

VERONA MILLS SCHOOL
Verona Township School District #1F
Bad Axe, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

YEAR ENDED JUNE 30, 2023

TABLE OF CONTENTS

	<u>Page Number</u>
INDEPENDENT AUDITOR'S REPORT	1 & 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 9
BASIC FINANCIAL STATEMENTS	
<i>Government-Wide Financial Statements</i>	
<i>Statement of Net Position</i>	10
<i>Statement of Activities</i>	11
<i>Fund Financial Statements</i>	
<i>Balance Sheet - Governmental Funds</i>	12
<i>Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position</i>	13
<i>Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds</i>	14
<i>Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities</i>	15
<i>Notes to Financial Statements</i>	16 - 35
REQUIRED SUPPLEMENTARY INFORMATION	
<i>Budgetary Comparison Schedule - General Fund</i>	36
<i>Schedule of the Reporting Unit's Proportionate Share of the Net Pension Liability</i>	37
<i>Schedule of the Reporting Unit's Pension Contributions</i>	38
<i>Schedule of the Reporting Unit's Proportionate Share of the Net OPEB Liability</i>	39
<i>Schedule of the Reporting Unit's OPEB Contributions</i>	40
<i>Notes to Required Supplementary Information</i>	41
<i>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</i>	42 & 43



ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants

Thomas B. Doran, CPA
Valerie J. Hartel, CPA

Jamie L. Peasley, CPA
Angela M. Burnette, CPA

Chelsie M. Peruski, CPA

Kendra K. Bednarski, CPA

INDEPENDENT AUDITOR'S REPORT

Board of Education
Verona Mills School
Bad Axe, MI 48413

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and the major fund of Verona Mills School, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Verona Mills School'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 and the major fund of Verona Mills School, as of June 30, 2023, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 Verona Mills School 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.

Change in Accounting Principle

As discussed in Note 11 to the financial statements, in 2023 the District adopted new accounting guidance, GASB Statement No. 96, *Subscription-based IT Arrangements*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Verona Mill School's 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 judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Verona Mill School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Verona Mill School's 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 other required supplementary information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2023 on our consideration of Verona Mills School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Verona Mills School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Verona Mills School's internal control over financial reporting and compliance.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CARO, MICHIGAN
October 12, 2023

Verona Mills School

Management's Discussion and Analysis

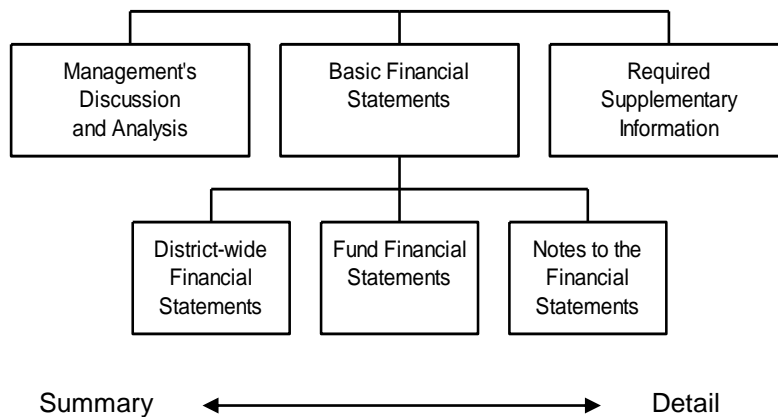
This section of the Verona Mills School's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2023. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements and the required supplementary information. The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. The figure below shows how the various parts of this annual report are arranged and relate to one another. The basic financial statements include two kinds of statements that present different views of the District.

The two types of statements are district-wide and fund financial statements. The district-wide statements present the information accumulative of all District activity. The fund financial statements look at the information for each fund independently.

Figure A-1
Verona Mills School
Organization of Annual Financial Report



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

Verona Mills School
Management’s Discussion and Analysis

Figure A-2
Major Features of District-Wide and Fund Financial Statements

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

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

Financial Highlights

The District’s general fund financial situation increased from the 2022 fiscal year to 2023. For the 2022-2023 fiscal year, the fund balance in the general fund increased by \$36,337. Total general fund revenues were \$350,390 and total general fund expenditures were \$314,053.

Fund Financial Statements

For the most part, the fund financial statements are comparable to prior years’ financial statements. The fund level statements are reported on a modified accrual basis in that only those assets that are “measurable” and “currently available” are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education’s “Accounting Manual.” In the State of Michigan, school districts’ major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in various other funds. These include Special Revenue Funds and Debt Service Funds.

Verona Mills School
Management's Discussion and Analysis

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition with no asset being reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures.

The obligations for future years' debt service are not recorded in the fund financial statements.

Government-wide Financial Statements

The government-wide financial statements are required by GASB 34. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. All of the District's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation, as well as the bonded debt of the District.

