



Stephenson & Company, P.C.
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Donald W. Brannan, CPA
Kyle E. Troyer, CPA
Robert J. Morand, CPA
Brenden A. Stephenson, CPA/PFS, CFP®
Cynthia R. Scott, CPA, CFE

ALCONA COMMUNITY SCHOOLS
ALCONA COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED JUNE 30, 2021

INDEX

AUDITORS' REPORT

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 8
<u>BASIC FINANCIAL STATEMENTS</u>	
<u>GOVERNMENT-WIDE FINANCIAL STATEMENTS</u>	
STATEMENT OF NET POSITION	9
STATEMENT OF ACTIVITIES	10
<u>FUND FINANCIAL STATEMENTS</u>	
BALANCE SHEET - GOVERNMENTAL FUNDS	11
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET POSITION OF GOVERNMENTAL ACTIVITIES	12
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS	13
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	14
NOTES TO FINANCIAL STATEMENTS	15 - 42
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	43
SCHEDULE OF THE SCHOOL DISTRICT'S PENSION CONTRIBUTIONS	44
SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY	45
SCHEDULE OF THE SCHOOL DISTRICT'S OPEB CONTRIBUTIONS	46
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND	47
<u>OTHER INFORMATION</u>	
<u>INDIVIDUAL FUND SCHEDULES</u>	
GENERAL FUND - DETAILS OF REVENUE COMPARED TO BUDGET	48
GENERAL FUND - DETAILS OF EXPENDITURES COMPARED TO BUDGET	49 - 52



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September 24, 2021

Independent Auditors' Report

Members of the Board of Education
Alcona Community Schools
Alcona County, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Alcona Community Schools, Alcona County, Michigan, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the index.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Alcona Community Schools' basic financial statements. The individual fund schedules are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The individual fund schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2021, included in the Single Audit Report issued under a separate cover, on our consideration of Alcona Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Alcona Community Schools' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Alcona Community Schools' internal control over financial reporting and compliance.

Stephenson & Company, P.C.



Alcona Community Schools

DANIEL O'CONNOR, SUPERINTENDENT

MANAGEMENT'S DISCUSSION AND ANALYSIS **For the Fiscal Year Ended June 30, 2021**

As management of the Alcona Community Schools, (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2021.

Management's discussion and analysis is provided at the beginning of the audit report to provide, in layman's terms, an assessment of the past and current position of the School District's financial condition. This summary should not be taken as a replacement for the audit, which consists of the financial statements and other supplemental information that presents all of the District's revenues and expenditures by program for the Instruction, Support Services, Community Services, Student Activities, Debt Service, Athletics, and Food Services.

FINANCIAL HIGHLIGHTS

The liabilities of the District exceeded its assets at the close of the most recent fiscal year by \$5,182,046 (net position). Of this amount, \$(13,932,054) (unrestricted net position) is the result of the District's obligations to taxpayers, students, and creditors.

The District's total net position decreased by \$96,097. This represents the degree to which increases in ongoing expenditures have surpassed similar increases in ongoing revenues.

As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,129,978, an increase of \$150,604 from the prior year. Of this amount, \$637,746 is available for spending at the District's discretion (unassigned fund balance). This represents 6.2% of the total expenditures of these funds.

The General Fund fund balance increased by \$112,849 due to various revenues exceeding expenditures in the current year, especially with the COVID-19 funding coming in to the General Fund in the current year.

The Building & Site Sinking Fund fund balance increased by \$4,694 in the current year. All revenue is derived from property taxes and all expenditures related to various construction and projects.

The Food Service Fund fund balance increased by \$23,174 due to revenues exceeding expenditures again in the current year.

The Student Activity Fund fund balance increased by \$9,887 due to revenues exceeding expenditures in the current year.

USING THIS ANNUAL REPORT

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

P.O. BOX 249

LINCOLN, MICHIGAN

48742

989-736-8685

FAX 989-736-6261

occonnord@alconaschools.net

Government-Wide Financial Statements

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

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

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

Both of the government-wide financial statements distinguish functions of the Alcona Community School District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the District include instruction, support services, athletic service, and food service. The District does not currently have any business-type activities.

The government-wide financial statements can be found in the Statement of Net Position and the Statement of Activities.

Fund Financial Statements

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

Governmental Funds

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

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

The District maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures and changes in fund balances for the General Fund, which is considered to be a major fund, and the Food Service, Student Activity, and Building & Site Sinking Funds, which are considered to be non-major funds.

The District adopts annual appropriated budgets for its governmental funds. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with budgets.

The basic governmental fund financial statements can be found in the Balance Sheet – Governmental Funds and the Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning budgetary information for the District's major funds. Required supplementary information can be found in the Statement of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund.

Our auditors have provided assurance in their independent auditors' report, located immediately preceding this Management's Discussion and Analysis, that the Basic Financial Statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the Required Supplementary Information and the Other Information identified above. A user of this report should read the independent auditors' report carefully to ascertain the level of assurance being provided for each of the parts in the Financial Section.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District's net position was \$(5,182,046) at June 30, 2021. Of this amount \$(13,932,054) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use that net position for day-to-day operations. Our analysis below focuses on the net position (Table 1) and the change in net position (Table 2) of the District's governmental activities.

TABLE 1
NET POSITION

	<u>Governmental Activities</u>	
	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Current Assets	\$ 2,203,522	\$ 1,923,037
Noncurrent Assets:		
Capital Assets - Net	<u>8,937,131</u>	<u>8,545,794</u>
Total Assets	<u>11,140,653</u>	<u>10,468,831</u>
Deferred Outflows of Resources	<u>4,584,167</u>	<u>4,660,249</u>
Current Liabilities	1,078,785	950,670
Noncurrent Liabilities	<u>17,390,301</u>	<u>17,065,015</u>
Total Liabilities	<u>18,469,086</u>	<u>18,015,685</u>
Deferred Inflows of Resources	<u>2,437,780</u>	<u>2,199,344</u>
<u>Net Position</u>		
Net Investment in Capital Assets	8,744,634	8,287,111
Restricted	5,374	680
Unrestricted (Deficit)	<u>(13,932,054)</u>	<u>(13,373,740)</u>
Total Net Position	<u>\$ (5,182,046)</u>	<u>\$ (5,085,949)</u>

The \$(13,932,054) in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. It means that if we had to pay off all of our bills *today*, including all of our noncapital liabilities (Net Pension liability and Net OPEB liability, for example); we would be short by \$(13,932,054). This shortfall is a direct result of the implementations of GASB 68 and GASB 75 in prior years. See Notes 10 and 11 of this report.

Net investment in capital assets totaled \$8,744,634. The debt of the District will be paid for by voter approved bond and property tax collected as the debt service comes due. Day-to-day operations will be paid for by property tax, state aid and federal revenues that will be received throughout the year. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use that net position for day-to-day operations.

TABLE 2
CHANGES IN NET POSITION

	Governmental Activities	
	Year Ended June 30, 2021	Year Ended June 30, 2020
Revenue:		
Program Revenue:		
Charges for Services	\$ 174,000	\$ 218,406
Operating Grants and Contributions	3,763,057	3,234,790
Capital Grants and Contributions	162,086	187,599
General Revenue:		
Current Property Taxes	5,524,006	5,493,078
State School Aid – Unrestricted	547,880	461,881
Investment Earnings	4,552	26,318
Gain (Loss) on Disposal of Capital Assets	58,698	700
Miscellaneous	42,442	175,658
Total Revenue	10,276,721	9,798,430
Functions/Program Expenses:		
Instruction	5,649,781	5,534,152
Supporting Services	3,774,968	3,664,220
Community Services	877	1,948
Athletics	208,337	210,266
Food Services	601,945	613,266
Student Activities	85,204	158,729
Transfers to Other Districts	45,564	84,852
Interest on Long-Term Debt	6,142	8,094
Total Functions/Program Expenses	10,372,818	10,275,527
Change in Net Position	(96,097)	(477,097)
Beginning Net Position	(5,085,949)	(4,608,852)
Ending Net Position	\$ (5,182,046)	\$ (5,085,949)

Governmental activities decreased the District's net position by \$96,097.

As reported in our Statement of Activities, the cost of all of our governmental activities this year was \$10,372,818. Some of the cost was paid by those who benefited from the programs (\$174,000), other governments and organizations who subsidized certain programs with grants and contributions (\$3,925,143), unrestricted state aid (\$547,880), investment earnings (\$4,552), gain on disposal of capital assets (\$58,698), and miscellaneous sources (\$42,442). Local taxpayers (\$5,524,006) are also a significant source of funding.

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The District's budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund.

During the fiscal year ended June 30, 2021, the District amended the budgets of this major governmental fund a couple of times.

General Fund

The General Fund actual revenue was \$9,029,202. That amount is above the original budget estimate of \$7,694,806 and below the final amended budget estimate of \$9,058,355. The variance between actual revenues and the final budget was the result of various revenues coming in slightly higher or lower than anticipated.

The actual expenditures of the General Fund were \$8,982,151, which is above the original and below the final amended budget estimates of \$7,849,802 and \$9,192,022, respectively. The variance between the actual expenditures and the final budget was primarily due to variances in purchased services and supplies, which amounts to \$160,350 of the difference. Variances between the actual revenues and expenses, the original budget, and the final budgets are the result of increases and decreases to the operating position of the District and are a part of the monthly budget updates supplied to the Board in an ever-changing environment of school finances.

CAPITAL ASSET AND LONG-TERM LIABILITY ADMINISTRATION

Capital Assets

At the end of fiscal year 2021, the District had \$18,518,616 invested in land and buildings, site improvements, furniture and equipment, and vehicles and buses. Of this amount, \$9,581,485 in depreciation has been taken over the years. The District currently has a net book value of \$8,937,131. Additions for the current year consisted of:

HVAC Controls Project	\$ 510,226
Window Replacement Project	156,007
2022 New Blue Bird Bus	109,324
2018 Used Blue Bird Bus	72,222
Other Additions	<u>33,724</u>
Total Additions	<u>\$ 881,503</u>

Disposals consisted of a fully depreciated bus that was scrapped for \$310.

Additional information on the District's capital assets can be found in Note 5 of this report.

Long-Term Debt

At June 30, 2021, the District had \$192,497 in installment purchase agreement obligations. State statutes limit the amount of general obligation debt that a school district may issue. The current debt limitation for the District is significantly greater than the outstanding debt of the District.

Additional information on the District's long-term debt can be found in Note 7 of this report.

Net Pension Liability

At June 30, 2021, the District's Net Pension Liability amounted to \$14,530,149. This constitutes their unfunded pension benefit obligation as of the measurement date of the Michigan Public School Employees Retirement System Plan.

Additional information on the District's Net Pension Liability can be found in Note 10 of this report.

