactions, and interest on long-term debt are primarily financed with state and federal aids and property taxes.

Fund Financial Statements

The fund financial statements provide more detailed information about the District’s funds, focusing on its most significant or “major” funds, rather than the District as a whole. Funds that do not meet the threshold to be classified as major funds are called “non-major” funds. Detailed financial information for non-major funds can be found in the combining fund statements section.

Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District may establish other funds to control and manage money for particular purposes.

The District maintains the following kinds of funds:

Governmental Funds – The District’s basic services are included in governmental funds, which generally focus on 1) how cash and other financial assets that can be readily converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the District’s programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information (reconciliation schedules) immediately following the governmental funds statements that explain the relationship (or differences) between these two types of financial statement presentations.

Notes to 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 on pages 8-36 of this report.

Other Information

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2022

Summary of Net Position

The following schedule summarizes the net position at fiscal year ended June 30.

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets	\$ 11,186,649	\$ 4,448,352
Capital Assets	14,878,303	14,470,638
Less: Accumulated Depreciation	<u>(6,203,412)</u>	<u>(5,996,503)</u>
Total Non Current Assets	<u>8,674,891</u>	<u>8,474,135</u>
Total Assets	<u>19,861,540</u>	<u>12,922,487</u>
Deferred Outflows of Resources	<u>3,668,981</u>	<u>4,528,731</u>
Liabilities		
Current Liabilities	1,983,812	1,825,271
Long-Term Liabilities	<u>17,488,923</u>	<u>16,785,937</u>
Total Liabilities	<u>19,472,735</u>	<u>18,611,208</u>
Deferred Inflows of Resources	<u>6,129,597</u>	<u>2,164,201</u>
Net Position		
Net Investment in Capital Assets	7,659,806	7,587,663
Restricted for Specific Purposes	155,769	105,099
Unrestricted (Deficit)	<u>(9,887,386)</u>	<u>(11,016,953)</u>
Total Net Position (Deficit)	<u>\$ (2,071,811)</u>	<u>\$ (3,324,191)</u>

Analysis of Financial Position

During the fiscal year ended June 30, 2022, the District's net position increased by \$1,252,380. A few of the more significant factors affecting net position during the year are discussed below.

1. Depreciation Expense

GASB 34 requires school districts to maintain records of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net position.

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FRANKFORT, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2022

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2022, \$445,263 was recorded for depreciation expense.

2. *Pension and Other Postemployment Benefits Expense*

GASB 68 and 75 now require the District to account for its payments to the Michigan Public School Employees' Retirement System in a manner that has a significant effect on the District's change in net position. Based on various factors, the District may report an increase or decrease in net position depending on whether the District's proportionate share of the net pension and net other postemployment benefit liabilities increases or decreases in any given year.

3. *Capital Outlay Acquisitions*

For the fiscal year ended June 30, 2022, \$646,019 of expenditures for equipment and improvements were capitalized and recorded as assets of the District. These additions to the District's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets, the current year's depreciation, and the current year disposals is an increase to capital assets in the amount of \$200,756 for the fiscal year ended June 30, 2022.

Change in Net Position

The following schedule summarizes the results of operations, on a district-wide basis, for the fiscal year ended June 30.

	<u>2022</u>	<u>2021</u>
Revenues		
General Revenues		
Property Taxes	\$ 7,077,423	\$ 6,814,701
State Sources	21,120	49,684
Investment Earnings	15,565	5,420
Other	167,884	122,211
Program Revenues		
Charges for Services	396,984	323,029
Operating Grants and Contributions	<u>2,472,270</u>	<u>1,883,171</u>
Total Revenues	<u>10,151,246</u>	<u>9,198,216</u>

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FRANKFORT, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2022

	<u>2022</u>	<u>2021</u>
Expenses		
Instruction	4,828,620	5,136,972
Support Services	2,993,618	2,986,158
Food Services	404,802	411,599
Other Transactions	7,222	4,052
Facilities Acquisition, Construction, and Improvements	3,607	0
Interest on Long-Term Debt	55,074	66,904
Bond Issuance - Costs	160,660	0
Depreciation - Unallocated	445,263	436,012
Total Expense	<u>8,898,866</u>	<u>9,041,697</u>
Change in Net Position	<u><u>\$ 1,252,380</u></u>	<u><u>\$ 156,519</u></u>

Financial Analysis of the District's Funds

The financial performance of the District as a whole is also reflected in its governmental funds. The following table shows the change in total fund balances of each of the District's governmental funds:

	<u>2022</u>	<u>2021</u>	<u>Increase (Decrease)</u>
Major Funds			
General Fund	\$ 2,450,285	\$ 1,950,826	\$ 499,459
2021 Capital Projects Fund	322,357	964,403	(642,046)
2022 Capital Projects Fund	6,494,813	0	6,494,813
Nonmajor Funds			
Food Service	59,049	15,403	43,646
School Activity Fund	275,568	247,385	28,183
Community Service Fund	46,336	0	46,336
2015 Debt Service Fund	14,024	26,950	(12,926)
2018 Debt Service Fund	54,913	84,307	(29,394)
2021 Debt Service Fund	14,789	0	14,789
2022 Debt Service Fund	100,000	0	100,000
2018 Capital Projects Fund	49	21,575	(21,526)
Public Improvement Capital Projects Fund	108,611	108,390	221
Total Governmental Funds	<u><u>\$ 9,940,794</u></u>	<u><u>\$ 3,419,239</u></u>	<u><u>\$ 6,521,555</u></u>

The District's governmental funds reported combined fund balances of \$9,940,794, an increase of \$6,521,555 over last year's ending fund balances of \$3,419,239.

The fund balance of the District's General Fund increased by \$499,459 during the current fiscal year bringing the fund balance to \$2,450,285. This increase is due to increased tax revenues, state revenues,

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2022

and federal revenues during the fiscal year. Additionally, the General Fund did not transfer any money out this year. \$71,499 of the fund balance is assigned while the remaining balance of \$2,378,786 is unassigned.

The 2021 Capital Projects Fund decreased its fund balance by \$642,046 bringing the fund balance to \$322,357. The entire amount is restricted for capital projects. The decrease is due to spending on capital improvements and assets.

The 2022 Capital Projects Fund increased its fund balance by \$6,494,813 bringing the fund balance to \$6,494,813. The entire amount is restricted for capital projects. The increase is due to the issuance of bonds in the current fiscal year.

The Food Service Fund increased its fund balance by \$43,646 bringing the fund balance to \$59,049, due to an increase in federal funding from all kids being free this year under the Seamless Summer Option. \$9,522 of the fund balance is nonspendable for inventory and \$49,527 is restricted for food service.

The School Activity Fund increased its fund balance by \$28,183 bringing the fund balance to \$275,568, due to an increase in donations and fundraising received this year. The prior year was limited on fundraising due to the lingering affects of COVID-19. The entire fund balance is committed for school activities.

The Community Service Fund increased its fund balance by \$46,336 bringing the fund balance to \$46,336, due to the large amount of state and federal funds received during the year being greater than the related expenditures. The entire fund balance is committed for community services.

The 2015 Debt Service Fund ended the year with a \$14,024 fund balance, a decrease of \$12,926 from the prior year. The decrease is due to collecting less tax revenue than debt payments made during the fiscal year. The entire balance is restricted for debt service.

The 2018 Debt Service Fund ended the year with a \$54,913 fund balance, a decrease of \$29,394 from the prior year. The decrease is due to collecting less tax revenue than debt payments made during the fiscal year. The entire balance is restricted for debt service.

The 2021 Debt Service Fund ended the year with a \$14,789 fund balance, an increase of \$14,789 from the prior year. The increase is due to collecting more tax revenue than debt payments made during the fiscal year. The entire balance is restricted for debt service.

The 2022 Debt Service Fund ended the year with a \$100,000 fund balance, an increase of \$100,000 from the prior year. The increase is due to a transfer in from the 2022 Capital Projects Fund. The entire balance is restricted for debt service.

The 2018 Capital Projects Fund decreased its fund balance by \$21,526 bringing the fund balance to \$49. The entire amount is restricted for capital projects. This decrease is due to spending on capital improvements and assets.

The Public Improvement Capital Projects Fund had a minimal increase in fund balance of \$221, bringing the fund balance to \$108,611. The entire amount is restricted for capital improvements.

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2022

General Fund Budgetary Highlights

The Uniform Accounting and Budgeting Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the 2021-2022 fiscal year, the District amended the General Fund at various time throughout the year, with the Board adopting the changes as summarized below. The following schedule shows a comparison of the original General Fund budget, the final amended General Fund budget, and actual totals from operations:

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>	<u>\$ 7,999,238</u>	<u>\$ 8,308,466</u>	<u>\$ 8,315,584</u>
<u>EXPENDITURES AND OUTGOING TRANSFERS</u>			
Instruction	\$ 4,919,727	\$ 4,960,974	\$ 4,942,099
Supporting Services	2,724,040	2,876,051	2,866,804
Community Services	100	0	0
Other Transactions	4,000	7,354	7,222
Outgoing Transfers	76,279	0	0
Total Expenditures and Outgoing Transfers	<u>\$ 7,724,146</u>	<u>\$ 7,844,379</u>	<u>\$ 7,816,125</u>

The original revenue budget of \$7,999,238 was increased to \$8,308,466 due to more state and federal revenues, and increased payouts from Northwest Education Services than originally anticipated. The original expenditure budget of \$7,724,146 was increased to \$7,844,379 due to additional salary and benefit related costs than originally budgeted for.