Summary of Net Position

The following schedule summarizes the net position at fiscal year ended June 30, 2023 and 2022:

Assets	June 30, 2023	June 30, 2022
Current assets	\$ 283,930	\$ 233,190
Capital assets	45,733	50,226
Total assets	<u>329,663</u>	<u>283,416</u>
 Deferred Outflows of Resources		
Related to other postemployment benefits	56,611	37,639
Related to pensions	207,190	83,073
Total deferred outflows of resources	<u>263,801</u>	<u>120,712</u>
 Liabilities		
Current liabilities	34,602	20,199
Long-term liabilities	559,302	316,784
Total liabilities	<u>593,904</u>	<u>336,983</u>
 Deferred Inflows of Resources		
Related to pensions	7,419	111,844
Related to other postemployment benefits	67,958	83,167
Related to state aid funding for pensions	38,882	20,163
Total deferred inflows of resources	<u>114,259</u>	<u>215,174</u>
 Net Position		
Net investment in capital assets	42,053	43,666
Unrestricted	(156,752)	(191,695)
Total net position	<u>\$ (114,699)</u>	<u>\$ (148,029)</u>

Verona Mills School

Management's Discussion and Analysis

Analysis of Financial Position

During the fiscal year ended June 30, 2023, the District's net position increased by \$33,330. Some of the more significant factors affecting net position during the year are discussed below.

1. Depreciation Expense

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

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation/amortization expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal years ended June 30, 2023 and June 30, 2022, \$4,493 and \$4,494 were recorded for depreciation expense.

2. Net Pension Liability & Net OPEB Liability

Beginning June 30, 2015, GASB 68 requires school districts to estimate and record its portion of employee's net pension liability. The district's net pension liability was increased from \$290,414 to the net pension liability of \$524,544 as of June 30, 2023. Beginning June 30, 2019, GASB 75 requires school districts to estimate and record its portion of net OPEB liability. The district's net OPEB liability increased from \$19,810 to the net OPEB liability of \$31,078 as of June 30, 2023.

Results of Operations

For the fiscal year ended June 30, 2023 and 2022, the results of operations, on a District-wide basis, were:

	Year Ended June 30, 2023		Year Ended June 30, 2022	
	Amount	% of Total	Amount	% of Total
General Revenues				
Property taxes	\$ 38,542	11.62%	\$ 39,407	11.22%
State sources - unrestricted	191,407	57.71%	238,338	67.87%
Other	10,356	3.12%	29,306	8.35%
Total general revenues	240,305	72.45%	307,051	87.44%
Program Revenues				
Operating grants and contributions	91,366	27.55%	44,105	12.56%
Total revenues	331,671	100%	351,156	100%
Expenses				
Instruction	239,259	80.20%	202,970	78.68%
Support services	53,750	18.02%	49,815	19.31%
Food services	732	0.25%	545	0.21%
Interest on long term debt	107	0.04%	150	0.06%
Unallocated depreciation/amortization	4,493	1.51%	4,494	1.74%
Total expenses	298,341	100%	257,974	100%
Change in net position	\$ 33,330		\$ 93,182	

Verona Mills School
Management’s Discussion and Analysis

Analysis of Significant Revenues and Expenses

Significant revenues and expenditures are discussed in the segments below:

1. State Sources

The majority of the state sources is comprised of the per student foundation allowance. The State of Michigan funds districts based on a blended student enrollment. The blended enrollment consists of 90% of the 2022 fall count and 10% of the 2022 spring count. For the 2022 – 2023 fiscal year, the District’s foundation allowance was \$9,150 per student FTE, which represent an increase of \$450 from the amount received for the 2021 – 2022 fiscal year.

2. Property Taxes

The District levies 18 mills of property taxes for operations on non-homestead properties. According to Michigan law, the taxable levy is based on the taxable valuation of properties. The annual taxable valuation increases are capped at the rate of the prior year’s Consumer’s Price Index increase or 5%, whichever is less. At the time property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is half of the property’s market value.

For the 2022-2023 fiscal year, the district collected \$38,541 non-homestead property taxes. This represented a decrease of 2% from the prior year.

3. Student Enrollment

The following schedule lists the actual student counts upon which state foundation revenue is based, for the past five fiscal years.

	<u>Enrollment</u>	<u>Change from Prior Year</u>	<u>% Change from Prior Year</u>
2022 - 2023	25.10	(0.80)	-3.19%
2021 - 2022	25.90	4.83	18.65%
2020 - 2021	21.07	0.97	4.60%
2019 - 2020	20.10	(0.50)	-2.49%
2018 - 2019	20.60	0.96	4.66%

4. Operating Grants

The District funds a significant portion of its operations with categorical sources. For the fiscal year ended June 30, 2023, federal, state and other operating grants accounted for \$91,366. This represents an increase of \$47,261 over the total grant sources received for the 2021 – 2022 fiscal year.

5. Interest Earnings

The District received no interest on its investments for the fiscal year ended June 30, 2023.