Net OPEB Liability

At June 30, 2021, the District's Net OPEB Liability amounted to \$2,338,968. This constitutes their unfunded postemployment benefits other than pensions obligation as of the measurement date of the Michigan Public School Employees Retirement System Plan.

Additional information on the District's Net OPEB Liability can be found in Note 11 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The Budget for 2021-22 was approved by the Board of Education on June 14 2021 and shows excess expenditures over revenues of \$125,282, which would result in an ending fund equity of \$632,077 (or \$556,840 excluding Nonspendable Fund Balance) as of June 30, 2022. The expected fund equity is now projected to be higher than \$632,077 as originally approved by the Board of Education because of carry-over from the 2020-21 fiscal year. The 2021-2022 budget assumes a foundation grant of \$8,236 per student which is \$125 more than last school year but based on a 3-year average of 664 student FTEs. The estimated student count is based on a projected loss of 27 students from Fall 2020 to Fall 2021. Our revenue budget continues to reflect the challenge of declining enrollment faster than an increase to the per pupil Foundation grant. The total Foundation received through monthly State Aid payments is proposed to be only approximately 5% of the total Foundation revenue while the remainder of the State's Foundation is collected from Non-Homestead (or Non-PRE) property taxes. Federal revenue for Title I, Title II, Title IV and Title V is projected at a 98% estimate for 2021-22 but will be adjusted when actual dollar amounts are known.

Additional changes in revenue for the 2021-22 budget include: a decrease of approximately \$167,136 in state pupil foundation, an increase of \$109,053 in property taxes, the continued MPSERS 147a1, 147a2, 147c1, and 147e, a conservative estimate of various categorical (i.e. At-Risk, MPSERS 147c1, Isolated Districts, Additional Special Ed Cost Reimbursement,...) resulting in an estimated net decrease of \$60,164, continued GSRP program for roughly \$119,970, an additional \$62,947 in 31N mental health grant proceeds, decrease in the E3 Mental Health grant of \$28,239, decrease of \$26,323 in the Marshall Plan grant and continued Tiger Clinic state revenues.

As for expenditures, payroll costs are budgeted with the following changes from the prior year's budget: 4.5% rate increase for the AEA union group and administration; a 2% rate increase for the Teamster Union; reallocation of various staff members; filling all staff positions, with no long-term substitutes; and employer contributions to a medical plan as follows – single plan: \$7,218, two-person plan: \$15,094, and family plan: \$19,685.

All employees are paying for health insurance premiums in excess of the state mandated cap, as listed above. The District continues to offer insurance plans that are affordable and of minimum value as recognized by the Affordable Care Act. This is in accordance with the Board approved bargaining agreements for the Teacher (AEA) effective July 1, 2021 through June 30, 2025 and Support Staff (Teamster) unions effective July 1, 2021 through June 30, 2024. Additionally, ORS continues to attempt to smooth retirement rates with the Section 147a, 147c, and 147e stabilization flow-through portion of retirement as noted above. Although there are several retirement plans with associated rates, the majority of employees fall into the Defined Benefit plan with the rate of 28.23% and a rate of 15.05% for the UAAL Stabilization for 2021-22. However, as employee turnover continues, we will see more employees being placed into the Defined Contribution plans offered by ORS.

The District's budget in the past has been under great pressure with increased costs and declining revenues. Even if the per pupil funding increases, the District will continue to have decreased total foundation revenues due to declining enrollment from year-to-year. Each year the District will evaluate the programming needs for its students and the costs associated with those needs. As always, District administration and the Board of Education will keep the budget and finances of the District in mind throughout the school year while also assessing the needs of students.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Alcona Community School's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Nicholas L. Cordes, CPA
Business Manager/Food Service Director
Alcona Community Schools
51 North Barlow Road
PO Box 249
Lincoln, MI 48742
Office Telephone (989) 736-6212

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

STATEMENT OF NET POSITION
June 30, 2021

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and Cash Equivalents	\$ 1,363,522
Receivables:	
Accounts, Net	19,837
Due from Other Governmental Units	734,244
Inventory:	
Supplies	58,145
Prepaid Items	27,774
Noncurrent Assets:	
Capital Assets Not Being Depreciated	923,743
Capital Assets, Net of Accumulated Depreciation	<u>8,013,388</u>
 Total Assets	 <u>11,140,653</u>
<u>Deferred Outflows of Resources</u>	
Deferred Amount on Pension Expense Related to Net Pension Liability	3,320,043
Deferred Amount on OPEB Expense Related to Net OPEB Liability	<u>1,264,124</u>
 Total Deferred Outflows of Resources	 <u>4,584,167</u>
<u>Liabilities</u>	
Accounts Payable	195,949
Due to Other Governmental Units	1,490
Interest Payable	5,241
Payroll Deductions and Withholdings	309,277
Salaries Payable	486,911
Unearned Revenue	79,917
Long-Term Liabilities:	
Due Within One Year	114,645
Due in More Than One Year	406,539
Net Pension Liability	14,530,149
Net OPEB Liability	<u>2,338,968</u>
 Total Liabilities	 <u>18,469,086</u>
<u>Deferred Inflows of Resources</u>	
Deferred Amount on Net Pension Liability	645,103
Deferred Amount on Net OPEB Liability	<u>1,792,677</u>
 Total Deferred Inflows of Resources	 <u>2,437,780</u>
<u>Net Position</u>	
Net Investment in Capital Assets	8,744,634
Restricted For:	
Capital Projects	5,374
Unrestricted (Deficit)	<u>(13,932,054)</u>
 Total Net Position	 <u>\$ (5,182,046)</u>

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

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2021

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues			<u>Net (Expenses) Revenue and Change in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Government Type Activities</u>
Instruction	\$ 5,649,781	\$ 0	\$ 1,299,784	\$ 6,745	\$ (4,343,252)
Support Services	3,774,968	150,231	1,783,173	105,341	(1,736,223)
Community Services	877	0	95,091	0	94,214
Athletics	208,337	14,281	0	0	(194,056)
Food Services	601,945	9,488	585,009	50,000	42,552
Student Activities	85,204	0	0	0	(85,204)
Transfers to Other Districts	45,564	0	0	0	(45,564)
Interest on Long-Term Debt	<u>6,142</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(6,142)</u>
 Total	 <u>\$ 10,372,818</u>	 <u>\$ 174,000</u>	 <u>\$ 3,763,057</u>	 <u>\$ 162,086</u>	 <u>(6,273,675)</u>
 General Revenue:					
Property Taxes, Levied for General Purposes					5,004,197
Property Taxes, Levied for Sinking Fund Purposes					519,809
State School Aid - Unrestricted					547,880
Investment Earnings					4,552
Miscellaneous					42,442
Gain (Loss) on Disposal of Capital Assets					<u>58,698</u>
Total General Revenue					<u>6,177,578</u>
 Change in Net Position					 (96,097)
 Net Position - Beginning					 <u>(5,085,949)</u>
 Net Position - Ending					 <u>\$ (5,182,046)</u>

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

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2021

	Other Governmental Funds				Total Governmental Funds
	Special Revenue Funds			Capital Project Fund	
	General Fund	Food Service	Student Activity Fund	Building & Site Sinking Fund	
<u>Assets</u>					
Cash and Cash Equivalents	\$ 1,137,546	\$ 12,973	\$ 130,916	\$ 82,087	\$ 1,363,522
Receivables:					
Accounts, Net	19,837	0	0	0	19,837
Due from Other Governmental Units	654,317	79,927	0	0	734,244
Due from Other Funds	23,779	0	0	0	23,779
Inventory:					
Supplies	51,477	6,668	0	0	58,145
Prepaid Items	<u>23,760</u>	<u>4,014</u>	<u>0</u>	<u>0</u>	<u>27,774</u>
 Total Assets	 <u>\$ 1,910,716</u>	 <u>\$ 103,582</u>	 <u>\$ 130,916</u>	 <u>\$ 82,087</u>	 <u>\$ 2,227,301</u>
<u>Liabilities</u>					
Accounts Payable	\$ 115,411	\$ 1,312	\$ 2,513	\$ 76,713	\$ 195,949
Due to Other Governmental Units	1,490	0	0	0	1,490
Due to Other Funds	0	22,589	1,190	0	23,779
Payroll Deductions and Withholdings	308,747	530	0	0	309,277
Salaries Payable	485,660	1,251	0	0	486,911
Unearned Revenue	<u>79,917</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>79,917</u>
Total Liabilities	<u>991,225</u>	<u>25,682</u>	<u>3,703</u>	<u>76,713</u>	<u>1,097,323</u>
<u>Fund Equity</u>					
Fund Balances:					
Nonspendable:					
Inventory	51,477	6,668	0	0	58,145
Prepaid Items	23,760	4,014	0	0	27,774
Restricted For:					
Capital Projects	0	0	0	5,374	5,374
Committed To:					
Student Activities	0	0	127,213	0	127,213
Assigned To:					
Next Year's Budgeted Expenditures	125,282	0	0	0	125,282
USAC Contingency	81,226	0	0	0	81,226
Food Service	0	67,218	0	0	67,218
Unassigned	<u>637,746</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>637,746</u>
Total Fund Equity	<u>919,491</u>	<u>77,900</u>	<u>127,213</u>	<u>5,374</u>	<u>1,129,978</u>
 Total Liabilities and Fund Equity	 <u>\$ 1,910,716</u>	 <u>\$ 103,582</u>	 <u>\$ 130,916</u>	 <u>\$ 82,087</u>	 <u>\$ 2,227,301</u>

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

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
June 30, 2021

Total Governmental Fund Balances		\$ 1,129,978
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at the year end consist of:</p>		
Capital Asset Cost	\$ 18,518,616	
Capital Asset Accumulated Depreciation	<u>(9,581,485)</u>	8,937,131
Accrued interest on long-term liabilities		(5,241)
<p>Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the funds:</p>		
Deferred outflows of resources from pension expenses subsequent to the measurement date of net pension liability	3,320,043	
Deferred inflows of resources resulting from net pension liability	(645,103)	
Deferred outflows of resources from OPEB expenses subsequent to the measurement date of net OPEB liability	1,264,124	
Deferred inflows of resources resulting from net OPEB liability	<u>(1,792,677)</u>	2,146,387
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:</p>		
Compensated Absences Payable	(303,762)	
Early Retirement Incentive Payable	(24,925)	
Installment Purchases Payable	(192,497)	
Net Pension Liability	(14,530,149)	
Net OPEB Liability	<u>(2,338,968)</u>	<u>(17,390,301)</u>
Total Net Position - Governmental Activities		<u>\$ (5,182,046)</u>