The difference between the final budgeted and actual revenues is due to the District receiving more in local and state sources than originally budgeted for. The main reason for the difference between the final budgeted and actual expenditures is due to the fact that the District budgets for the worst-case scenario.

Capital Asset and Debt Administration

Capital Assets. By the end of fiscal year 2022, the District had invested \$14,878,303 in a broad range of capital assets, including school buildings, land, athletic facilities, computer and audio-visual equipment and administrative offices. Total depreciation expense for the year was \$445,263. These investments are summarized as follows:

	Balance June 30, 2021	Additions	Deletions	Balance June 30, 2022
Capital Assets	\$ 14,470,638	\$ 647,069	\$ 239,404	\$ 14,878,303
Less: Accumulated Depreciation	(5,996,503)	(445,263)	(238,354)	(6,203,412)
Net Investment Capital Outlay	<u>\$ 8,474,135</u>	<u>\$ 201,806</u>	<u>\$ 1,050</u>	<u>\$ 8,674,891</u>

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2022

Additions to capital assets included:

- Football field improvements totaling \$81,659.
- Elementary locker project totaling \$70,736.
- Elementary playground equipment totaling \$259,900.
- Floor scrubber totaling \$10,539.
- Lawn mower totaling \$16,237.
- Bus and cameras totaling \$97,387.
- Laptops and iPads totaling \$44,230.
- Scissor lift totaling \$17,159.
- Gym floor upgrades totaling \$30,291.
- Volleyball equipment totaling \$6,957.
- Weight room equipment totaling \$10,924.

Disposals of capital assets included:

- Playground equipment
- Classroom technology and equipment
- iPads
- Floor scrubber

As of June 30, 2022, the District has committed \$83,760 for a gym door project.

Additional information on the District's capital assets can be found in the notes to this report.

Long-Term Obligations. At year-end, the District had total bonded debt, accrued sick leave, net pension and other postemployment liability outstanding of \$18,198,923, net of bond discounts and premiums.

Additional information on the District's long-term obligations can be found in the notes to this report.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the School District was aware of the following items that could significantly affect its financial health in the future:

- The current retirement rate for the next fiscal year is expected to be 44.88%. We are concerned about how the future retirement rates will be calculated with changes in legislation.
- The District continues to monitor certain one-time funding sources, primarily federal funding due to pandemic recovery efforts. As these funding sources go away, it is unlikely that the revenue received from these sources will be made up.

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FRANKFORT, MICHIGAN

MANAGEMENT’S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2022

- State-wide pressures for equity in the funding of schools always poses the possibility that the State of Michigan could make changes in the funding structure for schools and that the District’s “out-of-formula” status could be changed. Although not anticipated, district officials must plan for the eventual possibility of significantly less dollars per student should these demands for equity result in changes in state school funding.
- The District has finalized teacher and support staff contracts for the 2022-2023 school year.
- The District has been affected by supply chain shortages for many supplies and products that are used in day to day activities. We are hopeful in future years the shortages will become less significant, especially with upcoming bond projects.
- The District has faced significant staffing challenges for almost all positions including, but not limited to, full time teaching staff, substitute teacher staff, and other support staff.

Request for Information

This financial report is designed to provide the District’s citizens, taxpayers, customers, investors and creditors with a general overview of the District’s finances and to demonstrate the District’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Superintendent, Frankfort-Elberta Area Schools, 534 11th Street, Frankfort, Michigan 49635.

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

STATEMENT OF NET POSITION
JUNE 30, 2022

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash and Cash Equivalents	\$ 898,922
Accounts Receivable	42
Due from Other Governments	870,824
Inventory	9,522
Investments	2,481,627
Restricted Investments	<u>6,925,712</u>
Total Current Assets	<u>11,186,649</u>
<u>NON CURRENT ASSETS</u>	
Capital Assets	14,878,303
Less Accumulated Depreciation	<u>(6,203,412)</u>
Total Non Current Assets	<u>8,674,891</u>
TOTAL ASSETS	<u>19,861,540</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred Outflows Related to Loss on Bond Refunding	400
Deferred Outflows Related to Pensions	2,642,596
Deferred Outflows Related to Other Postemployment Benefits	<u>1,025,985</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>3,668,981</u>

The notes to the financial statements are an integral part of this statement.

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

STATEMENT OF NET POSITION
JUNE 30, 2022

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	61,157
Salaries Payable and Related Expenses	968,565
Due to Other Governments	46,544
Unearned Revenue	169,589
Accrued Interest Payable	27,957
Current Portion of Long-Term Liabilities	<u>710,000</u>
Total Current Liabilities	<u>1,983,812</u>
<u>NONCURRENT LIABILITIES</u>	
Bonds Payable - Net	7,940,915
Accumulated Sick Leave	62,535
Net Pension Liability	9,567,291
Net Other Postemployment Benefit Liability	628,182
Less Current Portion of Non Current Liabilities	<u>(710,000)</u>
Total Non Current Liabilities	<u>17,488,923</u>
TOTAL LIABILITIES	<u>19,472,735</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred Inflows Related to Pensions	3,774,801
Deferred Inflows Related to Other Postemployment Benefits	<u>2,354,796</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>6,129,597</u>
<u>NET POSITION</u>	
Net Investment in Capital Assets	7,659,806
Restricted for Debt Service	155,769
Unrestricted (Deficit)	<u>(9,887,386)</u>
TOTAL NET POSITION (DEFICIT)	<u><u>\$ (2,071,811)</u></u>

The notes to the financial statements are an integral part of this statement.

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022

FUNCTIONS/PROGRAM	EXPENSES	PROGRAM REVENUES			GOVERNMENTAL
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	ACTIVITIES
					NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
<u>GOVERNMENTAL ACTIVITIES</u>					
Instruction	\$ 4,828,620	\$ 98,297	\$ 1,473,100	\$ 0	\$ (3,257,223)
Supporting Services	2,993,618	283,290	525,587	0	(2,184,741)
Food Service	404,802	15,397	469,976	0	80,571
Other Transactions	7,222	0	0	0	(7,222)
Facilities Acquisition, Construction & Improvements	3,607	0	3,607	0	0
Interest on Long-Term Debt	55,074	0	0	0	(55,074)
Bond Issuance Costs	160,660	0	0	0	(160,660)
Depreciation-Unallocated	445,263	0	0	0	(445,263)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 8,898,866	\$ 396,984	\$ 2,472,270	\$ 0	(6,029,612)
<u>GENERAL REVENUES</u>					
Property Taxes - General Purpose					6,281,490
Property Taxes - Debt Service					795,933
State Sources					21,120
Investment Earnings					15,565
Other					167,884
Total General Revenues					7,281,992
Change in Net Position					1,252,380
<u>NET POSITION</u> - Beginning of Year (Deficit)					(3,324,191)
<u>NET POSITION</u> - End of Year (Deficit)					\$ (2,071,811)

The notes to the financial statements are an integral part of this statement.

FRANKFORT-ELBERTA AREA SCHOOLS

FRANKFORT, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2022

	GENERAL FUND	2021 CAPITAL PROJECTS FUND	2022 CAPITAL PROJECTS FUND	OTHER NON MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>					
Cash and Cash Equivalents	\$ 554,417	\$ 0	\$ 0	\$ 344,505	\$ 898,922
Accounts Receivable	0	0	0	42	42
Due from Other Funds	805	0	0	186,348	187,153
Due from Other Governments	737,208	0	0	133,616	870,824
Inventory	0	0	0	9,522	9,522
Investments	2,358,227	0	0	123,400	2,481,627
Restricted Investments	0	323,162	6,602,501	49	6,925,712
TOTAL ASSETS	\$ 3,650,657	\$ 323,162	\$ 6,602,501	\$ 797,482	\$ 11,373,802
<u>LIABILITIES AND FUND BALANCES</u>					
<u>LIABILITIES</u>					
Accounts Payable	\$ 52,138	\$ 0	\$ 7,688	\$ 1,331	\$ 61,157
Salaries Payable	494,501	0	0	0	494,501
Accrued Expenditures	474,064	0	0	0	474,064
Due to Other Governments	46,544	0	0	0	46,544
Due to Other Funds	83,996	805	100,000	2,352	187,153
Unearned Revenue	49,129	0	0	120,460	169,589
Total Liabilities	1,200,372	805	107,688	124,143	1,433,008
<u>FUND BALANCES</u>					
Nonspendable:					
Inventory	0	0	0	9,522	9,522
Restricted for:					
Food Service	0	0	0	49,527	49,527
Debt Service	0	0	0	183,726	183,726
Capital Projects	0	322,357	6,494,813	108,660	6,925,830
Committed for:					
School Activities	0	0	0	275,568	275,568
Community Services	0	0	0	46,336	46,336
Assigned for:					
Subsequent Year Budget Shortfall	71,499	0	0	0	71,499
Unassigned	2,378,786	0	0	0	2,378,786
Total Fund Balances	2,450,285	322,357	6,494,813	673,339	9,940,794
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,650,657	\$ 323,162	\$ 6,602,501	\$ 797,482	\$ 11,373,802

The notes to the financial statements are an integral part of this statement.