Verona Mills School

Management's Discussion and Analysis

General Fund Budgetary Highlights

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

For the 2022 – 2023 fiscal year, the district amended the general fund budget once with the Board adopting the final changes in June 2023. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>	<u>% Variance</u>
Total revenues	<u>\$ 315,756</u>	<u>\$ 346,766</u>	<u>\$ 350,390</u>	<u>\$ 3,624</u>	<u>1.05%</u>
Expenditures:					
Instruction	\$ 237,218	\$ 257,415	\$ 251,387	\$ 6,028	2.34%
Supporting services	59,580	58,693	58,947	(254)	-0.43%
Food Service	622	750	732	18	2.40%
Debt Service	<u>6,136</u>	<u>7,136</u>	<u>2,987</u>	<u>4,149</u>	<u>58.14%</u>
Total expenditures	<u>\$ 303,556</u>	<u>\$ 323,994</u>	<u>\$ 314,053</u>	<u>\$ 9,941</u>	<u>3.07%</u>

Capital Asset and Debt Administration

Capital Assets

By the end of the 2022 – 2023 fiscal year, the district had invested \$272,293 in a broad range of capital assets, including school buildings and facilities, and various types of equipment. This amount is the same as the prior fiscal year. Net depreciation/amortization expense for the year amounted to \$4,493, bringing the total accumulated depreciation/amortization to \$222,560 as of June 30, 2023.

Additional information on the District's capital assets can be found in Note 4 on page 24 of this report.

Long-term Debt

At June 30, 2023, the District had long-term debt of \$3,680 outstanding which accounts for future lease payments.

Additional information on the District's long-term debt obligations can be found in Note 5 on pages 24 and 25 of this report.

Factors Bearing on the District's Future

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

- As with other employers, the District continues to face increases in rates paid for employee benefits, particularly for health insurance and retirement.

Verona Mills School

Management's Discussion and Analysis

Contacting the District's Financial Management

This financial report is designed to provide our 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, please contact:

Nancy Lubeski, Superintendent
Verona Mills School District
3487 School Street
Bad Axe, MI 48413
989-269-7054

BASIC FINANCIAL STATEMENTS

VERONA MILLS SCHOOL
STATEMENT OF NET POSITION
June 30, 2023

	GOVERNMENTAL ACTIVITIES
ASSETS	
Cash and cash equivalents	\$ 207,849
Intergovernmental receivable	72,531
Prepays	3,550
Capital assets not being depreciated/amortized	33,592
Capital assets, net of accumulated depreciation/amortization	12,141
TOTAL ASSETS	329,663
DEFERRED OUTFLOWS OF RESOURCES	
Related to other postemployment benefits	56,611
Related to pensions	207,190
TOTAL DEFERRED OUTFLOWS OF RESOURCES	263,801
LIABILITIES	
Accounts payable	6,281
Accrued liabilities	9,976
Accrued retirement	9,461
Unearned revenue	8,884
Noncurrent liabilities:	
Due within one year	2,936
Due in more than one year	744
Net other postemployment benefits liability	31,078
Net pension liability	524,544
TOTAL LIABILITIES	593,904
DEFERRED INFLOWS OF RESOURCES	
Related to pensions	7,419
Related to other postemployment benefits	67,958
Related to state aid funding for pension	38,882
TOTAL DEFERRED INFLOWS OF RESOURCES	114,259
NET POSITION:	
Net investment in capital assets	42,053
Unrestricted	(156,752)
TOTAL NET POSITION	\$ (114,699)

See notes to financial statements

VERONA MILLS SCHOOL
STATEMENT OF ACTIVITIES
Year Ended June 30, 2023

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental activities:				
Instruction	\$ 239,259	\$ -	\$ 63,956	\$ (175,303)
Support services	53,750		27,410	(26,340)
Food services	732			(732)
Interest on long term debt	107			(107)
Unallocated depreciation/amortization	4,493			(4,493)
Total governmental activities	\$ 298,341	\$ -	\$ 91,366	(206,975)
General revenues:				
Transfers from other districts				9,855
State sources - unrestricted				191,407
Property taxes, levied for general purposes				38,542
Other				501
Total general revenue				240,305
Change in net position				33,330
Net position, beginning of year				(148,029)
Net position, end of year				\$ (114,699)

See notes to financial statements

**VERONA MILLS SCHOOL
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2023**

	GENERAL FUND	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>		
ASSETS:		
Cash and cash equivalents	\$ 207,849	\$ 207,849
Intergovernmental receivable	72,531	72,531
Prepays	3,550	3,550
	\$ 283,930	\$ 283,930
 <u>LIABILITIES AND FUND BALANCES</u>		
LIABILITIES:		
Accounts payable	\$ 6,281	\$ 6,281
Accrued liabilities	9,976	9,976
Accrued retirement	9,461	9,461
Unearned revenue	8,884	8,884
	34,602	34,602
 FUND BALANCES:		
Nonspendable-prepays	3,550	3,550
Unassigned	245,778	245,778
	249,328	249,328
TOTAL FUND BALANCES	249,328	249,328
TOTAL LIABILITIES & FUND BALANCES	\$ 283,930	\$ 283,930

See notes to financial statements

VERONA MILLS SCHOOL
 Reconciliation of the Governmental Funds Balance Sheet to the
 Statement of Net Position
 June 30, 2023

Total Fund Balances - Governmental Funds	\$ 249,328
Amounts reported for governmental activities in the statement of net position are different because:	
Deferred outflows of resources-related to pensions	207,190
Deferred outflows of resources-related to other postemployment benefits	56,611
Deferred inflows of resources-related to pensions	(7,419)
Deferred inflows of resources-related to other postemployment benefits	(67,958)
Deferred inflows of resources-related to state pension funding	(38,882)
Capital assets used in governmental activities are not financial resources and are not reported in the funds:	
The cost of the capital assets is:	272,293
Accumulated depreciation/amortization is:	(226,560)
Long term liabilities are not due and payable in the current period and are not reported in the funds:	
Direct borrowing and direct placement	(3,680)
Net other postemployment benefit liability	(31,078)
Net pension liability	<u>(524,544)</u>
 Net Position of Governmental Activities	 <u><u>\$ (114,699)</u></u>