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

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2021

	Other Governmental Funds				Total Governmental Funds
	General Fund	Special Revenue Funds	Student Activity Fund	Capital Project Fund	
	General Fund	Food Service	Student Activity Fund	Building & Site Sinking Fund	Total Governmental Funds
<u>Revenue</u>					
Local Sources	\$ 5,401,433	\$ 9,502	\$ 95,091	\$ 568,531	\$ 6,074,557
State Sources	2,421,011	40,864	0	0	2,461,875
Federal Sources	932,792	594,645	0	0	1,527,437
Interdistrict Sources	273,966	0	0	0	273,966
Total Revenue	<u>9,029,202</u>	<u>645,011</u>	<u>95,091</u>	<u>568,531</u>	<u>10,337,835</u>
<u>Expenditures</u>					
Current:					
Instruction	4,943,358	0	0	0	4,943,358
Support Services	3,356,572	0	0	0	3,356,572
Community Services	823	0	0	0	823
Food Services	0	542,328	0	0	542,328
Athletics	181,473	0	0	0	181,473
Student Activities	0	0	85,204	0	85,204
Outgoing Transfers to Other Districts	45,564	0	0	0	45,564
Capital Outlay	380,267	72,409	0	563,837	1,016,513
Debt Service:					
Principal Retirement	66,186	0	0	0	66,186
Interest and Fees on Long-Term Debt	7,908	0	0	0	7,908
Total Expenditures	<u>8,982,151</u>	<u>614,737</u>	<u>85,204</u>	<u>563,837</u>	<u>10,245,929</u>
Excess of Revenue Over (Under) Expenditures	<u>47,051</u>	<u>30,274</u>	<u>9,887</u>	<u>4,694</u>	<u>91,906</u>
<u>Other Financing Sources (Uses)</u>					
Disposal of Capital Assets	53,798	4,900	0	0	58,698
Operating Transfers In	12,000	0	0	0	12,000
Operating Transfers Out	0	(12,000)	0	0	(12,000)
Total Other Financing Sources (Uses)	<u>65,798</u>	<u>(7,100)</u>	<u>0</u>	<u>0</u>	<u>58,698</u>
Net Change in Fund Balance	112,849	23,174	9,887	4,694	150,604
Fund Balances - Beginning of Year	<u>806,642</u>	<u>54,726</u>	<u>117,326</u>	<u>680</u>	<u>979,374</u>
Fund Balances - End of Year	<u>\$ 919,491</u>	<u>\$ 77,900</u>	<u>\$ 127,213</u>	<u>\$ 5,374</u>	<u>\$ 1,129,978</u>

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

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2021

Total Net Change in Fund Balances - Governmental Funds	\$	150,604
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Depreciation Expense	\$ (490,166)	
Capital Outlay	<u>881,503</u>	391,337

Governmental funds report district pension and OPEB contributions as expenditures. However, in the statement of activities, the cost of pension and OPEB benefits earned, net of employee contributions, is reported as pension and OPEB expense. The following amounts represent the current year net changes:

Net Pension Liability	(977,069)	
Net OPEB Liability	582,563	
Actual Pension Contributions and the Cost of Benefits Earned, net of Employee Contributions	(439,907)	
Deferred Inflows on Net Pension Liability	367,824	
Actual OPEB Contributions and the Cost of Benefits Earned, net of Employee Contributions	363,825	
Deferred Amount on Net OPEB Liability	<u>(606,260)</u>	(709,024)

Repayment of the debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of repayments reported as expenditures in the governmental funds.

Installment Purchases Payable		66,186
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Expenses are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds. The effect of the treatment of these activities is as follows:

Interest	1,766	
Compensated Absences	<u>3,034</u>	<u>4,800</u>

Change in Net Position of Governmental Activities	\$	<u><u>(96,097)</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Alcona Community Schools (School District) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. The School District is considered to be a local government unit. The following is a summary of the significant accounting policies:

A. Reporting Entity

The School District operates under an elected School Board (seven members) and provides services to students in grades K-12. The Board is responsible for adopting and amending budgets and for administering the school programs in accordance with governing laws.

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District's reporting entity applies all relevant GASB pronouncements for determining the various governmental organizations to be included in the reporting entity. Alcona Community Schools' Board of Education (Board) is the primary government which has oversight responsibility and control over all activities related to public school education in the area served by the Alcona Community Schools. The Board receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. As such, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements since the Board members are a publicly elected governing body that has separate legal standing and is fiscally independent of other governmental entities.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental and fiduciary.

Governmental Funds

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the School District's major governmental fund:

General Fund - The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

The other governmental funds of the School District account for grants and other resources whose use is restricted for a particular purpose, and the acquisition or construction of major capital facilities.

C. Basis of Presentation

Government-wide Financial Statements:

The statement of net position and the statement of activities display information about the Agency as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the Agency that are governmental and those that are considered business-type activities. The Agency does not currently have any business-type activities.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

The government-wide statements are prepared using the economic resources measurement focus. This differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Net position is reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other purposes result from special revenue funds and the restrictions on their net position use. Restricted assets are used first to fund appropriations before unrestricted assets are used.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Fund Financial Statements:

Fund financial statements report detailed information about the School District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The nonmajor funds are shown individually under the "Other Governmental Funds" section.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenue, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available in advance, interest, tuition, grants, student fees and rentals.

Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

E. Cash and Cash Equivalents

During the fiscal year ended June 30, 2021, investments included the Michigan Liquid Asset Fund (MILAF). MILAF is an investment pool managed by PFM Asset Management, LLC, which allows school districts within the State of Michigan to pool their funds for investment purposes. Investments in MILAF are valued at cost which equals market value.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Cash and Cash Equivalents (Continued)

For presentation on the financial statements, investments in the cash management pools and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Receivables

Receivables generally consist of grants, state aid, and other. All receivables are net of estimated uncollectible accounts. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectability.

The allowance for doubtful accounts at June 30, 2021 was \$0.

G. Due From Other Governmental Units

This represents amounts receivable from the State of Michigan and other governmental units for federal, state and local reimbursable programs.

H. Prepaid Items

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

I. Inventory – Supplies

Inventory in both the government-wide financial statements and the governmental funds are stated at cost and expensed when used.

J. Capital Assets

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

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

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets (Continued)

<u>Descriptions</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	10 - 50 years
Site Improvements	5 - 20 years
Furniture, Fixtures and Equipment	4 - 20 years
Vehicles and Buses	8 years

K. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due from/to other funds". These amounts are eliminated in the governmental columns of the statement of net position.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. In general, payments made within 60 days after year end are considered to have been made with current available financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that will be paid from governmental funds are recognized as a liability in the fund financial statements when they become due for payment.

M. Compensated Absences

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made based on accumulated sick leave and wage rates at year-end, taking into consideration limits specified in the School District's termination policy.

The entire compensated absences liability is reported on the government-wide financial statements. For the governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported in the governmental fund financial statements.

No liability amounts were recorded in governmental fund statements, in accordance with GASB 33, due to the fact that there was a legally enforceable document that set a date for payment of vested benefits subsequent to June 30, 2021.

N. Net Pension Liability

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

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Postemployment Benefits Other Than Pensions

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

P. Net Position

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The School District reports three categories of net position as follows:

Net investment in capital assets - consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows of resources related to those assets.

Restricted net position - net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws or buyers of the School District's bonds. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted net position - consists of all other net position that does not meet the definition of the above two components and is available for general use by the School District.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, management applies restricted net position first, unless a determination is made to use unrestricted net position. The School District's policy concerning which to apply first varies with the intended use and legal requirements. Management typically makes this decision on a transactional basis at the incurrence of the expense.

Q. Fund Balances

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form—pre-paid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal school board action—the District's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the school board removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Fund Balances (Continued)

Assigned fund balance. This classification reflects the amounts constrained by the District's "intent" to be used for specific purposes, but are neither restricted nor committed. The school board or personnel authorized by the school board have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use externally restricted resources first, then unrestricted resources—committed, assigned, and unassigned—in order as needed.

R. Property Taxes

The School District levies its property taxes on July 1, and various municipalities collect its property taxes and remit them to the School District through February. The delinquent real property taxes of the School District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The County sells tax notes, the proceeds of which have been used to pay the School District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

S. Foundation Revenue

The State of Michigan has adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance 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 School District. For the year ended June 30, 2021, the foundation allowance was based on the average of the calendar years 2018, 2019, and 2020 blended pupil membership counts. The 2020 blended pupil membership used in that calculation was based on a super blend of the 2019-2020 (weighted 75%; based on the October 2019 (weighted 90%) and February 2019 (weighed 10%) pupil membership counts) and the 2020-2021 (weighted 25%; based on the October 2020 (weighted 90%) and February 2020 (weighted 10%) pupil membership counts) FTE blends.

The state portion of the foundation allowance is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation allowance is funded primarily by non-prequalified property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October, 2020 - August, 2021. The local revenue is recognized as outlined in Note 1 - Property Taxes.

T. State Categorical Revenue

The School 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. Categorical funds received which are not expended by the close of the fiscal year are recorded as unearned revenue.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

V. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended June 30, 2021.

W. Economic Dependency

The School District received approximately 24% of their revenue from the Michigan Department of Education. Due to the significance of this revenue source to the School District, the School District is considered to be economically dependent.

X. Use of Estimates

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 that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Y. Budgetary Policies and Data

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds and an informational study for Capital Project Funds of school districts prior to the expenditure of monies in a fiscal year in accordance with GAAP.

Alcona Community Schools follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The School District's Superintendent submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations.
4. Appropriations lapse at year-end and therefore cancel all encumbrances. These appropriations are re-established at the beginning of the following year.

Z. Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES

For 2022, the School District will be required to implement GASB Statement No. 87 "Leases". The objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the School District's deposits and investments were reported in the basic financial statements in the following categories:

Cash and Cash Equivalents \$ 1,363,522

The breakdown between deposits and investments is as follows:

	Primary Government
Bank Deposits (Checking, Savings and Money Market Accounts)	\$ 1,217,824
Investments in Pooled Funds and Repurchase Agreement Securities	<u>145,698</u>
Total	<u>\$ 1,363,522</u>

As of June 30, 2021, the School District had the following investments.

Investment Type	Fair Value	Specific Identification Maturities
Investment pools	\$ <u>145,698</u>	Daily

Interest Rate Risk

In accordance with its investment policy, the School 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 School District's cash requirements.

Credit Risk

State law authorizes investments in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district. As of June 30, 2021, the School District's investment in the MILAF investment pool was rated AAAM by Standard & Poor's and the District's repurchase agreement account at Huron Community Bank is unrated.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

The School District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the School 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. Investments in U.S. Treasury securities and those other securities completely guaranteed by the Treasury as to payment of principal and interest may be purchased in any dollar amount or up to 100% of the available reserve.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2021, \$743,894 of the School District's bank balance of \$1,270,058 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the School 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 School 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 approved in the District's Investment policy which is in accordance with State law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the School District will do business.