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2022

Total Governmental Fund Balances	\$ 9,940,794
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.

The cost of the capital assets is	\$ 14,878,303	
Accumulated depreciation is	<u>(6,203,412)</u>	8,674,891

Long-term liabilities are not due and payable in the current period and are not reported in the funds.

Bonds Payable	(7,525,000)
Bond Premium	(415,915)
Accumulated Sick Leave	(62,535)
Net Pension Liability	(9,567,291)
Net Other Postemployment Benefit Liability	(628,182)

Deferred outflows and (inflows) of resources are applicable to future periods and, therefore, are not reported in the funds.

Deferred outflows of resources - related to loss on bond refunding	400
Deferred outflows of resources - related to pensions	2,642,596
Deferred inflows of resources - related to pensions	(3,774,801)
Deferred outflows of resources - related to other postemployment benefits	1,025,985
Deferred inflows of resources - related to other postemployment benefits	(2,354,796)

Accrued interest is not included as a liability in government funds; it is recorded when paid.	<u>(27,957)</u>
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NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (2,071,811)</u></u>
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The notes to the financial statements are an integral part of this statement.

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2022

	GENERAL FUND	2021 CAPITAL PROJECTS FUND	2022 CAPITAL PROJECTS FUND	OTHER NON MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>REVENUES</u>					
Local Sources	\$ 6,335,356	\$ 1,972	\$ 5,922	\$ 1,156,251	\$ 7,499,501
States Sources	1,165,023	0	0	258,897	1,423,920
Federal Sources	607,652	0	0	519,552	1,127,204
Other Revenue	207,553	0	0	0	207,553
Total Revenues	8,315,584	1,972	5,922	1,934,700	10,258,178
<u>EXPENDITURES</u>					
Instruction	4,942,099	0	0	329,302	5,271,401
Supporting Services	2,866,804	644,018	7,688	279,879	3,798,389
Food Service	0	0	0	422,704	422,704
Other Transactions	7,222	0	0	0	7,222
Facilities Acquisition, Construction & Improvements	0	0	0	3,607	3,607
Debt Service	0	0	160,660	829,879	990,539
Total Expenditures	7,816,125	644,018	168,348	1,865,371	10,493,862
Excess (Deficiency) of Revenues Over Expenditures	499,459	(642,046)	(162,426)	69,329	(235,684)
<u>OTHER FINANCING SOURCES (USES)</u>					
Face Value of Debt	0	0	6,340,000	0	6,340,000
Premium on Bonds Issued	0	0	417,239	0	417,239
Transfers In (Out)	0	0	(100,000)	100,000	0
Total Other Financing Sources (Uses)	0	0	6,657,239	100,000	6,757,239
Net Change in Fund Balance	499,459	(642,046)	6,494,813	169,329	6,521,555
<u>FUND BALANCE</u> - Beginning of Year	1,950,826	964,403	0	504,010	3,419,239
<u>FUND BALANCE</u> - End of Year	\$ 2,450,285	\$ 322,357	\$ 6,494,813	\$ 673,339	\$ 9,940,794

The notes to the financial statements are an integral part of this statement.

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022

Net Change in Fund Balances Total Governmental Funds	\$ 6,521,555
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Amounts reported for governmental activities are different because:

Governmental funds report capital outlay as expenditures; in the Statement of Activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(445,263)
Capital Outlay	646,019

Accrued interest on bonds is recorded in the Statement of Activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued Interest Payable - Beginning of Year	6,158
Accrued Interest Payable - End of Year	(27,957)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal on long-term debt is an expenditure in the governmental funds, but not in the Statement of Activities (where it is a reduction of liabilities).

Bond Proceeds	(6,340,000)
Repayment of Debt	790,000

The issuance of long-term debt provides current financial resources to funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities:

Bond Premium	(417,239)
Amortization of Bond Premium	7,164
Amortization of Loss on Refunding	(560)

Accumulated sick leave is reported on the accrual method in the Statement of Activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accumulated Sick Leave - Beginning of Year	54,650
Accumulated Sick Leave - End of Year	(62,535)

Governmental funds report district pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as a pension expense.

Change in Pension Related Items	38,514
Change in Other Postemployment Benefit Related Items	588,806

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

Change in State Aid Funding for Pension	(106,932)
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 1,252,380</u>
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The notes to the financial statements are an integral part of this statement.

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Frankfort-Elberta Area Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The School District ("the District") is located in Benzie County with its administrative offices located in Frankfort, Michigan. The District operates under an elected 7-member board of education and provides services to its 480 students. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

B. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the *Statement of Net Position* and the *Statement of Activities*) report the information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable. The District does not have any business-type activities or component units.

C. 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.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

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 District reports the following major governmental fund:

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

The *2021 and 2022 Capital Projects Funds* account for financial resources to be used for the acquisition or construction of major capital projects.

Other non-major funds:

The *Food Service Fund* accounts for revenue sources that are legally restricted to expenditures for food service activities in a special revenue fund.

The *Student Activity Fund* accounts for revenue sources that are committed to expenditures for school activities in a special revenue fund.

The *Community Service Fund* accounts for revenue sources that are committed to expenditures for community services in a special revenue fund.

The *2015, 2018, 2021, and 2022 Debt Service Funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *Public Improvement Capital Projects Fund & 2018 Capital Projects Fund* accounts for financial resources used for the acquisition of capital assets or construction of major capital projects.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due to/from other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current*

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

financial resources or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term obligations are reported as other financing sources.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue resource (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

F. Budgetary Information

1. Budgetary Basis of Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the governmental funds. While all appropriations and encumbrances lapse at year-end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

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

- a) In June, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.
- b) A public hearing is conducted during June to obtain taxpayer comments.
- c) Prior to July 1, the budget is legally adopted by the School Board resolution pursuant to the Uniform Budgeting and Accounting Act. 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 financial 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.
- d) The Superintendent is charged with general supervision of the budgets and shall hold the department heads responsible for performance of their responsibilities.
- e) For purposes of meeting emergency needs of the District, transfer of appropriations may be made by the authorization of the Superintendent. Such transfers of appropriations must be approved by the School Board at its next regularly scheduled meeting.
- f) During the year the budgets are monitored and amendments to the budget resolution are made when it is deemed necessary.
- g) Budgeted amounts are as originally adopted on June 14, 2021, or as amended by the School Board throughout the year.

2. *Excess of Expenditures over Appropriations*

	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>
General Fund		
Supporting Services		
Instructional Staff	\$ 262,645	\$ 294,069
School Administration	553,566	567,333
Student Activity Fund		
Supporting Services		
Other Supporting Services	206,000	217,692

Expenditures over appropriations were funded by available fund balance and greater than anticipated revenues.

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

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

1. *Cash and Cash Equivalents*

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2. *Investments*

Investments are carried at market value.

The District complies with State statutes regarding investment of funds.

The Board policy on investment of funds authorizes the District to invest as follows:

- a) Bonds, bills, or notes of the United States, or obligations, the principal and interest of which are fully guaranteed by the United States.
- b) Certificates of deposit issued by any state or national bank organized and authorized to operate in this state.
- c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d) Michigan Investment Liquid Asset Fund Plus (MILAF).

The District's deposits and investments are held separately by several of the District's funds.

3. *Inventory and Prepaid Items*

Inventory is valued at cost using the first in/first out method. Inventory consists of expendable supplies held for consumption, which are recorded as expenditures when consumed rather than when purchased.

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

The nonspendable fund balance at the governmental fund level is equal to the amount of inventories at year-end to indicate the portion of the governmental fund balances that are nonspendable.

4. *Capital Assets*

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated acquisition value on the date received.

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

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

remaining useful lives of the related capital assets. Donated capital assets are recorded at acquisition value at the date of donation. Land and construction in progress, if any, are not depreciated.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and Improvements	7-45 years
Equipment	5-10 years
Buses	10 years
Vehicles	5-7 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

5. *Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has three items that qualify for reporting in this category. They are the deferred charge on refunding, pension and other postemployment benefits related items reported in the government-wide *Statement of Net Position*. A deferred charge on refunding results from the difference in the carrying value of refunded obligation and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding obligation. A deferred outflow is recognized for pension and other postemployment benefit related items. These amounts are expenses in the plan year in which they apply. Details can be found in footnotes 3.E and 3.F.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. The 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 has two items that qualify for reporting in this category. They are future resources yet to be recognized in relation to the pension and other postemployment benefit actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension and other postemployment benefit liability and the actual results. Details can be found in footnotes 3.E and 3.F.