See notes to financial statements

VERONA MILLS SCHOOL
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
Year Ended June 30, 2023

	GENERAL FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES:		
Local sources		
Property taxes	\$ 38,542	\$ 38,542
Miscellaneous	501	501
Total local revenue	39,043	39,043
State sources	268,488	268,488
Federal sources	33,004	33,004
Transfers from other districts	9,855	9,855
TOTAL REVENUES	350,390	350,390
EXPENDITURES:		
Instruction	251,387	251,387
Supporting services	58,947	58,947
Food service	732	732
Debt service		
Principal repayment	2,880	2,880
Interest	107	107
Total debt service	2,987	2,987
TOTAL EXPENDITURES	314,053	314,053
CHANGE IN FUND BALANCE	36,337	36,337
FUND BALANCES - BEGINNING OF YEAR	212,991	212,991
FUND BALANCES - END OF YEAR	\$ 249,328	\$ 249,328

See notes to financial statements

VERONA MILLS SCHOOL
 Reconciliation of the Statement of Revenues, Expenditures,
 and Changes in Fund Balance of Governmental Funds
 to the Statement of Activities
 Year Ended June 30, 2023

Net change in fund balances - total governmental funds \$ 36,337

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of these assets are allocated over their estimated useful lives as depreciation/amortization:

Depreciation/amortization expense (4,493)

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. 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. The effect of these differences is the treatment of long-term debt and related items and are as follows:

Payments on notes from direct borrowing and direct placement 2,880

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

Other postemployment benefit related items 22,913

Pension related items (5,588)

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 period:

Change in state aid funding for pension (18,719)

Change in net position of governmental activities \$ 33,330

See notes to financial statements

VERONA MILLS SCHOOL
Notes to Financial Statements
Year Ended June 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

DESCRIPTION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS:

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the District. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

REPORTING ENTITY:

The Verona Mills School (the "District") is governed by the Verona Mills School Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. 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. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements (GASB).

DESCRIPTION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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 governmental funds. Separate financial statements are provided for governmental funds.

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

BASIS OF PRESENTATION – FUND FINANCIAL STATEMENTS:

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

The 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 District has no non-major funds.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING:

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

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

VERONA MILLS SCHOOL
Notes to Financial Statements
Year Ended June 30, 2023

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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 District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital lease 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. 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).

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 current year ended, the foundation allowance was based on the pupil membership counts.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exception (PRE) property and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by Non-PRE property taxes which may be levied at a rate of up to 18 mills as well as 6 mills for Commercial Personal Property Tax. The State revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30th is reported as an intergovernmental receivable.

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

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

BUDGETARY INFORMATION:

Budgetary basis of accounting:

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

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

VERONA MILLS SCHOOL
Notes to Financial Statements
Year Ended June 30, 2023

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

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

ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE:

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.

Investments

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

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

VERONA MILLS SCHOOL
Notes to Financial Statements
Year Ended June 30, 2023

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

Inventories and prepaid items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

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

Capital assets

Capital assets, which includes land, building and additions, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Group purchases are evaluated on a case by case basis. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

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

Land and construction in progress, if any, are not depreciated. Right to use assets of the District are amortized using the straight-line method over the shorter of the lease period or the estimated useful lives. The other property, plant, and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	10 – 50 years
Furniture and equipment	5 – 15 years
Right to use – leased equipment	3 years

Defined Benefit Plan

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

Deferred outflows

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

VERONA MILLS SCHOOL
Notes to Financial Statements
Year Ended June 30, 2023

Deferred inflows

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

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.

Fund balance flow assumptions

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.

Fund balance policies

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

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

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The board of education may also assign fund balances 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.

VERONA MILLS SCHOOL
Notes to Financial Statements
Year Ended June 30, 2023

Leases

Lessee: The District is a lessee for a noncancelable lease of equipment. The District recognizes a lease liability and an intangible right-to-use lease asset in the government-wide financial statements. The District recognizes lease liabilities with an initial, individual value that it considers to be significant to the government-wide financial statements, or with annual lease payments considered significant to the fund in which they are accounted for.

At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgements related to leases include how the District determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancelable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term obligations on the statement of net position.

REVENUES AND EXPENDITURES/EXPENSES:

Program revenues

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

Property taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2023, the District levied the following amounts per \$1,000 of assessed valuation:

<u>FUND</u>	<u>MILLS</u>
General Fund:	
Non-Principle Residence Exemption (PRE)	18.00
Commercial Personal Property	6.00

VERONA MILLS SCHOOL
Notes to Financial Statements
Year Ended June 30, 2023

Long-term obligations

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

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

NOTE 2 – DEPOSITS AND INVESTMENTS:

As of June 30, 2023, the District had deposits subject to the following risks:

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2023, none of the District's bank balance of \$209,900 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying value on the books for deposits at the end of the year was \$207,849.