Foreign Currency Risk

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

Fair Value Measurements

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The School District has the following recurring fair value measurements as of June 30, 2021:

- Amounts invested in MILAF+ Portfolio of \$137,509. The MILAF+ Portfolio is not registered under Rule 2a-7 under the Investment Company Act of 1940. The money market securities are valued using amortized cost, which generally approximates the current fair value of the security. However, the value is not obtained from a quoted price in an active market. (Level 2 inputs)

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

NOTE 4 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables as of June 30, 2021 were as follows:

Due to	Due from
	Non-major Governmental Funds
General Fund	\$ <u>23,779</u>

These balances result from the time lag between the dates that interfund goods and services are provided, transactions are recorded in the accounting system, and payments between funds are made.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2021, was as follows:

	Balance July 1, 2020	Additions	Deletions	Balance June 30, 2021
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 204,400	\$ 0	\$ 0	\$ 204,400
Construction in Progress	<u>53,110</u>	<u>666,233</u>	<u>0</u>	<u>719,343</u>
Subtotal	<u>257,510</u>	<u>666,233</u>	<u>0</u>	<u>923,743</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	14,967,878	17,004	0	14,984,882
Site Improvements	815,954	0	0	815,954
Furniture, Fixtures and Equipment	416,505	16,720	0	433,225
Vehicles and Buses	<u>1,223,866</u>	<u>181,546</u>	<u>(44,600)</u>	<u>1,360,812</u>
Subtotal	<u>17,424,203</u>	<u>215,270</u>	<u>(44,600)</u>	<u>17,594,873</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(7,495,767)	(351,268)	0	(7,847,035)
Site Improvements	(537,700)	(40,937)	0	(578,637)
Furniture, Fixtures and Equipment	(266,599)	(19,283)	0	(285,882)
Vehicles and Buses	<u>(835,853)</u>	<u>(78,678)</u>	<u>44,600</u>	<u>(869,931)</u>
Subtotal	<u>(9,135,919)</u>	<u>(490,166)</u>	<u>44,600</u>	<u>(9,581,485)</u>
Capital Assets Being Depreciated	<u>8,288,284</u>	<u>(274,896)</u>	<u>0</u>	<u>8,013,388</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 8,545,794</u>	<u>\$ 391,337</u>	<u>\$ 0</u>	<u>\$ 8,937,131</u>

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

NOTE 5 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to activities of the School District as follows:

Governmental Activities

Instruction	\$ 270,550
Support Services	180,772
Community Services	42
Food Services	28,825
Athletics	<u>9,977</u>
	<u>\$ 490,166</u>

NOTE 6 - SHORT-TERM DEBT

The School District has various options for short-term financing including tax anticipation notes, state aid anticipation notes, and lines of credit.

The School District did not enter into any short-term financing arrangements during the fiscal year ending June 30, 2021.

NOTE 7 - LONG-TERM LIABILITIES

Long-term debt activity for the fiscal year ended June 30, 2021 was as follows:

A. Installment Purchases Payable

2016 Buses Installment Purchase Agreement	\$ 70,216
2017 Bus Installment Purchase Agreement	52,258
2018 Bus Installment Purchase Agreement	<u>70,023</u>
Total Installment Purchases Payable	<u>\$ 192,497</u>

The annual principal and interest requirements for long-term debt for the years after June 30, 2021 are as follows:

	<u>Government Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 68,143	\$ 5,951	\$ 74,094
2023	70,161	3,933	74,094
2024	35,677	1,855	37,532
2025	<u>18,516</u>	<u>718</u>	<u>19,234</u>
Total	<u>\$ 192,497</u>	<u>\$ 12,457</u>	<u>\$ 204,954</u>

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)

B. Detailed Long-Term Debt Disclosures

Direct Borrowing

2016 Buses Installment Purchase Agreement

On July 7, 2016, the District entered into an installment purchase agreement with Holland Bus Company in the amount of \$199,720 for the purchase of two school buses and related equipment, which was subsequently assigned to Huron Community Bank immediately following the purchase. The buses have been recorded as capital assets at their purchase price. This note is repayable in six annual installments of \$36,563 including interest at a rate of 2.75% on the unpaid balance. The District may make prepayments on the agreement in whole or in part at any time without penalty. The District shall include in its budget and pay each year, until the agreement is paid in full, such sums necessary each year to make the requirement payments when due.

2017 Bus Installment Purchase Agreement

On September 17, 2017, the District entered into an installment purchase agreement with Holland Bus Company in the amount of \$100,860 for the purchase of a school bus and related equipment, which was subsequently assigned to Huron Community Bank immediately following the purchase. The bus has been recorded as a capital asset at its purchase price. This note is repayable in six annual installments of \$18,297 including interest at a rate of 2.5% on the unpaid balance. The District may make prepayments on the agreement in whole or in part at any time without penalty. The District shall include in its budget and pay each year, until the agreement is paid in full, such sums necessary each year to make the requirement payments when due.

2018 Bus Installment Purchase Agreement

On September 17, 2018, the District entered into an installment purchase agreement with Holland Bus Company in the amount of \$101,238 for the purchase of a school bus and related equipment, which was subsequently assigned to Huron Community Bank immediately following the purchase. The bus has been recorded as a capital asset at its purchase price. This note is repayable in six annual installments of \$19,234 including interest at a rate of 3.875% on the unpaid balance. The District may make prepayments on the agreement in whole or in part at any time without penalty. The District shall include in its budget and pay each year, until the agreement is paid in full, such sums necessary each year to make the requirement payments when due.

C. Compensated Absences Payable

The School District has contracted obligations to compensate eligible employees for absences from work for sick leave. Eligible employees are allowed to accumulate sick leave and the amounts so accumulated are payable at retirement or resignation subject to contractual limitations based on years of service. Teachers may accumulate up to 180 days of sick leave of which 25% is payable upon retirement. Other employees are covered by similar agreements. The amount of accumulated sick pay liability for Alcona Community Schools was \$303,762 at June 30, 2021, of which \$46,502 was the estimated current portion.

D. Early Retirement Incentive Payable

The School District offers an early retirement incentive to certain teachers based on years of service and current wage scale payable over a five year period. The amount of retirement incentive liability for the School District at June 30, 2021 was \$24,925, of which \$0 was the estimated current portion.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)

E. Changes in Long-Term Liabilities

The following is a summary of long-term debt transactions of the School District for the year ended June 30, 2021:

<u>Governmental Activities</u>	<u>Balance</u> <u>July 1, 2020</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2021</u>	<u>Amount</u> <u>Due in</u> <u>One Year</u>
Direct Borrowing:					
Installment Purchases Payable	\$ 258,683	\$ 0	\$ (66,186)	\$ 192,497	\$ 68,143
Compensated Absences	306,796	0	(3,034) *	303,762	46,502
Early Retirement Incentive	<u>24,925</u>	<u>0</u>	<u>0</u>	<u>24,925</u>	<u>0</u>
Total Long-Term Liabilities	<u>\$ 590,404</u>	<u>\$ 0</u>	<u>\$ (69,220)</u>	<u>\$ 521,184</u>	<u>\$ 114,645</u>

*Represents net of additions and retirements for the year.

The interest expense on long-term obligations for the year was \$6,142.

Compensated absences for the governmental funds are generally liquidated by the General Fund.

NOTE 8 - UNEARNED REVENUE

Governmental funds and governmental activities defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of unearned revenue are as follows:

	<u>Unearned</u>
General Fund:	
At Risk	\$ 12,065
61b Early/Middle College Dual Enrollment	61,210
Entrepreneurial Grant	3,747
Other	<u>2,895</u>
Total	<u>\$ 79,917</u>

NOTE 9 - OPERATING TRANSFERS

During the year ended June 30, 2021, the following transfers were made:

	<u>Transfer from</u>
<u>Transfer to</u>	<u>Food Service Fund</u>
General Fund	<u>\$ 12,000</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

NOTE 10 - DEFINED BENEFIT PLAN

Plan Description

The Michigan Public School Employees' Retirement System (System or MPSERS) 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. The board consists of twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

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 for the System.

The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

Benefits Provided

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. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. 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.

A DB plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Contributions

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. 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 portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2019 valuation will be amortized over a 19-year period beginning October 1, 2019 and ending September 30, 2038.

The schedule below summarizes pension contribution rates in effect for fiscal year ended September 30, 2020.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

NOTE 10 - DEFINED BENEFIT PLAN (CONTINUED)

Pension Contribution Rates		
Benefit Structure	Member	Employer
Basic	0.0 - 4.0%	19.41%
Member Investment Plan	3.0 - 7.0	19.41
Pension Plus	3.0 - 6.4	16.46
Pension Plus 2	6.2	19.59
Defined Contribution	0.0	13.39

Required contributions to the pension plan from the School District were \$1,162,430 for the year ended September 30, 2020.

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

At June 30, 2021, the School District reported a liability of \$14,530,149 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2019. The School District's proportionate share of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2020, the School District's proportionate share percent was 0.04230%, which was an increase of 0.00137% from its proportion measured as of September 30, 2019.

For the year ended June 30, 2021, the School District recognized pension expense of \$2,204,570. At June 30, 2021, the School District 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
Differences between actual and expected experience	\$ 222,009	\$ 31,012
Change of assumptions	1,610,081	0
Net difference between projected and actual earnings on pension plan investments	61,049	0
Changes in proportion and differences between School District contributions and proportionate share of contributions	315,179	46,096
School District contributions subsequent to the measurement date	1,111,725	0
Total	\$ 3,320,043	\$ 77,108

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

NOTE 10 - DEFINED BENEFIT PLAN (CONTINUED)

In addition to the deferred inflows of resources noted above, the District also has \$567,995 in deferred inflows related to the 147(C) UAAL Stabilization allocation from the State of Michigan at year end.