6. *Defined Benefit Plans*

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

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

7. *Unearned Revenue*

Unearned revenue arises when resources are received by the District before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, revenue is recognized. The District has unearned revenue in the General Fund related to unspent state and federal resources, in the Food Service Fund that is related to money received from students for meals in advance, and in the Community Service Fund related to unspent federal resources.

8. *Long-Term Obligations*

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities *Statement of Net Position*. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related obligation.

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

9. *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.

10. *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.

11. *Fund Balance Policies*

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

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

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

12. Use of Estimates

The process of preparing basic 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 expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

13. Restricted Assets

Certain investment resources are classified as restricted assets on the balance sheet because their use is limited by applicable debt covenants and they are maintained in separate bank accounts.

H. Revenues and Expenditures/Expenses

1. State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2022 the foundation allowance was based on pupil membership counts taken in October 2021 and February 2021. For fiscal year ended June 30, 2022, the per pupil foundation allowance was \$8,700 for Frankfort-Elberta Area Schools.

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The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2021 to August 2022. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

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

2. *Program Revenues*

Amounts reported as program revenue 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 or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, state foundation aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenue but instead as *general revenues*.

3. *Property Taxes*

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. Property taxes are assessed January 1 and are billed as of December 1. The due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

The various counties in which the District is located have tax revolving funds which allow the counties to pay off the various taxing units for their share of the current year real property taxes returned delinquent. Taxes receivable are uncollected delinquent personal property taxes.

For the year ended June 30, 2022, the District levied the following amounts per \$1,000 of taxable valuation:

Fund	Mills
General Fund - Non-Principal Residence Exemption (PRE)	18.0000
General Fund - Commercial Personal Property	6.0000
Debt Service Funds - PRE, Non-PRE, and Commercial Personal Property	1.52

4. *Compensated Absences*

It is the District's policy to permit employees to accumulate earned but unused sick pay benefits which are paid when the employee separates from service from the District. The amount allowable to be

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compensated for depends on the position and the longevity of the individual employee. A liability is recorded in the *Statement of Net Position* for such amounts.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Violations of Legal or Contractual Provisions

Note 1.F.2, on the Excess of Expenditures over Appropriations, describes a budgetary violation that occurred for the year ended June 30, 2022.

NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Deposits and 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, 2022, the District's bank balance was \$957,761 and \$452,419 of that amount 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 fiscal year was \$898,922.

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.

	Fair Value	Weighted Average Maturity (Years)
MILAF+ Cash Management Class	\$ 317,913	N/A
MILAF+ MAX Class	9,089,426	N/A
	<u>\$ 9,407,339</u>	
Portfolio Weighted Average Maturity		<u>N/A</u>

1 Day Maturity Equals 0.0027, One Year Equals 1.000

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSOs).

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.

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Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

	Fair Value	Standard & Poor's Rating
MILAF+ Cash Management Class	\$ 317,913	AAAm
MILAF+ MAX Class	9,089,426	AAAm
	<u>\$ 9,407,339</u>	

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk; therefore, it is not addressed in the investment policy.

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

Fair Market Value Disclosure - 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 quoted prices from similar activities, 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 reporting entity's own assumptions about the factors market participants would use in pricing the security and would be based on the best information available.

The asset or liability's fair value measurement level within 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.

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The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF funds are considered external investment pools as defined by the GASB and as such are recorded at amortized cost which approximate fair value. The MILAF (MAX Class) fund requires notification of redemptions prior to 14 days to avoid penalties. These funds are not subject to the fair value disclosures.

	Amortized Cost
MILAF+ Cash Management Class	\$ 317,913
MILAF+ MAX Class	9,089,426
	<u>\$ 9,407,339</u>

The cash and investments referred to above have been reported in either the cash or investments captions on the financial statements, based upon criteria disclosed in Note 1.

The following summarizes the categorization of these amounts as of June 30, 2022:

	Primary Government
Cash	\$ 898,922
Investments	2,481,627
Restricted Investments	6,925,712
	<u>\$ 10,306,261</u>

B. Receivables

Receivables as of year-end for the government's individual major funds and nonmajor are as follows:

	General	Nonmajor Funds	Total
Receivables			
Accounts	\$ 0	\$ 42	\$ 42
Due from Other Governments	737,208	133,616	870,824
	<u>\$ 737,208</u>	<u>\$ 133,658</u>	<u>\$ 870,866</u>

Amounts due from other governments include amounts due from federal, state, and local sources for various projects and programs.

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

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C. Capital Assets

Capital assets activity for the year ended June 30, 2022, was as follows:

	Balance June 30, 2021	Additions	Deletions	Balance June 30, 2022
Capital assets, not being depreciated				
Land	\$ 381,996	\$ 0	\$ 0	\$ 381,996
Construction in Progress	1,050	0	1,050	0
Total Capital assets, not being depreciated	383,046	0	1,050	381,996
Capital assets being depreciated				
Buildings and improvements	12,458,728	183,736	6,633	12,635,831
Equipment	1,145,855	373,066	231,721	1,287,200
Buses	414,181	90,267	0	504,448
Vehicles	68,828	0	0	68,828
Subtotal	14,087,592	647,069	238,354	14,496,307
Less accumulated depreciated for:				
Buildings and improvements	4,819,856	319,648	6,633	5,132,871
Equipment	837,535	87,732	231,721	693,546
Buses	289,679	29,651	0	319,330
Vehicles	49,433	8,232	0	57,665
Accumulated depreciation	5,996,503	445,263	238,354	6,203,412
Net capital assets being depreciated	8,091,089	201,806	0	8,292,895
Net Capital Assets	\$ 8,474,135	\$ 201,806	\$ 1,050	\$ 8,674,891

Depreciation for the fiscal year ended June 30, 2022, amounted to \$445,263. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

D. Retirement and Postemployment Benefits

Plan Description – The Michigan Public School Employees’ Retirement System (System or MPERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the

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board's authority to promulgate or amend the provisions of the System. MPSERS issues a publicly available Annual Comprehensive Financial Report that can be obtained at www://michigan.gov/orsschools.

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act.

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

Benefits Provided- Overall

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

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

Benefits Provided – Pension

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

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

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employees' Retirement System (MPSERS) who became a member of MPSERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension

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component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

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

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

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

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

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

Option 4 – Members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the Defined Contribution plan for future service as of their transition date. As a DC participant they receive a 4% employer contribution to the tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS to a 457 account. They vest in employer

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contributions and related earnings in their 401(k) account based on the following schedule: 50% at 2 years, 75% at 3 years, and 100% at 4 years of service. They are 100% vested in any personal contributions and related earnings in their 457 accounts. Upon retirement, if they meet age and service requirements (including their total years of service), they would also receive a pension (calculated based on years of service and final average compensation as of the day before their transition date and a 1.5% pension factor).

Members who did not make an election before the deadline defaulted to Option 3 as described above. Deferred or nonvested public school employees on September 3, 2012, who return to public school employment on or after September 4, 2012, will be considered as if they had elected Option 3 above. Returning members who made the retirement plan election will retain whichever option they chose. Employees who first work on or after September 4, 2012 choose between two retirement plans: the Pension Plus Plan and a Defined Contribution Plan that provides a 50% employer match up to 3% of salary on employee contributions.

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

Pension Reform of 2017

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

Benefits Provided – Other postemployment benefit (OPEB)

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree healthcare recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP-Graded plan members), the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008, (MIP-Plus plan members), have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date.

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Retiree Healthcare Reform of 2012

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions will be deposited into their 401(k) accounts.

Regular Retirement (no reduction factor for age)

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

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

Member Contributions

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

Employer Contributions

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree other postemployment benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The normal cost is the annual cost assigned under the actuarial funding method, to the current and subsequent plan year. Normal cost is funded on a current basis.

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Pension and OPEB contributions made in the fiscal year ending September 30, 2021 were determined as of the September 30, 2018 actuarial valuations. The pension and OPEB benefits, the unfunded (overfunded) actuarial accrued liabilities as of September 30, 2018 are amortized over a 18-year period beginning October 1, 2020 and ending September 30, 2038.

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

	<u>Pension</u>	<u>Other Postemployment Benefit</u>
October 1, 2020 - September 30, 2021	13.39% - 19.78%	7.57% - 8.45%
October 1, 2021 - September 30, 2022	13.73% - 20.14%	7.23% - 8.09%

The District's pension contributions for the year ended June 30, 2022 were equal to the required contribution total. Total pension contributions were approximately \$1,383,300, with \$1,354,400 specifically for the Defined Benefit Plan and approximately \$28,900 was contributed to the Defined Contribution Fund.

The District's OPEB contributions for the year ended June 30, 2022 were equal to the required contribution total. Total OPEB benefits were approximately \$309,700, with \$292,000 specifically for the Defined Benefit Plan and approximately \$17,700 was contributed to the Defined Contribution Fund.

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

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

Pension Liabilities

At June 30, 2022, the District reported a liability of \$9,567,291 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2020 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2021 and 2020, the District's proportion was .04041024% and .03907696%.