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

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

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

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

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

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

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

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

VERONA MILLS SCHOOL
Notes to Financial Statements
Year Ended June 30, 2023

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

The asset or liability's fair 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.

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

The following summarizes the categorization of these amounts as of year-end:

Cash and cash equivalents: \$207,849

NOTE 3 – INTERGOVERNMENTAL RECEIVABLES:

Intergovernmental receivables at June 30, 2023 consist of the following:

Governmental units:		
State aid	\$	50,194
Federal revenue		21,357
Other		<u>980</u>
Total	\$	<u><u>72,531</u></u>

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

VERONA MILLS SCHOOL
Notes to Financial Statements
Year Ended June 30, 2023

NOTE 4 – CAPITAL ASSETS:

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

	<u>BALANCE June 30, 2022</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE June 30, 2023</u>
Governmental Activities:				
Assets not being depreciated - Land	\$ 33,592	\$ -	\$ -	\$ 33,592
Capital assets being depreciated/amortized:				
Building and Improvements	158,091	-	-	158,091
Furniture and Equipment	71,218	-	-	71,218
Right to use - leased equipment	9,392	-	-	9,392
Total Capital Assets being depreciated/amortized	238,701	-	-	238,701
Accumulated depreciation/amortization:				
Building and Improvements	(150,401)		-	(150,401)
Furniture and Equipment	(68,535)	(1,363)	-	(69,898)
Right to use - leased equipment	(3,131)	(3,130)	-	(6,261)
Total accumulated depreciation/amortization	(222,067)	(4,493)	-	(226,560)
Net capital assets being depreciated/amortized	16,634	(4,493)	-	12,141
Net capital assets	\$ 50,226	\$ (4,493)	\$ -	\$ 45,733

Depreciation/amortization for the fiscal year ended June 30, 2023 amounted to \$4,493. The District determined that it was impractical to allocate depreciation/amortization to the various governmental activities as the assets serve multiple functions.

NOTE 5 – LONG TERM OBLIGATIONS:

The following is a summary of long-term obligations for the District for the year ended June 30, 2023:

	<u>Notes from Direct Borrowings and Direct Placements</u>	<u>Total</u>
Balance July 1, 2022	\$ 6,560	\$ 6,560
Additions	-	-
Deletions	(2,880)	(2,880)
Balance June 30, 2023	\$ 3,680	\$ 3,680
Due within one year	(2,936)	(2,936)
Due in more than one year	\$ 744	\$ 744

VERONA MILLS SCHOOL
Notes to Financial Statements
Year Ended June 30, 2023

Long-term obligations at June 30, 2023 are comprised of the following issues:

Notes from Direct Borrowing and Direct Placement

Kyocera copier lease due in monthly installments of \$249 through September 2024, with interest being imputed at 2.1%	<u>\$ 3,680</u>
Total general long-term obligations	<u><u>\$ 3,680</u></u>

The District's outstanding notes from direct borrowings and direct placements related to governmental activities of \$3,680 contains provisions that in an event of default, either by (1) unable to make principal or interest payments (2) false or misrepresentation is made to the lender (3) become insolvent or make an assignment for the benefit of its creditors (4) if the lender at any time in good faith believes that the prospect of payment of any indebtedness is impaired. Upon the occurrence of any default event, the outstanding amounts, including accrued interest become immediately due and payable.

The annual requirements to amortize long-term obligations outstanding, including interest, are as follows:

<u>Year Ending June 30,</u>	Notes from Direct Borrowings and Direct Placements		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
	2024	\$ 2,936	
2025	<u>744</u>	<u>2</u>	<u>746</u>
Total	<u><u>\$ 3,680</u></u>	<u><u>\$ 50</u></u>	<u><u>\$ 3,730</u></u>

Interest expense for the year ended June 30, 2023 was approximately \$107.

VERONA MILLS SCHOOL
Notes to Financial Statements
Year Ended June 30, 2023

NOTE 6 – PENSION AND OTHER POSTEMPLOYMENT BENEFITS:

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) (System) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at www.michigan.gov/orsschools.

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

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer 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 the Member Investment Plan (MIP). Basic Plan member's contributions range from 0% - 4%. On January 1, 1987, the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990, or later including Pension Plus Plan members, contribute at various graduated permanently fixed contribution rates from 3.0% -7.0%.

Pension Reform 2010

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

VERONA MILLS SCHOOL
Notes to Financial Statements
Year Ended June 30, 2023

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

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

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

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

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

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

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

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

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

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

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

VERONA MILLS SCHOOL
Notes to Financial Statements
Year Ended June 30, 2023

Benefits Provided – Other postemployment benefit (OPEB)

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

Retiree Healthcare Reform of 2012

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

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

Regular Retirement (no reduction factor for age)

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

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

Member Contributions

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

Employer Contributions

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

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

VERONA MILLS SCHOOL
Notes to Financial Statements
Year Ended June 30, 2023

Pension and OPEB contributions made in the fiscal year ending September 30, 2022 were determined as of the September 30, 2019 actuarial valuations. The pension and OPEB benefits, the unfunded (overfunded) actuarial accrued liabilities as of September 30, 2019 are amortized over a 17-year period beginning October 1, 2021 and ending September 30, 2038.