\$543,730 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Deferred (Inflows) and Deferred Outflows of Resources by Year (To Be Recognized in Future Pension Expenses)</u>	
	<u>Amount</u>
2021	\$ 1,468,067
2022	674,337
2023	393,431
2024	<u>139,105</u>
	<u>\$ 2,674,940</u>

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

- λ Valuation Date: September 30, 2019
- λ Actuarial Cost Method: Entry Age, Normal
- λ Wage Inflation Rate: 2.75%
- λ Investment Rate of Return:
 - MIP and Basic Plans: 6.80%
 - Pension Plus Plan: 6.80%
 - Pension Plus 2 Plan: 6.00%
- λ Projected Salary Increases: 2.75 - 11.55%, including wage inflation at 2.75%
- λ Cost-of-Living Pension Adjustments: 3% Annual Non-Compounded for MIP Members

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

NOTE 10 - DEFINED BENEFIT PLAN (CONTINUED)

Mortality: For retirees: RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006. For active members: RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Notes:

- 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 annual pension valuations beginning with the September 30, 2017 valuation. The total pension liability as of September 30, 2020 is based on the results of an actuarial valuation date of September 30, 2019, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.4892
- λ Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2020 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Rate of Return On Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension 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. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2020, are summarized in the following table:

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return*</u>
Domestic Equity Pools	25.0%	5.6%
Private Equity Pools	16.0	9.3
International Equity Pools	15.0	7.4
Fixed Income Pools	10.5	0.5
Real Estate and Infrastructure Pools	10.0	4.9
Absolute Return Pools	9.0	3.2
Real Return/Opportunistic Pools	12.5	6.6
Short-Term Investment Pools	2.0	0.1
	<u>100.0%</u>	

*Long-term rates of return are net of administrative expenses and 2.3% inflation.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

NOTE 10 - DEFINED BENEFIT PLAN (CONTINUED)

Rate of Return

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

Discount Rate

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

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

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

1% Decrease 5.80% / 5.80% / 5.00%	Current Single Discount Rate Assumption 6.80% / 6.80% / 6.00%	1% Increase 7.80% / 7.80% / 7.00%
\$ 18,806,814	\$ 14,530,149	\$ 10,985,748

* Discount rates listed in the following order: Basic and Member Investment Plan (MIP), Pension Plus, and Pension Plus 2.

Michigan Public School Employees' Retirement System (MPERS) Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

Payables to the Michigan Public School Employees' Retirement System (MPERS)

At June 30, 2021, there were reported payables to MPERS of \$235,696, which accounts for the total outstanding contributions for all retirement plans, including the 147(C) UAAL Stabilization dollars.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description

The Michigan Public School Employees' Retirement System (System or MPSERS) 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. The board consists of twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System's health plan provides all eligible retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

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 for the System.

The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

Benefits Provided

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

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 were deposited into their 401(k) account.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Contributions

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

Employer OPEB 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 portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2019 valuation will be amortized over a 19-year period beginning October 1, 2019 and ending September 30, 2038.

The schedule below summarizes OPEB contribution rates in effect for fiscal year ended September 30, 2020.

OPEB Contribution Rates		
Benefit Structure	Member	Employer
Premium Subsidy	3.00%	8.09%
Personal Healthcare Fund (PHF)	0.00	7.57

Required contributions to the OPEB plan from the School District were \$308,467 for the year ended September 30, 2020.

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

At June 30, 2021, the School District reported a liability of \$2,338,968 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2019. The School District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2020, the School District's proportion was 0.04366%, which was an increase of 0.00296% from its proportion measured as of October 1, 2019.

For the year ended June 30, 2021, the School District recognized OPEB expense of \$(27,814). At June 30, 2021, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ 0	\$ 1,742,750
Changes of assumptions	771,204	0
Net difference between projected and actual earnings on OPEB plan investments	19,521	0
Changes in proportion and differences between School District contributions and proportionate share of contributions	231,885	49,927
School District contributions subsequent to the measurement date	241,514	0
Total	\$ 1,264,124	\$ 1,792,677

\$241,514 reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in pension expense as follows:

Deferred (Inflows) and Deferred Outflows of Resources by Year (To Be Recognized in Future OPEB Expenses)	
	Amount
2021	\$ 19,842
2022	(194,464)
2023	(155,230)
2024	(118,065)
2025	(80,636)
	\$ (528,553)

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

- λ Valuation Date: September 30, 2019
- λ Actuarial Cost Method: Entry Age, Normal
- λ Wage Inflation Rate: 2.75%
- λ Investment Rate of Return: 6.95%
- λ Projected Salary Increases: 2.75 - 11.55%, including wage inflation at 2.75%
- λ Healthcare Cost Trend Rate: 7.0% Year 1 graded to 3.5% Year 15; 3.0% Year 120

Mortality: For Retirees: RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006. For Active Members: RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

λ Other Assumptions:

- 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 coverages 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.

Notes:

- 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 annual OPEB valuations beginning with the September 30, 2017 valuation. The total OPEB liability as of September 30, 2020 is based on the results of an actuarial valuation date of September 30, 2017, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 5.6018
- λ Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2020 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Long-Term Expected Rate of Return On Plan Assets

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2019, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return*</u>
Domestic Equity Pools	25.0%	5.6%
Private Equity Pools	16.0	9.3
International Equity Pools	15.0	7.4
Fixed Income Pools	10.5	0.5
Real Estate and Infrastructure Pools	10.0	4.9
Absolute Return Pools	9.0	3.2
Real Return/Opportunistic Pools	12.5	6.6
Short-Term Investment Pools	2.0	(0.1)
	<u>100.0%</u>	

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

Rate of Return

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

Discount Rate

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

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

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

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

1% Decrease 5.95%	Current Discount Rate 6.95%	1% Increase 7.95%
\$ 3,004,671	\$ 2,338,968	\$ 1,778,503

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate

The following presents the School District's proportionate share of the net OPEB liability, calculated using assumed trend rates, as well as what the School District's proportionate share of the net OPEB liability would be if it were calculated using a trend rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
\$ 1,757,044	\$ 2,338,968	\$ 3,000,836

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2020 MPSERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

NOTE 12 - DEFERRED COMPENSATION PLANS

The School District offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code (IRC), Section 457. The assets of the plans are held in trust, in a custodial account as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof, for the exclusive benefit of the participants, holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the School District for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the School District's financial statements.

The School District offers its employees participation in the Tax-Deferred Payments (TDP) program through MPSERS. The program, available to all full-time employees who are members of the retirement system, permits them to defer a portion of their salary until future years for the purchase of additional years of service credit. Employees are eligible to voluntarily participate from the date of employment, however once an employee begins payments in the program, they must continue until completion of the purchase of the service credit or termination of employment from Alcona Community Schools. Payments into the program are vested once 10 years of service credit have been earned through the MPSERS. Employee contributions to the TDP program totaled \$3,200 for the year ended June 30, 2021.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

NOTE 12 - DEFERRED COMPENSATION PLAN (CONTINUED)

The School District also offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 403(b). The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. Employees are eligible to voluntarily participate from the date of employment and are vested immediately upon participation. Employee contributions to the Section 403(b) plan totaled \$92,265 for the year ended June 30, 2021. The assets of the plan are administered and held by 403(b) ASP, a third party administrator.

NOTE 13 - DEFINED CONTRIBUTION PLAN

Plan Description

The School District's defined contribution pension plan (DC) provides retirement benefits to plan members and beneficiaries. The plan covers employees hired on or after July 1, 2010. The plan is affiliated with the Michigan Public School Employee's Retirement System (MPERS) Pension Plus Plan of Michigan. Also effective February 2013, former Basic/MIP members could elect to participate in the defined benefit contribution pension plan. Public Act 300 of 1980 of the State of Michigan, as amended, assigns the authority to establish and amend benefit provisions to the MPERS Board. The plan services are provided by The Office of Retirement Services, exclusively through ING as the plan administrator. MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. The report may be obtained by writing to MPERS, 7150 Harris Drive, P.O. Box 30673, Lansing, Michigan 48909-8103.

Funding Policy

Prior to February 2013, the School District employees who were part of the PPP were required to contribute 2% of their earnings for the plan year, unless they elected out of the plan, subject to the limitations of sections 457 of the Internal Revenue Code. Employees could elect to contribute more than 2% in full percent increments. For employees that elected to participate, the employer would match 50% of the contribution up to 1%. Employer contributions were considered a section 401(a) contribution.

Beginning February 2013 and after, the rates vary depending on which plan the active member is a participant of. The School District employees that are part of the PPP with Premium Subsidy or a Personal Healthcare Fund (PHF) are not required to contribute. If they do contribute they can contribute in full percent increments and the employer will match 50% of the contribution up to 1%. For the PPP with PHF the employee and employer contribution is 2% for the PHF.

The following are the DC pension and PHF contribution requirements for each applicable plan option:

- For any new employees hired after September 3, 2012 that elect DC with PHF, the employer pension contribution is 3% and the employee contribution is 6%. For the PHF, both the employee and employer contribution is 2%.
- For Basic, Basic 4%, MIP-Fixed, MIP-Graded and MIP 7% plan members that elect the PHF, the employee and employer contributions are 2% for the PHF only.
- For former Basic/MIP members that elected DC with Premium Subsidy the employer contribution is 4% for the pension only. Employees are not required to contribute, but may, in 1% increments.
- For former Basic/MIP members that elected DC with a PHF, the employer contribution is 4% for the pension. Employees are not required to contribute for pension, but may, in 1% increments. Employee and employer contributions are 2% for the PHF.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

NOTE 13 - DEFINED CONTRIBUTION PLAN (CONTINUED)

Vesting

Employees become 100% vested after four years of service.

Plan Contributions

During the year ended June 30, 2021, the School District contributed \$42,533 on behalf of eligible employees. Employee contributions amounted to \$66,291 for eligible employees.

NOTE 14 - UNEMPLOYMENT COMPENSATION

The School District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the School District must reimburse the Employment Agency for all benefits charged against the School District. Accrued unemployment compensation was \$0 as of June 30, 2021.

NOTE 15 - SINKING FUND

The Sinking Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the revised bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.

NOTE 16 - RISK MANAGEMENT

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

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 17 - GOVERNMENTAL REGULATION

Substantially all of the School District's facilities are subject to federal, state and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does the School District expect such compliance to have, any material effect upon the capital expenditures, net revenue in excess of expenditures or financial condition of the School District. Management believes that its current practices and procedures for the control and disposition of such wastes comply with applicable federal and state requirements.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2021

NOTE 18 - COMMITMENTS

The School District had commitments in the amount of \$825,066 outstanding at June 30, 2021. The commitments are summarized in the following table:

Project	Total Contract	Remaining Contractual Commitment at June 30, 2021	Contract Payable at June 30, 2021
HVAC Controls Project (Ionization) - Control Solutions, Inc.	\$ 56,445	\$ 56,445	\$ 0
Window Replacement Project - Kasco Construction	715,000	593,962	121,038
Window Coating (Security Film) - Michigan Glass Coating, Inc.	96,935	96,935	0
Fiber Connection Project - Fiber Link, Inc.	38,074	38,074	0
Keyless Entry Project - Control Solutions, Inc.	<u>39,650</u>	<u>39,650</u>	<u>0</u>
	<u>\$ 946,104</u>	<u>\$ 825,066</u>	<u>\$ 121,038</u>

R.S. Scott Associates, Inc. is being retained for architectural services related to the Window Replacement Project and the Window Coating (Security Film) Project at a fee of 8% of the projects' cost.