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MPSERS (Plan) Non-University Employers Net Pension Liability

	<u>September 30, 2021</u>	<u>September 30, 2020</u>
Total Pension Liability	\$ 86,392,473,395	\$ 85,290,583,799
Fiduciary Net Position	<u>(62,717,060,920)</u>	<u>(50,939,496,006)</u>
Net Pension Liability	<u>\$ 23,675,412,475</u>	<u>\$ 34,351,087,793</u>
Fiduciary Net Position as a Percentage of Total Pension Liability	72.60%	59.72%
Net Pension Liability as a Percentage of Covered Payroll	261.68%	387.25%

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

For the year ended June 30, 2022, the District recognized total pension expense of \$1,315,925.

At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 148,201	\$ 56,340
Section 147c revenue related to District Pension contributions subsequent to measurement date	0	619,077
Changes of assumptions	603,088	0
Net difference between projected and actual earnings on pension plan investments	0	3,075,853
Changes in proportion and differences between District contributions and proportionate share of contributions	614,890	23,531
District contributions subsequent to the measurement date	<u>1,276,417</u>	<u>0</u>
Total	<u>\$ 2,642,596</u>	<u>\$ 3,774,801</u>

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\$1,276,417 reported as deferred outflows of resources and \$619,077 reported as deferred inflows or resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

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

<u>Year Ended September 30,</u>	<u>Amount</u>
2022	\$ (36,929)
2023	(341,697)
2024	(618,576)
2025	(792,343)
	<u>\$ (1,789,545)</u>

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

OPEB Liabilities

At June 30, 2022, the District reported a liability of \$628,182 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2020 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2021 and 2020, the District's proportion was 0.04115508% and 0.03951802%.

MPSERS (Plan) Non-University Employers Net OPEB Liability

	<u>September 30, 2021</u>	<u>September 30, 2020</u>
Total OPEB Liability	\$ 12,046,393,511	\$ 13,206,903,534
Fiduciary Net Position	(10,520,015,621)	(7,849,636,555)
OPEB Liability	<u>\$ 1,526,377,890</u>	<u>\$ 5,357,266,979</u>
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	87.33%	59.44%
OPEB Liability as a Percentage of Covered Payroll	16.87%	60.39%

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

For the year ended June 30, 2022, the District recognized total OPEB benefit of \$296,769.

At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 0	\$ 1,793,101
Changes of assumptions	525,129	78,579
Net difference between projected and actual earnings on OPEB plan investments	0	473,472
Changes in proportion and differences between District contributions and proportionate share of contributions	243,664	9,644
District contributions subsequent to the measurement date	<u>257,192</u>	<u>0</u>
Total	<u>\$ 1,025,985</u>	<u>\$ 2,354,796</u>

\$257,192 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year.

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

<u>Year Ended September 30,</u>	<u>Amount</u>
2022	\$ (408,893)
2023	(371,850)
2024	(346,914)
2025	(336,581)
2026	(107,642)
Thereafter	<u>(14,123)</u>
	<u>\$ (1,586,003)</u>

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

G. Actuarial Assumptions

Investment rate of return for Pension – 6.80% a year, compounded annually net of investment and administrative expenses for the MIP, Basic, and Pension Plus groups and 6.0% a year, compounded annually net of investment and administrative expenses for the Pension Plus 2 plan.

Investment rate of return for OPEB – 6.95% a year, compounded annually net of investment and administrative expenses.

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

Inflation – 3.0%

Mortality assumptions –

Retirees: RP-2014 Male and Female Healthy Annuitant Mortality Tables scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.

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

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

Experience study - The annual actuarial valuation report of the System used for these statements is dated September 30, 2020. Assumption changes as a result of an experience study for the periods 2012 through 2017 have been adopted by the System for use in the determination of the total pension and OPEB liability beginning with the September 30, 2018 valuation.

The long-term expected rate of return on pension and other postemployment benefit plan investments

- The pension rate was 6.80% (MIP, Basic, and Pension Plus plan) and 6.0% Pension Plus 2 Plan, and the other postemployment benefit rate was 6.95%, net of investment and administrative expenses was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension and OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

Healthcare cost trend rate for other postemployment benefit – Pre 65, 7.75% for year one and graded to 3.5% in year fifteen. Post 65, 5.25% for year one and graded to 3.5% in year fifteen.

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Additional assumptions for other postemployment benefit only – Applies to individuals hired before September 4, 2012:

Opt Out Assumption – 21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan.

Survivor Coverage – 80% of male retirees and 67% of female retirees are assumed to have coverage continuing after the retiree's death.

Coverage Election at Retirement – 75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

The target asset allocation at September 30, 2021 and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return *</u>
Domestic Equity Pools	25.00%	5.40%
Private Equity Funds	16.00%	9.10%
International Equity Pools	15.00%	7.50%
Fixed Income Pools	10.50%	-0.70%
Real Estate & Infrastructure Pools	10.00%	5.40%
Absolute Return Pools	9.00%	2.60%
Real Return/Opportunistic Pools	12.50%	6.10%
Short-Term Investment Pools	2.00%	-1.30%
	<u>100%</u>	

*Long-term rate of return are net of administrative expenses and 2.0% inflation.

Rate of Return

For fiscal year ended September 30, 2021, the annual money-weighted rate of return on pension and OPEB plan investments, net of pension and OPEB plan investment expense, was 27.3% and 27.14% respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Pension Discount Rate

A single discount rate of 6.80% was used to measure the total pension liability (6.0% for the Pension Plus 2 Plan). This discount rate was based on the long-term expected rate of return on pension plan investments of 6.80% (6.0% for the Pension Plus 2 Plan). The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions from school districts will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net

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JUNE 30, 2022

position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

OPEB Discount Rate

A single discount rate of 6.95% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 6.95%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that school districts contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

The following presents the District's proportionate share of the net pension liability, calculated using a single discount rate of 6.80% (6.0% for the Pension Plus 2 Plan), as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

Pension			
1% Decrease	Discount Rate	1% Increase	
\$ 13,678,631	\$ 9,567,291	\$ 6,158,720	

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net OPEB liability calculated using a single discount rate of 6.95%, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

OPEB			
1% Decrease	Discount Rate	1% Increase	
\$ 1,167,276	\$ 628,182	\$ 170,684	

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the District's proportionate share of the net other postemployment benefit liability calculated using the healthcare cost trend rate as well as what the District's proportionate share of the net

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

other postemployment benefit liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

OPEB		
Healthcare Cost		
1% Decrease	Trend Rates	1% Increase
\$ 152,895	\$ 628,182	\$ 1,162,938

H. Pension and OPEB Plan Fiduciary Net Position

Detailed information about the pension and OPEB plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2021 Annual Comprehensive Financial Report.

I. Payables to the Pension and OPEB Plan

As of June 30, 2022, the District is current on all required pension and OPEB plan payments. As of June 30, 2022, the District reported payables in the amount of \$251,145 to the pension and OPEB plan. These amounts represent current payments for June wages paid in July, accruals for summer pay primarily for teachers and also the contributions due funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL).

J. Risk Management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (worker's compensation).

The District participates in distinct pools of educational institutions within the State of Michigan for various risks of loss, including general liability, property and casualty, employee health and accident insurance, and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

K. Long-Term Obligations

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

FRANKFORT-ELBERTA AREA SCHOOLS
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

The following is a summary of the governmental long-term liability transactions for the District for the year ended June 30, 2022:

	COMPENSATED ABSENCES	GENERAL OBLIGATION BONDS	NET PENSION LIABILITY	NET OPEB LIABILITY	TOTAL
Balance, July 1, 2021	\$ 54,650	\$ 1,975,000	\$ 13,423,361	\$ 2,117,086	\$ 17,570,097
Additions	7,885	6,340,000	1,213,367	305,513	7,866,765
Deletions	0	(790,000)	(5,069,437)	(1,794,417)	(7,653,854)
Balance, June 30, 2022	62,535	7,525,000	9,567,291	628,182	17,783,008
Less current portion	Unknown	(710,000)	Unknown	Unknown	(710,000)
Total due after one year	\$ 62,535	\$ 6,815,000	\$ 9,567,291	\$ 628,182	\$ 17,073,008

The District's liability obligations at June 30, 2022, are comprised of the following issues:

General Obligation Bonds

2015 School Improvement Bonds; due in annual installments of \$150,000 through May 1, 2024; interest rate of 3.00% \$ 300,000

2021 School Improvement Bonds; due in annual installments of \$325,000 to \$560,000 through May 1, 2024; interest rate of 1.05% to 1.10% 885,000

2022 School Improvement Bonds; due in annual installments of \$145,000 to \$475,000 through May 1, 2040; interest rate of 4.00% 6,340,000

Compensated Absences 62,535

Net Pension Liability 9,567,291

Net Other Postemployment Benefit Liability 628,182

Total Long-Term Debt \$ 17,783,008

FRANKFORT-ELBERTA AREA SCHOOLS
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

The annual requirements to amortize all long-term obligations outstanding as of June 30, 2022, including interest payments of \$2,789,223 are as follows:

YEAR ENDING JUNE 30,	Principal	Interest	Amounts Payable
2023	\$ 710,000	\$ 255,148	\$ 965,148
2024	620,000	261,675	881,675
2025	300,000	247,800	547,800
2026	310,000	235,800	545,800
2027	320,000	223,400	543,400
2028-2032	1,780,000	915,000	2,695,000
2033-2037	2,075,000	537,000	2,612,000
2038-2040	1,410,000	113,400	1,523,400
	7,525,000	2,789,223	10,314,223
Compensated Absences	62,535	0	62,535
Net Pension Liability	9,567,291	0	9,567,291
Net Other Postemployment Benefit Liability	628,182	0	628,182
	<u>\$ 17,783,008</u>	<u>\$ 2,789,223</u>	<u>\$ 20,572,231</u>

Interest expense for the year ended June 30, 2022 was approximately \$59,097.