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

	Pension	Other Postemployment Benefit
October 1, 2022 - September 30, 2023	13.75% - 20.16%	7.21% - 8.07%
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, 2023 were equal to the required contribution total. Total pension contributions were approximately \$64,500. Of the total pension contributions approximately \$64,300 was contributed to fund the Defined Benefit Plan and approximately \$200 was contributed to fund the Defined Contribution Plan.

The District's OPEB contributions for the year ended June 30, 2023 were equal to the required contribution total. Total pension contributions were approximately \$10,400. Of the total pension contributions approximately \$10,300 was contributed to fund the Defined Benefit Plan and approximately \$100 was contributed to fund the Defined Contribution Plan.

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

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

Pension Liabilities

The net pension liability was measured as of September 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2021 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.

<i>MPSERS (Plan) Non-university Employers</i>	September 30, 2022	September 30, 2021
Total Pension Liability	\$ 95,876,795,620	\$ 86,392,473,395
Plan Fiduciary Net Position	\$ 58,268,076,344	\$ 62,717,060,920
Net Pension Liability	\$ 37,608,719,276	\$ 23,675,412,475
Proportionate share	0.00139%	0.00123%
Net Pension liability for the District	\$ 524,544	\$ 290,414

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

For the year ended June 30, 2023, the District recognized pension expense of \$69,952.

VERONA MILLS SCHOOL
Notes to Financial Statements
Year Ended June 30, 2023

At June 30, 2023, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of assumptions	\$ 90,135	
Net difference between projected and actual earnings on pension plan investments	1,230	
Differences between expected and actual experience	5,247	\$ 1,173
Changes in proportion and differences between employer contributions and proportionate share of contributions	50,699	6,246
Reporting Unit's contributions subsequent to the measurement date	59,879	
Total	\$ 207,190	\$ 7,419

\$59,879 reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

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

Year ended September 30,	Amount
2023	\$ 38,875
2024	35,545
2025	30,910
2026	34,562

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

OPEB Liabilities

The net OPEB liability was measured as of September 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2021 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projections of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined.

<i>MPERS (Plan) Non-university Employers:</i>	September 30, 2022	September 30, 2021
Total Other Postemployment Benefit Liability	\$ 12,522,713,324	\$ 12,046,393,511
Plan Fiduciary Net Position	\$ 10,404,650,683	\$ 10,520,015,621
Net Other Postemployment Benefit Liability	\$ 2,118,062,641	\$ 1,526,377,890
Proportionate Share	0.00147%	0.00130%
Net Other Postemployment Benefit Liability for the District	\$ 31,078	\$ 19,810

VERONA MILLS SCHOOL
Notes to Financial Statements
Year Ended June 30, 2023

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

For the year ended June 30, 2023, the District recognized OPEB benefit of \$12,544.

At June 30, 2023, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of assumptions	\$ 27,701	\$ 2,256
Net difference between projected earnings on and actual OPEB plan investments	2,429	
Differences between expected and actual experience		60,871
Changes in proportion and differences between employer contributions and proportionate share of contributions	17,967	4,831
Reporting Unit contributions subsequent to the measurement date	8,514	
Total	\$ 56,611	\$ 67,958

\$8,514 reported as deferred outflows of resources related to OPEB resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year.

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

Year ended September 30,	Amount
2023	\$ (10,849)
2024	(7,497)
2025	(6,309)
2026	3,083
2027	1,341
2028	370

Actuarial Assumptions

Investment rate of return for pension – 6.00% a year, compounded annually net of investment and administrative expenses for the MIP, Basic, Pension Plus, and Pension Plus 2 groups.

Investment rate of return for OPEB – 6.00% a year, compounded annually net of investment and administrative expenses.

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

Inflation – 3.0%.

Mortality assumptions –

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

VERONA MILLS SCHOOL
Notes to Financial Statements
Year Ended June 30, 2023

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

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

Experience study - The annual actuarial valuation report of the System used for these statements is dated September 30, 2021. 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 6.00% (MIP, Basic, Pension Plus, and Pension Plus 2 Plan), and the other postemployment benefit rate was 6.00%, 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.

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, 2022 and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

*Long term rate of return is net of administrative expenses and 2.2% inflation.

VERONA MILLS SCHOOL
Notes to Financial Statements
Year Ended June 30, 2023

Rate of Return – For fiscal year ended September 30, 2022, the annual money-weighted rate of return on pension and OPEB plan investments, net of pension and OPEB plan investment expense, was (4.18)% and (4.99)% 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 6.00% was used to measure the total pension liability. This discount rate was based on the expected rate of return on pension plan investments of 6.00%. The projection of cash flows used to determine this single discount rate assumed that plan members contributions will be made at the current contribution rate and that contributions from school districts will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

OPEB Discount rate – A single discount rate of 6.00% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 6.00%. The projection of cash flows used to determine this single 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 project to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net pension liability to changes in the discount rate -The following presents the Reporting Unit's proportionate share of the net pension liability calculated using a single discount rate of 6.00%, as well as what the Reporting Unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Pension		
	1% Decrease	Discount Rate	1% Increase
Reporting Unit's proportionate share of the net pension liability	\$ 692,203	\$ 524,544	\$ 386,385