On June 14, 2021, the School District also entered into an agreement with Cornerstone Architects to be the architect for Sinking Fund and ESSER school construction projects for the 2022 - 2025 school years at 6.8% of the project costs.

NOTE 19 - CONTINGENCIES

The School District participates in a number of federally assisted grant programs which are subject to program compliance audits. The audits of these programs for and including the year ended June 30, 2021, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the School District expects such amounts, if any, to be immaterial.

The School District currently has threatened litigation, the results of which are too premature to determine at the present time.

The School District received letters from the Universal Service Administrative Company ("USAC") which claim that the School District and one of its internet service providers violated competitive bidding rules. The USAC is seeking to recover \$8,997 for Fiscal Year 1998 and \$72,229 for Fiscal Year 1999. USAC could try to collect the entire amount from the School District or a portion of the amount listed. Management has hired Thrun Law Firm (Lansing, MI) and Pillsbury Winthrop Shaw Pittman LLP (Washington, DC) to help file an appeal with USAC and the Federal Communications Commission. If the appeal process is not satisfactory, the School District will likely pursue legal remedies against the internet provider.

REQUIRED SUPPLEMENTARY INFORMATION

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
(Amounts were determined as of 9/30 of the fiscal year)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
School District's proportion of net pension liability (%)	0.04230 %	0.04093 %	0.04101 %	0.04077 %	0.04105 %	0.04058 %	0.04118 %
School District's proportionate share of net pension liability	\$ 14,530,149	\$ 13,553,080	\$ 12,328,070	\$ 10,565,067	\$ 10,242,250	\$ 9,912,560	\$ 9,070,380
School District's covered payroll	\$ 3,873,477	\$ 3,556,441	\$ 3,530,133	\$ 3,415,723	\$ 3,480,100	\$ 3,389,583	\$ 3,564,653
School District's proportionate share of net pension liability as a percentage of its covered payroll	375.12 %	381.09 %	349.22 %	309.31 %	294.31 %	292.44 %	254.45 %
Plan fiduciary net position as a percentage of pension liability	59.72 %	60.31 %	62.36 %	64.21 %	63.27 %	63.17 %	66.20 %

Notes to the Schedule of the School District's Proportionate Share of the Net Pension Liability:

Changes of benefit terms: There were no changes of benefit terms in 2020.

Changes of assumptions: There were no changes of benefit assumptions in 2020.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

SCHEDULE OF THE SCHOOL DISTRICT'S PENSION CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
(Amounts determined as of 6/30 of each year)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 1,284,259	\$ 1,150,575	\$ 1,079,295	\$ 1,047,087	\$ 943,225	\$ 933,643	\$ 783,003
Contributions in relation to statutorily required contributions*	<u>1,284,259</u>	<u>1,150,575</u>	<u>1,079,295</u>	<u>1,047,087</u>	<u>943,225</u>	<u>933,643</u>	<u>783,003</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School District's covered payroll	\$ 3,844,783	\$ 3,833,061	\$ 3,529,896	\$ 3,544,305	\$ 3,351,862	\$ 3,354,965	\$ 3,508,980
Contributions as a percentage of covered payroll	33.40 %	30.02 %	30.58 %	29.54 %	28.14 %	27.83 %	22.31 %

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

Notes to the Schedule of the School District's Contributions:

Changes of benefit terms: There were no changes of benefit terms in 2020.

Changes of benefit assumptions: There were no changes of benefit assumptions in 2020.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
(Amounts were determined as of 9/30 of the fiscal year)

	<u>2021</u>		<u>2020</u>		<u>2019</u>		<u>2018</u>
School District's proportion of net OPEB liability (%)	0.04366 %		0.04070 %		0.04148 %		0.04097 %
School District's proportionate share of net OPEB liability	\$ 2,338,968	\$	2,921,531	\$	3,297,243	\$	3,628,237
School District's covered payroll (OPEB)	\$ 3,873,477	\$	3,556,441	\$	3,530,133	\$	3,415,723
School District's proportionate share of net OPEB liability as a percentage of its covered payroll	60.38 %		82.15 %		93.40 %		106.22 %
Plan fiduciary net position as a percentage of total OPEB liability	59.44 %		48.46 %		42.95 %		36.39 %

Notes to the Schedule of the School District's Proportionate Share of the Net OPEB Liability:

Changes of benefit terms: There were no changes of benefit terms in 2020.

Changes of benefit assumptions: There were no changes of benefit assumptions in 2020.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

SCHEDULE OF THE SCHOOL DISTRICT'S OPEB CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
(Amounts determined as of 6/30 of each year)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily required OPEB contributions	\$ 313,576	\$ 302,923	\$ 276,005	\$ 256,673
OPEB contributions in relation to statutorily required contributions*	<u>313,576</u>	<u>302,923</u>	<u>276,005</u>	<u>256,673</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School District's covered payroll (OPEB)	\$ 3,844,783	\$ 3,833,061	\$ 3,529,896	\$ 3,544,305
OPEB contributions as a percentage of covered payroll	8.16 %	7.90 %	7.82 %	7.24 %

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

Notes to the Schedule of the School District's Contributions:

Changes of benefit terms: There were no changes of benefit terms in 2020.

Changes of benefit assumptions: There were no changes of benefit assumptions in 2020.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2021

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>				
Local Sources	\$ 5,489,571	\$ 5,389,782	\$ 5,401,433	\$ 11,651
State Sources	1,690,120	2,420,804	2,421,011	207
Federal Sources	305,115	976,339	932,792	(43,547)
Interdistrict Sources	<u>210,000</u>	<u>271,430</u>	<u>273,966</u>	<u>2,536</u>
Total Revenue	<u>7,694,806</u>	<u>9,058,355</u>	<u>9,029,202</u>	<u>(29,153)</u>
<u>Expenditures</u>				
Current:				
Instruction	4,304,185	5,066,281	4,943,358	122,923
Support Services	3,116,011	3,446,057	3,356,572	89,485
Community Services	2,000	2,000	823	1,177
Athletics	187,020	186,025	181,473	4,552
Outgoing Transfers to Other Districts	31,492	46,459	45,564	895
Capital Outlay	135,000	371,104	380,267	(9,163)
Debt Service:				
Principal Retirement	66,186	66,211	66,186	25
Interest and Fees on Long-Term Debt	<u>7,908</u>	<u>7,885</u>	<u>7,908</u>	<u>(23)</u>
Total Expenditures	<u>7,849,802</u>	<u>9,192,022</u>	<u>8,982,151</u>	<u>209,871</u>
Excess of Revenue Over (Under) Expenditures	<u>(154,996)</u>	<u>(133,667)</u>	<u>47,051</u>	<u>180,718</u>
<u>Other Financing Sources (Uses)</u>				
Installment Purchase Proceeds	81,000	0	0	0
Disposal of Capital Assets	0	57,750	53,798	(3,952)
Operating Transfers In	<u>22,715</u>	<u>26,633</u>	<u>12,000</u>	<u>(14,633)</u>
Total Other Financing Sources (Uses)	<u>103,715</u>	<u>84,383</u>	<u>65,798</u>	<u>(18,585)</u>
Net Change in Fund Balance	(51,281)	(49,284)	112,849	162,133
Fund Balances - Beginning of Year	<u>806,642</u>	<u>806,642</u>	<u>806,642</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 755,361</u>	<u>\$ 757,358</u>	<u>\$ 919,491</u>	<u>\$ 162,133</u>

OTHER INFORMATION

INDIVIDUAL FUND SCHEDULES

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

GENERAL FUND
DETAILS OF REVENUE COMPARED TO BUDGET
For the Year Ended June 30, 2021
With Comparative Totals for the Year Ended June 30, 2020

	2021 Amended Budget	2021 Actual	2020 Actual
<u>Local Sources</u>			
Current Property Taxes	\$ 5,004,426	\$ 5,004,197	\$ 4,985,603
Transportation Fees	3,000	3,000	4,500
Gate Receipts	15,406	14,281	43,958
Interest on Investments	4,500	4,312	26,231
Donations	9,750	16,250	8,000
Medicaid Fee for Service	2,910	2,910	3,508
Mental Health Grants	49,000	59,975	49,727
Logging Proceeds	0	0	108,796
Other Local Sources	300,790	296,508	281,956
	5,389,782	5,401,433	5,512,279
<u>State Sources</u>			
State Aid Foundation Allowance	811,980	811,816	649,845
Special Education	16,727	16,728	15,016
At Risk	343,027	344,075	361,404
Great Start Readiness Program	116,500	113,416	0
Vocational Education	18,174	18,174	18,035
Technology Infrastructure	8,822	7,663	7,998
Marshall Plan Grant	103,211	80,568	120,622
First Robotics Grant	0	0	16,200
School Safety Grant	0	0	247,519
Mental Health Grants	200,692	203,346	171,302
MPSERS Offset	135,275	163,829	151,592
MPSERS UAAL Rate Stabilization	567,995	567,995	448,183
Other State Revenues	98,401	93,401	168,363
	2,420,804	2,421,011	2,376,079
<u>Federal Sources</u>			
Title I Part A	280,488	280,488	201,600
Title II Part A	39,226	39,226	35,887
Title II - Perkins Grant	11,228	10,547	11,000
Title IV Part A	15,139	15,139	15,068
Title V Part B	12,668	12,668	14,112
Medicaid Outreach	2,565	2,564	1,944
Schools and Roads Grant Funds	30,000	29,855	47,552
ESSER Funding	0	0	170,024
ESSER II Funding	229,705	186,988	0
Coronavirus Relief Fund	242,452	242,452	0
GEER Funds	44,694	44,694	0
CDBG Grant	34,865	34,864	0
Other COVID-19 Grants	33,309	33,307	0
	976,339	932,792	497,187
<u>Interdistrict Sources</u>			
Special Education and Other Programs	271,430	265,853	201,856
Transportation	0	8,113	5,149
	271,430	273,966	207,005
<u>Other Financing Sources</u>			
Disposal of Capital Assets	57,750	53,798	700
Operating Transfers In	26,633	12,000	12,582
	84,383	65,798	13,282
Total Revenue and Other Financing Sources	\$ 9,142,738	\$ 9,095,000	\$ 8,605,832

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2021
With Comparative Totals for the Year Ended June 30, 2020