The annual requirements to amortize the compensated absences, net pension liability, and net other postemployment benefit liability are uncertain because it is unknown when the payments will be made.

Compensated absences, net pension liability, and net other postemployment benefit liability will be paid by the fund in which the employee worked, including the general fund and other governmental funds.

L. Interfund Receivables and Payables

Receivable Fund	Payable Fund	Amount
2022 Debt Service Fund	2022 Capital Projects Fund	\$ 100,000
Community Service Fund	General Fund	45,533
Food Service Fund	General Fund	38,463
General Fund	2021 Capital Projects Fund	805
Food Service Fund	Community Service Fund	2,352
		<u>\$ 187,153</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) Interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All Interfund balances outstanding at June 30, 2022, are expected to be repaid within one year.

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

M. Interfund Transfers

Individual fund transfers at June 30, 2022, were:

<u>Fund Transferred To</u>	<u>Funds Transferred From</u>	<u>Amount</u>
2022 Debt Service Fund	2022 Capital Projects Fund	\$ 100,000

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

N. GASB Statement No. 87 – Leases

It has been determined that the District has leases as defined by GASB Statement No. 87. However, the total of these leases has been determined they are not significant enough to warrant disclosure.

O. Other Information

1. *Commitments and Contingencies*

Under the terms of various federal and state grants and regulatory requirements, periodic audits are required and certain cost may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the District.

As of June 30, 2022, the District has committed \$83,760 for a gym door project.

2. *Capital Projects Funds*

The Capital Projects Funds includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of §1351a of the Revised School Code.

3. *Single Audit*

Current federal guidelines require entities with federal expenditures exceeding \$750,000 to have a “single audit” of federally funded programs. This audit is being performed and the reports based thereon will be issued under a separate cover.

FRANKFORT-ELBERTA AREA SCHOOLS
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

P. Upcoming Accounting Pronouncements

The District is currently evaluating the impact these standards will have on the financial statements when adopted.

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

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE

YEAR ENDED JUNE 30, 2022

	GENERAL FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
Local Sources	\$ 6,328,660	\$ 6,311,120	\$ 6,335,356
State Sources	950,822	1,163,654	1,165,023
Federal Sources	564,873	625,382	607,652
Other	154,883	208,310	207,553
Total Revenues	7,999,238	8,308,466	8,315,584
<u>EXPENDITURES</u>			
Instruction			
Basic Programs	4,372,090	4,397,515	4,390,069
Added Needs	547,637	563,459	552,030
Supporting Services			
Pupil	208,420	268,987	224,569
Instructional Staff	253,919	262,645	294,069
General Administration	406,993	425,310	425,281
School Administration	540,015	553,566	567,333
Business	51,487	37,161	28,663
Operations and Maintenance	800,909	888,573	887,165
Pupil Transportation Services	234,043	209,288	209,253
Athletics	228,254	230,521	230,471
Community Services	100	0	0
Other Transactions			
Payments to Other Governments	4,000	7,354	7,222
Total Expenditures	7,647,867	7,844,379	7,816,125
Excess (Deficiency) of Revenues Over Expenditures	351,371	464,087	499,459
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In (Out)	(76,279)	0	0
Net Change in Fund Balance	275,092	464,087	499,459
<u>FUND BALANCE</u> - Beginning of Year	1,825,963	1,950,825	1,950,826
<u>FUND BALANCE</u> - End of Year	\$ 2,101,055	\$ 2,414,912	\$ 2,450,285

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 9/30 OF EACH PLAN YEAR)
JUNE 30, 2022

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of net pension liability (%)			0.04041%	0.03908%	0.03780%	0.03661%	0.03628%	0.03596%	0.03522%	0.03240%
District's proportionate share of net pension liability			\$ 9,567,291	\$ 13,423,361	\$ 12,517,145	\$ 11,005,383	\$ 9,401,872	\$ 8,972,150	\$ 8,602,538	\$ 7,136,389
District's covered payroll			3,692,806	3,489,314	3,365,371	3,135,078	2,930,581	3,072,230	2,947,827	2,887,147
District's proportionate share of net pension liability as a percentage of its covered payroll			259.08%	384.70%	371.94%	351.04%	320.82%	292.04%	291.83%	247.18%
Plan fiduciary net position as a percentage of total pension liability			72.60%	59.72%	60.31%	62.36%	64.21%	63.27%	63.17%	66.20%

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS

MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 6/30 OF EACH FISCAL YEAR)

JUNE 30, 2022

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily required contributions			\$ 1,354,439	\$ 1,210,053	\$ 1,071,507	\$ 999,480	\$ 933,441	\$ 553,359	\$ 572,943	\$ 643,262
Contributions in relation to statutorily required contributions *			1,354,439	1,210,053	1,071,507	999,480	933,441	553,359	572,943	643,262
Contribution deficiency (excess)			\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Covered payroll			\$ 3,787,496	\$ 3,637,781	\$ 3,472,494	\$ 3,307,883	\$ 3,125,653	\$ 3,013,041	\$ 2,938,240	\$ 2,943,993
Contributions as a percentage of covered payroll			35.76%	33.26%	30.86%	30.22%	29.86%	18.37%	19.50%	21.85%

* Contributions in relation to statutorily contributions are the contributions a reporting unit actually made to the System, as distinct from the statutorily required contributions.

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET OTHER POSTEMPLOYMENT BENEFIT LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 9/30 OF EACH PLAN YEAR)
JUNE 30, 2022

	2026	2025	2024	2023	2022	2021	2020	2019	2018	2017
District's proportion of net OPEB liability (%)						0.04116%	0.03952%	0.03694%	0.03694%	0.03641%
District's proportionate share of net OPEB liability						\$ 628,182	\$ 2,117,086	\$ 2,770,599	\$ 2,936,192	\$ 3,224,296
District's covered payroll						3,692,806	3,489,314	3,365,371	3,135,078	2,930,581
District's proportionate share of net OPEB liability as a percentage of its covered payroll						17.01%	60.67%	82.33%	93.66%	110.02%
Plan fiduciary net position as a percentage of total OPEB liability						87.33%	59.44%	48.46%	42.95%	36.39%

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OTHER POSTEMPLOYMENT BENEFIT CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 6/30 OF EACH FISCAL YEAR)
JUNE 30, 2022

	2027	2026	2025	2024	2023	2022	2021	2020	2019	2018
Statutorily required contributions						\$ 292,036	\$ 289,131	\$ 267,903	\$ 253,048	\$ 223,279
Contributions in relation to statutorily required contributions *						292,036	289,131	267,903	253,048	223,279
Contribution deficiency (excess)						\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Covered payroll						\$ 3,787,496	\$ 3,637,781	\$ 3,472,494	\$ 3,307,883	\$ 3,125,653
Contributions as a percentage of covered payroll						7.71%	7.95%	7.72%	7.65%	7.14%

* Contributions in relation to statutorily contributions are the contributions a reporting unit actually made to the System, as distinct from the statutorily required contributions.

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR YEAR ENDED JUNE 30, 2022

Pension Information

Changes of Benefit Terms - There were no changes of benefit terms for the plan year ended September 30, 2021.

Changes of Assumptions – There were no changes of assumptions for the plan year ended September 30, 2021.

OPEB Information

Changes of Benefit Terms - There were no changes of benefit terms for the plan year ended September 30, 2021.

Changes of Assumptions – The assumption changes for the plan year ended September 30, 2021 were:

Healthcare cost trend rate was broken into two groups, Pre 65 and Post 65. The Pre 65 rate is 7.75% Year 1 graded to 3.50% Year 15. The Post 65 rate is 5.25% Year 1 graded to 3.50% Year 15. The prior healthcare cost trend rate was reported as one group with a rate of 7.00% Year 1 graded to 3.50% Year 15.