Sensitivity of the net OPEB liability to changes in the discount rate -The following presents the Reporting Unit's proportionate share of the net OPEB liability calculated using a single discount rate of 6.00%, as well as what the Reporting Unit's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Other Postemployment Benefit		
	1% Decrease	Discount Rate	1% Increase
Reporting Unit's proportionate share of the net other postemployment benefit liability	\$ 52,131	\$ 31,078	\$ 13,349

VERONA MILLS SCHOOL
Notes to Financial Statements
Year Ended June 30, 2023

Sensitivity to the net OPEB liability to changes in the healthcare cost trend rates – The following presents the Reporting Unit’s proportionate share of the net other postemployment benefit liability calculated using the healthcare cost trend rate, as well as what the Reporting Unit’s proportionate share of the net other postemployment benefit liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Other Postemployment Benefit		
	Current healthcare		
	1% Decrease	cost trend rates	1% Increase
Reporting Unit's proportionate share of the net other postemployment benefit liability	\$ 13,014	\$ 31,078	\$ 51,356

Pension and OPEB Plan Fiduciary Net Position

Detailed information about the pension and OPEB’s fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2022 Annual Comprehensive Financial Report.

Payable to the Pension and OPEB Plan

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

NOTE 7 - RISK MANAGEMENT:

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees’ and natural disasters. With regard to injuries to employees, the District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays quarterly premiums to the pool for the insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including property and casualty errors and omissions, fleet and employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2023 or any of the prior three years.

NOTE 8 – TAX ABATEMENTS:

The District is required to disclose significant tax abatements as required by GASB Statement 77, *Tax Abatements*.

The District could receive reduced property tax revenues as a result of Industrial Facilities Tax Exemptions, granted by cities, villages, and townships. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities. The District did not have any property taxes abated under any of these programs.

The taxes abated for the general fund operating millage is considered by the State of Michigan when determining the District’s section 22 funding of the State School Aid Act.

There are no significant abatements made by the District.

VERONA MILLS SCHOOL
Notes to Financial Statements
Year Ended June 30, 2023

NOTE 9 – COMMITMENTS AND CONTINGENT LIABILITIES:

Commitments: The District has no active commitments as of June 30, 2023.

Contingencies: Amounts received or receivable from grant agencies are subject to audit and adjustments by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

NOTE 10 – UPCOMING ACCOUNTING PRONOUNCEMENT:

In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections - an amendment of GASB Statement No. 62*. This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the 2023-2024 fiscal year.

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the 2024-2025 fiscal year.

NOTE 11 - CHANGE IN ACCOUNTING PRINCIPLE:

For the year ended June 30, 2023, the District implemented the following new pronouncement: GASB Statement No. 96, *Subscription-based IT Arrangements*.

Summary:

Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-based Information Technology Arrangements* was issued in May 2020. 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. There was no material impact on the District's financial statements after the adoption of GASB 96.

There was no material impact on the District's financial statements after the adoption of GASB Statement 96.

REQUIRED SUPPLEMENTARY INFORMATION

VERONA MILLS SCHOOL
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2023

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
REVENUES				
Local sources:				
Property taxes	\$ 39,308	\$ 37,820	\$ 38,542	\$ 722
Other	-	1	501	500
Total local sources	<u>39,308</u>	<u>37,821</u>	<u>39,043</u>	<u>1,222</u>
State sources	220,654	266,884	268,488	1,604
Federal sources	35,491	29,505	33,004	3,499
Transfers from other districts	<u>20,303</u>	<u>12,556</u>	<u>9,855</u>	<u>(2,701)</u>
TOTAL REVENUES	<u>315,756</u>	<u>346,766</u>	<u>350,390</u>	<u>3,624</u>
EXPENDITURES				
Instruction	237,218	257,415	251,387	6,028
Supporting services	59,580	58,693	58,947	(254)
Food service	622	750	732	18
Debt service				
Principal repayment	6,029	6,915	2,880	4,035
Interest	107	221	107	114
Total debt service	<u>6,136</u>	<u>7,136</u>	<u>2,987</u>	<u>4,149</u>
TOTAL EXPENDITURES	<u>303,556</u>	<u>323,994</u>	<u>314,053</u>	<u>9,941</u>
CHANGE IN FUND BALANCE	<u>\$ 12,200</u>	<u>\$ 22,772</u>	36,337	<u>\$ 13,565</u>
FUND BALANCE - BEGINNING OF YEAR			<u>212,991</u>	
FUND BALANCE - END OF YEAR			<u>\$ 249,328</u>	

VERONA MILLS SCHOOL
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT PLAN
LAST 10 FISCAL YEARS (DETERMINED AS OF
PLAN YEAR ENDED SEPTEMBER 30)