	<u>2021 Amended Budget</u>	<u>2021 Actual</u>	<u>2020 Actual</u>
<u>Instruction</u>			
Basic Programs:			
Elementary			
Salaries	\$ 934,714	\$ 907,707	\$ 928,278
Employee Benefits	718,298	707,973	673,766
Purchased Services	58,250	55,676	53,143
Supplies, Materials and Other	<u>65,689</u>	<u>49,610</u>	<u>57,731</u>
	<u>1,776,951</u>	<u>1,720,966</u>	<u>1,712,918</u>
High School			
Salaries	985,170	982,806	1,028,702
Employee Benefits	743,300	742,356	698,781
Purchased Services	401,792	380,576	227,660
Supplies, Materials and Other	<u>36,917</u>	<u>26,019</u>	<u>44,155</u>
	<u>2,167,179</u>	<u>2,131,757</u>	<u>1,999,298</u>
Preschool			
Salaries	56,537	56,490	0
Employee Benefits	42,905	45,639	0
Purchased Services	1,250	610	0
Supplies, Materials and Other	<u>15,808</u>	<u>10,680</u>	<u>150</u>
	<u>116,500</u>	<u>113,419</u>	<u>150</u>
Summer School			
Salaries	4,005	4,005	885
Employee Benefits	971	977	411
Purchased Services	<u>970</u>	<u>968</u>	<u>0</u>
	<u>5,946</u>	<u>5,950</u>	<u>1,296</u>
Total Basic Programs	<u>4,066,576</u>	<u>3,972,092</u>	<u>3,713,662</u>
Added Needs:			
Special Education			
Salaries	252,181	248,002	367,757
Employee Benefits	179,114	175,122	280,624
Purchased Services	51,700	52,225	35,249
Supplies, Materials and Other	<u>4,500</u>	<u>3,116</u>	<u>3,097</u>
	<u>487,495</u>	<u>478,465</u>	<u>686,727</u>
Compensatory Education			
Salaries	132,290	132,073	86,981
Employee Benefits	119,312	119,976	59,972
Purchased Services	<u>2,268</u>	<u>0</u>	<u>0</u>
	<u>253,870</u>	<u>252,049</u>	<u>146,953</u>

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2021
With Comparative Totals for the Year Ended June 30, 2020

	<u>2021 Amended Budget</u>	<u>2021 Actual</u>	<u>2020 Actual</u>
<u>Instruction (Continued)</u>			
Added Needs: (Continued)			
Vocational Education			
Salaries	\$ 97,459	\$ 95,357	\$ 80,060
Employee Benefits	78,746	78,286	52,515
Purchased Services	23,350	18,205	28,962
Supplies, Materials and Other	58,785	48,904	59,513
	<u>258,340</u>	<u>240,752</u>	<u>221,050</u>
 Total Added Needs	 <u>999,705</u>	 <u>971,266</u>	 <u>1,054,730</u>
 Total Instruction	 <u>5,066,281</u>	 <u>4,943,358</u>	 <u>4,768,392</u>
<u>Support Services</u>			
Pupil Services:			
Guidance Services			
Salaries	111,385	114,048	104,515
Employee Benefits	80,563	82,660	73,202
Purchased Services	1,150	249	709
Supplies, Materials and Other	2,000	1,265	0
	<u>195,098</u>	<u>198,222</u>	<u>178,426</u>
 Health Services			
Salaries	53,540	53,540	52,000
Employee Benefits	40,462	40,215	38,423
Purchased Services	262,955	237,195	199,040
Supplies, Materials and Other	13,002	8,053	33,498
	<u>369,959</u>	<u>339,003</u>	<u>322,961</u>
 Psychological Services			
Purchased Services	27,642	27,642	0
 Other Pupil Services			
Employee Benefits	2,252	2,251	1,489
Purchased Services	33,270	33,270	46,157
	<u>35,522</u>	<u>35,521</u>	<u>47,646</u>
 Total Pupil Services	 <u>628,221</u>	 <u>600,388</u>	 <u>549,033</u>
Instructional Staff:			
Instructional Improvement			
Salaries	46,401	47,586	74,734
Employee Benefits	32,055	33,609	54,021
Purchased Services	2,000	1,419	1,731
	<u>80,456</u>	<u>82,614</u>	<u>130,486</u>
 Instruction Related Technology			
Purchased Services	63,899	70,790	33,695
Supplies, Materials and Other	208,080	161,161	171,783
	<u>271,979</u>	<u>231,951</u>	<u>205,478</u>
 Total Instructional Staff	 <u>352,435</u>	 <u>314,565</u>	 <u>335,964</u>

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2021
With Comparative Totals for the Year Ended June 30, 2020

	<u>2021 Amended Budget</u>	<u>2021 Actual</u>	<u>2020 Actual</u>
<u>Support Services (Continued)</u>			
General Administration:			
Board of Education			
Salaries	\$ 4,000	\$ 3,694	\$ 3,192
Employee Benefits	310	286	248
Purchased Services	67,500	62,754	51,643
Supplies, Materials and Other	<u>500</u>	<u>102</u>	<u>0</u>
	<u>72,310</u>	<u>66,836</u>	<u>55,083</u>
Executive Administration			
Salaries	120,555	120,920	113,775
Employee Benefits	64,834	63,613	58,858
Purchased Services	6,800	5,658	7,278
Supplies, Materials and Other	<u>500</u>	<u>150</u>	<u>0</u>
	<u>192,689</u>	<u>190,341</u>	<u>179,911</u>
Total General Administration	<u>264,999</u>	<u>257,177</u>	<u>234,994</u>
School Administration:			
Office of the Principal			
Salaries	242,175	246,361	248,742
Employee Benefits	158,087	159,159	162,606
Purchased Services	6,600	3,776	6,698
Supplies, Materials and Other	<u>9,500</u>	<u>8,914</u>	<u>8,521</u>
	<u>416,362</u>	<u>418,210</u>	<u>426,567</u>
Business:			
Fiscal Services			
Salaries	92,350	92,640	88,564
Employee Benefits	79,035	77,825	72,515
Purchased Services	44,600	43,956	44,968
Supplies, Materials and Other	11,500	10,324	13,500
Repairs and Maintenance	16,750	16,505	10,199
Other Expenditures	<u>16,000</u>	<u>13,643</u>	<u>13,143</u>
	<u>260,235</u>	<u>254,893</u>	<u>242,889</u>
Operations and Maintenance:			
Salaries	260,100	272,649	222,048
Employee Benefits	193,978	199,705	141,826
Purchased Services	138,145	139,236	167,829
Supplies, Materials and Other	<u>228,250</u>	<u>226,708</u>	<u>186,869</u>
	<u>820,473</u>	<u>838,298</u>	<u>718,572</u>
Transportation			
Salaries	242,350	242,967	235,993
Employee Benefits	173,637	175,002	188,385
Purchased Services	9,550	7,266	9,770
Supplies, Materials and Other	<u>67,300</u>	<u>61,634</u>	<u>66,511</u>
	<u>492,837</u>	<u>486,869</u>	<u>500,659</u>

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2021
With Comparative Totals for the Year Ended June 30, 2020

	<u>2021 Amended Budget</u>	<u>2021 Actual</u>	<u>2020 Actual</u>
<u>Support Services (Continued)</u>			
Central Services:			
Technology			
Salaries	\$ 51,741	\$ 50,087	\$ 46,606
Employee Benefits	39,879	38,515	35,508
Purchased Services	115,194	96,693	74,182
Supplies, Materials and Other	<u>3,681</u>	<u>877</u>	<u>48,052</u>
	<u>210,495</u>	<u>186,172</u>	<u>204,348</u>
Other Instructional Staff Services			
Salaries	0	0	1,019
Employee Benefits	<u>0</u>	<u>0</u>	<u>510</u>
	<u>0</u>	<u>0</u>	<u>1,529</u>
Total Central Services	<u>210,495</u>	<u>186,172</u>	<u>205,877</u>
Total Support Services	<u>3,446,057</u>	<u>3,356,572</u>	<u>3,214,555</u>
<u>Community Services</u>			
Other Community Services:			
Other Expenditures	<u>2,000</u>	<u>823</u>	<u>1,816</u>
<u>Athletics</u>			
Salaries	90,100	89,814	83,149
Employee Benefits	44,825	47,419	40,916
Equipment and Supplies	7,250	8,516	2,245
Purchased Services	29,100	24,435	39,284
Repairs and Maintenance	3,000	2,326	4,929
Other Expenditures	<u>11,750</u>	<u>8,963</u>	<u>9,856</u>
Total Athletics	<u>186,025</u>	<u>181,473</u>	<u>180,379</u>
<u>Outgoing Transfers to Other Districts</u>			
Payments to Other Public School Districts	<u>46,459</u>	<u>45,564</u>	<u>37,519</u>
<u>Capital Outlay</u>			
Instruction	66,900	59,277	23,260
Support Services	304,204	320,990	398,118
Athletics	<u>0</u>	<u>0</u>	<u>13,391</u>
Total Capital Outlay	<u>371,104</u>	<u>380,267</u>	<u>434,769</u>
<u>Debt Service</u>			
Principal Retirement	66,211	66,186	64,286
Interest and Fees on Long-Term Debt	<u>7,885</u>	<u>7,908</u>	<u>9,809</u>
Total Debt Service	<u>74,096</u>	<u>74,094</u>	<u>74,095</u>
Total Expenditures and Other Financing Uses	<u>\$ 9,192,022</u>	<u>\$ 8,982,151</u>	<u>\$ 8,711,525</u>



Stephenson & Company, P.C.
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Donald W. Brannan, CPA
Kyle E. Troyer, CPA
Robert J. Morand, CPA
Brenden A. Stephenson, CPA/PFS, CFP®
Cynthia R. Scott, CPA, CFE

ALCONA COMMUNITY SCHOOLS
ALCONA COUNTY, MICHIGAN

SINGLE AUDIT REPORTS
YEAR ENDED JUNE 30, 2021

INDEX

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	1 - 2
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	3 - 4
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	5
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	6-9
<u>DISTRICT PREPARED DOCUMENTS</u>	
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS	



Stephenson & Company, P.C.
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Alan J. Stephenson, CPA
Donald W. Brannan, CPA
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Robert J. Morand, CPA
Brenden A. Stephenson, CPA/PFS, CFP®
Cynthia R. Scott, CPA, CFE

September 24, 2021

INDEPENDENT AUDITORS' 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
Alcona Community Schools
Alcona County, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Alcona Community Schools as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Alcona Community Schools' basic financial statements and have issued our report thereon dated September 24, 2021.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Board of Education
Alcona Community Schools
September 24, 2021
Page Two

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.

Stephenson & Company, P.C.



Stephenson & Company, P.C.
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Donald W. Brannan, CPA
Kyle E. Troyer, CPA
Robert J. Morand, CPA
Brenden A. Stephenson, CPA/PFS, CFP®
Cynthia R. Scott, CPA, CFE

September 24, 2021

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

Board of Education
Alcona Community Schools
Alcona County, Michigan

Report on Compliance for Each Major Federal Program

We have audited Alcona Community Schools' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Alcona Community Schools' major federal programs for the year ended June 30, 2021. Alcona Community Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Alcona Community Schools' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Alcona Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Alcona Community Schools' compliance.