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2022

	SPECIAL REVENUE FUNDS			DEBT SERVICE FUNDS				CAPITAL PROJECTS FUNDS		TOTAL NON-MAJOR GOVERNMENTAL
	FOOD SERVICE	SCHOOL ACTIVITY	COMMUNITY SERVICE	2015	2018	2021	2022	2018	PUBLIC IMPROVEMENT	
<u>ASSETS</u>										
Cash and Cash Equivalents	\$ 0	\$ 275,568	\$ 0	\$ 14,024	\$ 54,913	\$ 0	\$ 0	\$ 0	\$ 0	\$ 344,505
Accounts Receivable	42	0	0	0	0	0	0	0	0	42
Due from Other Funds	40,815	0	45,533	0	0	0	100,000	0	0	186,348
Due from Other Governments	19,023	0	114,593	0	0	0	0	0	0	133,616
Inventory	9,522	0	0	0	0	0	0	0	0	9,522
Investments	0	0	0	0	0	14,789	0	0	108,611	123,400
Restricted Investments	0	0	0	0	0	0	0	49	0	49
TOTAL ASSETS	\$ 69,402	\$ 275,568	\$ 160,126	\$ 14,024	\$ 54,913	\$ 14,789	\$ 100,000	\$ 49	\$ 108,611	\$ 797,482
<u>LIABILITIES AND FUND BALANCES</u>										
<u>LIABILITIES</u>										
Accounts Payable	\$ 1,331	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,331
Due to Other Funds	0	0	2,352	0	0	0	0	0	0	2,352
Unearned Revenue	9,022	0	111,438	0	0	0	0	0	0	120,460
Total Liabilities	10,353	0	113,790	0	0	0	0	0	0	124,143
<u>FUND BALANCES</u>										
Nonspendable:										
Inventory	9,522	0	0	0	0	0	0	0	0	9,522
Restricted for:										
Food Service	49,527	0	0	0	0	0	0	0	0	49,527
Debt Service	0	0	0	14,024	54,913	14,789	100,000	0	0	183,726
Capital Projects	0	0	0	0	0	0	0	49	108,611	108,660
Committed for:										
School Activities	0	275,568	0	0	0	0	0	0	0	275,568
Community Services	0	0	46,336	0	0	0	0	0	0	46,336
Total Fund Balances	59,049	275,568	46,336	14,024	54,913	14,789	100,000	49	108,611	673,339
TOTAL LIABILITIES AND FUND BALANCES	\$ 69,402	\$ 275,568	\$ 160,126	\$ 14,024	\$ 54,913	\$ 14,789	\$ 100,000	\$ 49	\$ 108,611	\$ 797,482

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2022

	SPECIAL REVENUE FUNDS			DEBT SERVICE FUNDS				CAPITAL PROJECTS FUNDS		TOTAL
	FOOD SERVICE	SCHOOL ACTIVITY	COMMUNITY SERVICE	2015	2018	2021	2022	2018	PUBLIC IMPROVEMENT	NON-MAJOR GOVERNMENTAL
<u>REVENUES</u>										
Local Sources	\$ 15,762	\$ 245,875	\$ 98,297	\$ 151,861	\$ 513,240	\$ 130,946	\$ 0	\$ 49	\$ 221	\$ 1,156,251
State Sources	29,664	0	222,932	0	6,301	0	0	0	0	258,897
Federal Sources	420,924	0	98,628	0	0	0	0	0	0	519,552
Total Revenues	466,350	245,875	419,857	151,861	519,541	130,946	0	49	221	1,934,700
<u>EXPENDITURES</u>										
Instruction	0	0	329,302	0	0	0	0	0	0	329,302
Supporting Services	0	217,692	40,612	0	0	0	0	21,575	0	279,879
Food Service	422,704	0	0	0	0	0	0	0	0	422,704
Facilities Acquisition, Construction & Improvements	0	0	3,607	0	0	0	0	0	0	3,607
Debt Service										
Principal	0	0	0	150,000	535,000	105,000	0	0	0	790,000
Interest and Fees	0	0	0	14,787	13,935	11,157	0	0	0	39,879
Total Expenditures	422,704	217,692	373,521	164,787	548,935	116,157	0	21,575	0	1,865,371
Excess (Deficiency) of Revenues Over Expenditures	43,646	28,183	46,336	(12,926)	(29,394)	14,789	0	(21,526)	221	69,329
<u>OTHER FINANCING SOURCES (USES)</u>										
Transfers In (Out)	0	0	0	0	0	0	100,000	0	0	100,000
Net Change in Fund Balance	43,646	28,183	46,336	(12,926)	(29,394)	14,789	100,000	(21,526)	221	169,329
<u>FUND BALANCE</u> - Beginning of Year	15,403	247,385	0	26,950	84,307	0	0	21,575	108,390	504,010
<u>FUND BALANCE</u> - End of Year	\$ 59,049	\$ 275,568	\$ 46,336	\$ 14,024	\$ 54,913	\$ 14,789	\$ 100,000	\$ 49	\$ 108,611	\$ 673,339

FRANKFORT-ELBERTA AREA SCHOOLS

FRANKFORT, MICHIGAN

SINGLE AUDIT

JUNE 30, 2022



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FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

SINGLE AUDIT
YEAR ENDED JUNE 30, 2022

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August 5, 2022

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
Frankfort-Elberta Area Schools
Frankfort, 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 Frankfort-Elberta Area Schools, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Frankfort-Elberta Area Schools' basic financial statements, and have issued our report thereon dated August 5, 2022.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered Frankfort-Elberta Area Schools' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Frankfort-Elberta Area Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Frankfort-Elberta Area Schools' internal control.

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

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

REPORT ON COMPLIANCE AND OTHER MATTERS

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

PURPOSE OF THIS REPORT

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

BAIRD, COTTER AND BISHOP, P.C.

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August 5, 2022

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Education
Frankfort-Elberta Area Schools
Frankfort, Michigan

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Frankfort-Elberta Area Schools' compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Frankfort-Elberta Area Schools' major federal programs for the year ended June 30, 2022. Frankfort-Elberta Area Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Frankfort-Elberta Area Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws,

statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Frankfort-Elberta Area Schools' federal programs.

Auditor's Responsibilities for the Audit of Compliance

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Frankfort-Elberta Area Schools' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Frankfort-Elberta Area Schools' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Frankfort-Elberta Area Schools' internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control

over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Frankfort-Elberta Area Schools, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Frankfort-Elberta Area Schools' basic financial statements. We issued our report thereon dated August 5, 2022, which contained unmodified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE	FEDERAL ALN	PASS-THROUGH GRANTOR'S NUMBER	APPROVED GRANT AWARD AMOUNT	INVENTORY/ ACCRUED (UNEARNED) REVENUE JULY 1, 2021	(MEMO ONLY) PRIOR YEAR EXPENDITURES	ADJUSTMENTS	CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS (CASH BASIS)	INVENTORY/ ACCRUED (UNEARNED) REVENUE JUNE 30, 2022	CURRENT YEAR CASH TRANSFERRED TO SUBRECIPIENT
U.S. Department of Education										
Small, Rural School Achievement Program	84.358A	S358A201913	\$ 29,763	\$ 5,315	\$ 27,464	\$ 0	\$ 0	\$ 5,315	\$ 0	\$ 0
Small, Rural School Achievement Program	84.358A	S358A211575	35,255	0	0	0	41,239	0	41,239	0
Total - Small, Rural School Achievement Program			65,018	5,315	27,464	0	41,239	5,315	41,239	0
Passed Through Michigan Department of Education (M.D.E.)										
Title I - Grants to Local Educational Agencies	84.010	211530-2021	104,682	10,011	104,682	(102)	0	9,909	0	0
Title I - Grants to Local Educational Agencies	84.010	221530-2122	95,379	0	0	0	95,177	0	95,177	0
Total - Title I - Grants to Educational Agencies			200,061	10,011	104,682	(102)	95,177	9,909	95,177	0
Title IV Part A - Student Support & Academic Enrichment	84.424	210750-2021	10,000	1,472	10,000	0	0	1,472	0	0
Title IV Part A - Student Support & Academic Enrichment	84.424	220750-2122	10,000	0	0	0	10,000	0	10,000	0
Total - Title IV Part A - Student Support & Academic Enrichment			20,000	1,472	10,000	0	10,000	1,472	10,000	0
Title II Part A - Supporting Effective Instruction State Grants	84.367	210520-2021	16,129	5,469	16,129	0	0	5,469	0	0
Title II Part A - Supporting Effective Instruction State Grants	84.367	220520-2122	14,490	0	0	0	14,490	0	14,490	0
Total - Title II Part A - Supporting Effective Instruction State Grants			30,619	5,469	16,129	0	14,490	5,469	14,490	0
Education Stabilization Funds										
COVID-19 Governor's Emergency Education Relief Fund (GEER I)	84.425C	201200-2021	29,190	29,190	29,190	0	0	29,190	0	0
COVID-19 Elementary and Secondary School Emergency Relief Fund (ESSER I Formula Funds)	84.425D	203710-1920	87,629	0	0	0	87,629	87,629	0	0
COVID-19 Elementary and Secondary School Emergency Relief Fund (ESSER II Formula Funds)	84.425D	213712-2021	299,780	0	0	0	299,780	0	299,780	0
COVID-19 Elementary and Secondary School Emergency Relief Fund (ESSER Credit Recovery Formula Funds)	84.425D	213742-2122	3,903	0	0	0	3,903	0	3,903	0
COVID-19 Elementary and Secondary School Emergency Relief Fund (ESSER Summer School Formula Funds)	84.425D	213722-2122	54,250	0	0	0	54,250	0	54,250	0
COVID-19 Elementary and Secondary School Emergency Relief Fund (ESSER Benchmark Assessments Formula Funds)	84.425D	213762-2022	4,025	0	0	0	4,025	0	4,025	0
Total Education Stabilization Funds			478,777	29,190	29,190	0	449,587	116,819	361,958	0
Total Passed Through M.D.E.			729,457	46,142	160,001	(102)	569,254	133,669	481,625	0
Total U.S. Department of Education			794,475	51,457	187,465	(102)	610,493	138,984	522,864	0
U.S. Department of Treasury										
Passed Through Northwest Education Services										
Coronavirus State and Local Fiscal Recovery Funds	21.027	22S439-2122	24,012	0	0	0	4,033	0	4,033	0
Total U.S. Department of Treasury										
U.S. Department of Health and Human Services										
Passed Through Northwest Education Services										
Medicaid Cluster										
Medicaid Administrative Outreach	93.778	N/A	3,259	0	0	0	3,259	3,259	0	0
Total U.S. Department of Health and Human Services			3,259	0	0	0	3,259	3,259	0	0

The accompanying notes are an integral part of this schedule.