	<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>
Reporting unit's proportion of net pension liability (%)	0.00139%	0.00123%	0.00115%	0.00119%	0.00128%	0.00138%	0.00130%	0.00126%	0.00107%
Reporting unit's proportionate share of net pension liability	\$ 524,544	\$ 290,414	\$ 395,776	\$ 393,846	\$ 386,069	\$ 358,322	\$ 324,087	\$ 308,156	\$ 235,208
Reporting unit's covered-employee payroll	\$ 138,721	\$ 115,417	\$ 97,970	\$ 101,292	\$ 101,055	\$ 118,954	\$ 112,891	\$ 107,292	\$ 116,845
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	378.13%	251.62%	403.98%	388.82%	382.04%	301.23%	287.08%	287.21%	201.30%
Plan fiduciary net position as a percentage of total net pension liability (Non-university employers)	60.77%	72.60%	59.72%	60.31%	62.36%	64.21%	63.27%	63.17%	66.20%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

VERONA MILLS SCHOOL
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PENSION CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT PLAN
LAST 10 FISCAL YEARS (DETERMINED AS OF
THE YEAR ENDED JUNE 30)

	<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>
Statutorily required contributions	\$ 64,262	\$ 45,167	\$ 35,611	\$ 31,480	\$ 31,777	\$ 33,280	\$ 32,145	\$ 28,245	\$ 23,439
Contributions in relation to statutorily required contributions	64,262	45,167	35,611	31,480	31,777	33,280	32,145	28,245	23,439
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reporting unit's covered-employee payroll	\$ 128,437	\$ 128,841	\$ 109,878	\$ 101,863	\$ 102,898	\$ 105,058	\$ 117,331	\$ 108,181	\$ 111,656
Contributions as a percentage of covered-employee payroll	50.03%	35.06%	32.41%	30.90%	30.88%	31.68%	27.40%	26.11%	20.99%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

VERONA MILLS SCHOOL
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE
SHARE OF THE NET OPEB LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT PLAN
LAST 10 FISCAL YEARS (DETERMINED AS OF
PLAN YEAR ENDED SEPTEMBER 30)

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Reporting unit's proportion of net OPEB liability (%)	0.00147%	0.00130%	0.00111%	0.00117%	0.00119%	0.00139%
Reporting unit's proportionate share of net OPEB liability	\$ 31,078	\$ 19,810	\$ 59,672	\$ 83,956	\$ 94,429	\$ 123,050
Reporting unit's covered-employee payroll	\$ 138,721	\$ 115,417	\$ 97,970	\$ 101,292	\$ 101,055	\$ 118,954
Reporting unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	22.40%	17.16%	60.91%	82.89%	93.44%	103.44%
Plan fiduciary net position as a percentage of total net OPEB liability (Non-university employers)	83.09%	87.33%	59.44%	48.46%	42.95%	36.39%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

VERONA MILLS SCHOOL
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S OPEB CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT PLAN
LAST 10 FISCAL YEARS (DETERMINED AS OF
YEAR ENDED JUNE 30)

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily required contributions	\$ 10,305	\$ 10,296	\$ 9,232	\$ 7,938	\$ 8,146	\$ 6,988
Contributions in relation to statutorily required contributions	<u>10,305</u>	<u>10,296</u>	<u>9,232</u>	<u>7,938</u>	<u>8,146</u>	<u>6,988</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reporting unit's covered-employee payroll	\$ 128,437	\$ 128,841	\$ 109,878	\$ 101,863	\$ 102,898	\$ 105,058
Contributions as a percentage of covered-employee payroll	8.02%	7.99%	8.40%	7.79%	7.92%	6.65%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

VERONA MILLS SCHOOL
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2023

Pension Information

Benefit changes - there were no changes of benefit terms in 2022.

Changes of assumptions - the assumption changes for 2022 were:

Discount rate for MIP, Basic, and Pension Plus plans decreased to 6.00% from 6.80%.

OPEB Information

Benefit changes - there were no changes of benefit terms in 2022.

Changes of assumptions - the assumption changes for 2022 were:

Discount rate decreased to 6.00% from 6.95%.



**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***

Board of Education
Verona Mills School
Bad Axe, MI 48413

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 and the major fund of Verona Mills School, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 12, 2023.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

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.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CARO, MICHIGAN

October 12, 2023



ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants

Thomas B. Doran, CPA
Valerie J. Hartel, CPA

Jamie L. Peasley, CPA
Angela M. Burnette, CPA

Chelsie M. Peruski, CPA

Kendra K. Bednarski, CPA

To the Members of the Board
Verona Mills School

We have audited the financial statements of the governmental activities and the major fund of **Verona Mills School** for the year ended June 30, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by **Verona Mills School** are described in Note 1 to the financial statements. As described in Note 11 to the financial statements, **Verona Mills School** changed accounting policies related to subscription-based information technology arrangements by adopting statement of Governmental Accounting Standards (GASB Statement) No. 96 *Subscription-based Information Technology Arrangements*, in 2023. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the net pension liability and the net other postemployment benefit liability are based on actuarial data. We evaluated the key factors and assumptions used to develop the balance of the net pension and OPEB liability in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's estimate of depreciation expenses for the current period is based on an estimate of the useful lives of capital assets. We evaluated the key factors and assumptions used to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

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

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 each opinion unit's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 12, 2023.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

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

A separate management letter was not issued.

Restriction on Use

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

Very truly yours,



Anderson, Tuckey, Bernhardt, & Doran, P.C.
Certified Public Accountants
Caro, Michigan

October 12, 2023