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE	FEDERAL ALN	PASS-THROUGH GRANTOR'S NUMBER	APPROVED GRANT AWARD AMOUNT	INVENTORY/ ACCRUED (UNEARNED) REVENUE JULY 1, 2021	(MEMO ONLY) PRIOR YEAR EXPENDITURES	ADJUSTMENTS	CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS (CASH BASIS)	INVENTORY/ ACCRUED (UNEARNED) REVENUE JUNE 30, 2022	CURRENT YEAR CASH TRANSFERRED TO SUBRECIPIENT
U.S Department of Agriculture										
Passed Through Michigan Department of Education (M.D.E.)										
Child Nutrition Cluster										
Non-Cash Assistance (Commodities)										
Entitlement Commodities	10.555	N/A	21,848	0	0	0	21,848	21,848	0	0
Cash Assistance										
COVID-19 Seamless Summer Option (SSO) - Breakfast	10.553	211971	10,104	0	0	0	10,104	10,104	0	0
COVID-19 Seamless Summer Option (SSO) - Breakfast	10.553	221971	94,010	0	0	0	94,010	88,190	5,820	0
COVID-19 Seamless Summer Option (SSO) - Lunch	10.555	221961	241,920	0	0	0	241,920	230,226	11,694	0
COVID-19 Seamless Summer Option (SSO) - Lunch	10.555	211961	26,928	0	0	0	26,928	26,928	0	0
COVID-19 Seamless Summer Option (SSO) - Lunch	10.555	220910-2022	14,337	0	0	0	14,337	14,337	0	0
COVID-19 Seamless Summer Option (SSO) - Lunch	10.555	221980	466	0	0	0	466	466	0	0
COVID-19 Summer Food Service Program for Children	10.559	210904	21,905	21,905	21,905	0	0	21,905	0	0
COVID-19 Summer Food Service Program for Children	10.559	220904	8,535	0	0	0	8,535	7,481	1,054	0
Total Cash Assistance			418,205	21,905	21,905	0	396,300	399,637	18,568	0
Total Child Nutrition Cluster			440,053	21,905	21,905	0	418,148	421,485	18,568	0
COVID-19 Pandemic EBT Local Level Costs	10.649	210980-2021	614	0	0	0	614	614	0	0
Total Passed Through M.D.E.			440,667	21,905	21,905	0	418,762	422,099	18,568	0
Total U.S. Department of Agriculture			440,667	21,905	21,905	0	418,762	422,099	18,568	0
Total Federal Financial Assistance			\$ 1,262,413	\$ 73,362	\$ 209,370	\$ (102)	\$ 1,036,547	\$ 564,342	\$ 545,465	\$ 0
						(E)	(C)	(D)		

The accompanying notes are an integral part of this schedule.

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

(A) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards ("the Schedule") includes the federal grant activity of Frankfort-Elberta Area Schools under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of Mancelona Public Schools, it is not intended to and does not present the financial position, changes in net position, or cash flows of Frankfort-Elberta Area Schools. The District does not pass through federal awards.

(B) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass through entity identifying numbers are presented where available. Frankfort-Elberta Area Schools has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

(C) Reconciliation of Revenues with Expenditures for Federal Financial Assistance Programs

Revenue from Federal Sources - Per Financial Statement (Page 6)	\$ 1,127,204
Less Cares Act Childcare Sustainability Grant	<u>(90,657)</u>
Federal Expenditures per Schedule of Expenditures of Federal Awards	<u><u>\$ 1,036,547</u></u>

(D) Reconciliation of Grant Auditor Report with Schedule of Expenditures of Federal Awards

Management has utilized the NexSys, Cash Management System (CMS) and the Grant Auditor Report in preparing the schedule of expenditures of federal awards.

Current Cash Payments per Grant Auditor Report	\$ 533,920
Add Items Not on Grant Auditor Report:	
Food Distribution Program - Entitlement Commodities	\$ 21,848
Grants Passed Through Northwest Education Services	3,259
Grants Received Directly - REAP	<u>5,315</u>
	<u>30,422</u>
Current Year Receipts (Cash Basis) per	
Schedule of Expenditures of Federal Awards	<u><u>\$ 564,342</u></u>

(E) Adjustments

Adjustments were made to Title I Part A last year due to determining the District had an unallowable expenditure in its final expenditure report. As a result, the District requested and received \$102 less than what was recorded as revenue in the June 30, 2021 audit which is reported as a prior period adjustment as of June 30, 2022.

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

Financial Statement Findings

None Reported

Federal Award Findings and Questioned Costs

None Reported

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor's report issued based on financial statements in accordance with generally accepted accounting principles:

Unmodified

Internal control over financial reporting:

Material Weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified?

_____ Yes X None reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

Internal control over major programs:

Material Weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified?

_____ Yes X None reported

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with

Title 2 CFR Section 200.516(a) of the Uniform Guidance? _____ Yes X No

Identification of Major Programs:

<u>ALN Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553 & 10.555 & 10.559	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee under 2 Title CFR section 200.520?

_____ Yes X No

FRANKFORT-ELBERTA AREA SCHOOLS
FRANKFORT, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

Section II - Financial Statement Findings

None Reported

Section III - Federal Award Findings and Questioned Costs

None Reported



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August 5, 2022

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE AT THE CONCLUSION OF THE AUDIT

Board of Education
Frankfort-Elberta Area Schools
Frankfort, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Frankfort-Elberta Area Schools for the year ended June 30, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 28, 2022. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Frankfort-Elberta Area Schools are described in Note 1 to the financial statements. During the fiscal year, the District adopted GASB Statement No. 87, Leases, which requires changes to how leases are reported in the financial statements and disclosures. We noted no transactions entered into by the school 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 most sensitive estimates affecting the governmental activities, each major fund, and the aggregate remaining fund information of Frankfort-Elberta Area Schools' financial statements were:

Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. Management's estimates of the liability of the payout of employee compensated absences are based on expected payout. Estimates have been used to calculate the net pension liability and the net other postemployment benefit liability. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

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 trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 5, 2022.

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 Frankfort-Elberta Area Schools' 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 Frankfort-Elberta Area Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

During the course of our audit of the basic financial statements of Frankfort-Elberta Area Schools for the year ended June 30, 2022, we noted the following items which we feel deserve comment:

Budgeting

We noted that two functions within the General Fund and the School Activity Fund in total were over budget. We recommend that the Board monitor its budget on a monthly basis and amend the budget as soon as it becomes apparent expenditures will exceed appropriations.

Limited Internal Controls Over Decentralized Cash Collections

Management is responsible for establishing and maintaining internal controls over cash for the District.

At many school districts, internal controls over decentralized cash collections present a challenge for management. This condition was caused by limited personnel involved in the process and monies being collected at remote locations.

The effect of this condition is that an environment is created in which the potential exists for cash collections to not be deposited into the District's bank accounts and go undetected in the financial recordkeeping process.

The issues noted above have been accentuated by the implementation of GASB Statement No. 84, in which certain funds that were historically not considered to be owned by the District are now considered district owned. It is imperative that the District consider the use of receipt books, receipt logs, and designing other internal controls (i.e. preparation of deposit slips by someone independent of the accounting or actual deposit process) in order to ensure the proper treatment of cash collections.

The District is aware of this limitation and continues to evaluate ways to implement additional controls to correct or mitigate this situation in the future.

Condition of Accounting Records and Accounting Controls

We would like to thank the accounting personnel for their efforts in accumulating the information needed for our audit. We encourage you to review your internal and accounting controls on a routine basis to ensure they are adequate and operating as intended.

Other Matters

We applied certain limited procedures to the Management Discussion and Analysis, the Budgetary Comparison Schedule, the Schedule of Proportionate Share of the Net Pension Liability, the Schedule of Pension Contributions, the Schedule of Proportionate Share of the Net Other Postemployment Benefit Liability, the Schedule of Other Postemployment Benefit Contributions, and Notes to Required Supplementary Information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

Restriction on Use

This information is intended solely for the information and use of the Board of Education and management of Frankfort-Elberta Area Schools and is not intended to be, and should not be, used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.