Opinion on Each Major Federal Program

In our opinion, Alcona Community Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

Management of Alcona Community Schools is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Alcona Community Schools' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Alcona Community Schools' internal control over compliance.

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

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

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

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

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Alcona Community Schools as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Alcona Community Schools' basic financial statements. We issued our report thereon dated September 24, 2021, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the Uniform Guidance, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Stephenson & Company, P.C.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2021

Summary of Auditors' Results

1. The auditors' report expresses unmodified opinions on the financial statements of Alcona Community Schools.
2. No material weaknesses in internal control relating to the audit of the financial statements are reported in the Independent Auditors' 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*.
3. No instances of noncompliance material to the financial statements of Alcona Community Schools, which are required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No material weaknesses relating to the audit of internal control over major federal award programs are reported in the Independent Auditors' Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.
5. The auditors' report on compliance for the major federal award programs for Alcona Community Schools expresses an unmodified opinion.
6. No audit findings relative to the major federal award programs for Alcona Community Schools are reported in this schedule.
7. The programs tested as major programs included: Child Nutrition Cluster, CFDA #10.553, 10.555, 10.556, 10.559, 10.579; Coronavirus Aid, Relief, and Economic Security Act, CFDA #84.425C, 84.425D
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. Alcona Community Schools does not qualify as a low-risk auditee.

Findings - Financial Statement Audit

There were no findings related to the financial statements which were required to be reported in accordance with generally accepted government auditing standards for the year ended June 30, 2021.

Findings and Questioned Costs - Major Federal Award Programs Audit

There were no findings or questioned costs related to the major federal award program audit for the year ended June 30, 2021.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2021

Federal Grantor or Pass Through Grantor Program Title / Grant Number	Federal CFDA Number	Approved Grant Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2020	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2021
U.S. Department of Agriculture							
Passed through the Michigan Department of Education:							
Child Nutrition Cluster:							
Non-Cash Assistance (Commodities):							
Food Distribution							
55030 Entitlement Commodities	10.555	\$ 18,003	\$ 0	\$ 0	\$ 18,003	\$ 18,003	\$ 0
Cash Assistance:							
Summer Food Service Program							
COVID19 (Unanticipated Grant Payments) 200902 2019-2020	10.555	257,784	251,087	126,993	6,697	133,690	0
Summer Food Service Program for Children							
SFSP Operating							
200900 2019-2020	10.559	114,333	0	0	114,333	114,333	0
210904 2020-2021		405,612	0	0	405,612	329,212	76,400
		<u>519,945</u>	<u>0</u>	<u>0</u>	<u>519,945</u>	<u>443,545</u>	<u>76,400</u>
Food Equipment Grant							
191991 EAG2021	10.579	50,000	0	0	50,000	50,000	0
<i>Cash Assistance Subtotal</i>							
		<u>827,729</u>	<u>251,087</u>	<u>126,993</u>	<u>576,642</u>	<u>627,235</u>	<u>76,400</u>
Total Child Nutrition Cluster							
		<u>845,732</u>	<u>251,087</u>	<u>126,993</u>	<u>594,645</u>	<u>645,238</u>	<u>76,400</u>
Passed through Alcona County:							
Schools and Roads Grants Funds - 2021	10.665	29,855	0	0	29,855	29,855	0
Total U.S. Department of Agriculture							
		<u>875,587</u>	<u>251,087</u>	<u>126,993</u>	<u>624,500</u>	<u>675,093</u>	<u>76,400</u>
U.S. Department of Housing & Urban Development							
Passed through Alcona County:							
Community Development Block Grant							
MSC 220026-CVI	14.228	34,864	0	0	34,864	34,864	0

The accompanying notes are an integral part of this schedule.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2021

Federal Grantor or Pass Through Grantor Program Title / Grant Number	Federal CFDA Number	Approved Grant Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2020	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2021
U.S. Department of Treasury							
Passed through the Michigan Department of Education:							
Coronavirus Relief Funds (COVID-19)							
Coronavirus Relief Funds 2019-2020	21.019	\$ 242,452	\$ 0	\$ 0	\$ 242,452	\$ 242,452	\$ 0
District COVID-19 Costs 2019-2020		8,534	0	0	8,534	8,534	0
		<u>250,986</u>	<u>0</u>	<u>0</u>	<u>250,986</u>	<u>250,986</u>	<u>0</u>
Passed through Copper ISD:							
Coronavirus Relief Funds (COVID-19)							
MAISA Device Purchasing Program/Distance Learning Grant	21.019	24,773	0	0	24,773	24,773	0
		<u>275,759</u>	<u>0</u>	<u>0</u>	<u>275,759</u>	<u>275,759</u>	<u>0</u>
Total U.S. Department of Treasury							
U.S. Department of Education							
Passed through the Michigan Department of Education:							
Title I - Grants to Local Educational Agencies							
201530 2019-2020	84.010	207,751	201,600	45,122	0	45,122	0
211530 2020-2021		280,488	0	0	280,488	207,800	72,688
		<u>488,239</u>	<u>201,600</u>	<u>45,122</u>	<u>280,488</u>	<u>252,922</u>	<u>72,688</u>
Passed through Alpena Schools:							
Perkins Grant 2020 -2021	84.048	10,547	0	0	10,547	10,547	0
Passed through the Michigan Department of Education:							
Title V, Part B - Rural Education Achievement Program							
200660 2019-2020	84.358B	14,112	14,112	3,546	0	3,546	0
210660 2020-2021		12,668	0	0	12,668	9,467	3,201
		<u>26,780</u>	<u>14,112</u>	<u>3,546</u>	<u>12,668</u>	<u>13,013</u>	<u>3,201</u>
Passed through the Michigan Department of Education:							
Title II - Improving Teacher Quality							
200520 2019-2020	84.367	35,887	35,887	9,185	0	9,185	0
210520 2020-2021		39,226	0	0	39,226	28,812	10,414
		<u>75,113</u>	<u>35,887</u>	<u>9,185</u>	<u>39,226</u>	<u>37,997</u>	<u>10,414</u>

The accompanying notes are an integral part of this schedule.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2021

Federal Grantor or Pass Through Grantor Program Title / Grant Number	Federal CFDA Number	Approved Grant Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2020	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2021
U.S. Department of Education (Continued)							
Passed through the Michigan Department of Education:							
Title IV Part A - Student Support and Academic Enrichment							
200750 2019-2020	84.424	\$ 15,068	\$ 15,068	\$ 3,779	\$ 0	\$ 3,779	\$ 0
210750 2020-2021		15,139	0	0	15,139	11,225	3,914
		<u>30,207</u>	<u>15,068</u>	<u>3,779</u>	<u>15,139</u>	<u>15,004</u>	<u>3,914</u>
Coronavirus Aid, Relief, and Economic Security Act (COVID-19)							
Passed through the Michigan Department of Education:							
GEER Funding 201200 2021							
	84.425C	44,694	0	0	44,694	44,694	0
Passed through the Michigan Department of Education:							
ESSER I 203710 2019-2020							
	84.425D	170,024	170,024	25,716	0	25,716	0
ESSER II 203710 2019-2020							
		414,101	0	0	186,988	184,960	2,028
		<u>584,125</u>	<u>170,024</u>	<u>25,716</u>	<u>186,988</u>	<u>210,676</u>	<u>2,028</u>
Total Coronavirus Aid, Relief, and Economic Security Act		<u>628,819</u>	<u>170,024</u>	<u>25,716</u>	<u>231,682</u>	<u>255,370</u>	<u>2,028</u>
Total U.S. Department of Education		<u>1,259,705</u>	<u>436,691</u>	<u>87,348</u>	<u>589,750</u>	<u>584,853</u>	<u>92,245</u>
U.S. Department of Health and Human Services							
Passed through Alpena-Montmorency-Alcona Educational Service District as Fiscal Agent:							
Medical Assistance Program Title XIX:							
Medicaid Outreach Claims 2020-2021							
	93.778	2,564	0	0	2,564	2,564	0
Total Federal Financial Awards		<u>\$ 2,448,479</u>	<u>\$ 687,778</u>	<u>\$ 214,341</u>	<u>\$ 1,527,437</u>	<u>\$ 1,573,133</u>	<u>\$ 168,645</u>

The accompanying notes are an integral part of this schedule.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2021

Note 1 - Basis of Presentation

A. The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Alcona Community Schools under programs of the federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Alcona Community Schools, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Alcona Community Schools.

Note 2 - Summary of Significant Accounting Policies

- A. The Schedule of Expenditures of Federal Awards is a summary of the cash activity of the Organization's federal awards and does not present transactions that would be included in financial statements of the Organization presented on the accrual basis of accounting, as contemplated by accounting principles generally accepted in the United States of America.
- B. Expenditures on this schedule reconcile with amounts reported in the financial statements and the financial reports submitted to the Michigan Department of Education.
- C. The amounts reported on the R7120, Grants Section Auditors' Report, reconcile with this schedule.
- D. The amounts reported on the Recipient Entitlement Balance Report, or PAL Report, agree with this schedule for USDA donated food commodities and are reported in the Cash Receipts column.
- E. Expenditures include spoilage or pilferage.
- F. Alcona Community Schools did not elect to use a flat de minimis rate of 10% of modified total direct costs for their indirect cost rate.

Note 3 - Reconciliation to financial statements:

General Fund	\$	932,792
Special Revenue Funds:		
Food Service Fund		594,645
		\$ 1,527,437



Alcona Community Schools

Summary Schedule of Prior Year Audit Findings:

Findings – Financial Statements Audit

There were no findings related to the financial statements which were required to be reported in accordance with generally accepted government auditing standards for the year ended June 30, 2020.

Findings and Questioned Costs – Major Federal Award Programs Audit

There were no findings related to the major federal award programs which were required to be reported in accordance with generally accepted government auditing standards for the year ended June 30, 2020.

P.O. BOX 2 4 9

LINCOLN, MICHIGAN

48742

989-736-6212

FAX 989-736-6261

occonnord@alconaschools.net



Stephenson & Company, P.C.
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Donald W. Brannan, CPA
Kyle E. Troyer, CPA
Robert J. Morand, CPA
Brenden A. Stephenson, CPA/PFS, CFP®
Cynthia R. Scott, CPA, CFE

September 24, 2021

Management and the Board
Alcona Community Schools
51 N. Barlow Road
Lincoln, MI 48742

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Alcona Community Schools for the year ended June 30, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 21, 2021. Professional standards also require that we communicate to you the following information related to our audit. The appendices to this letter set forth those communications as follows:

I Communication with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel of the District during the audit and met with management on September 16, 2021. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Education, others within the District and the Michigan Department of Education and are not intended to be, and should not be, used by anyone other than those specified parties.

Very truly yours,

Stephenson & Company, P.C.

APPENDIX I COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Significant Audit Matters

Qualitative Aspects of Accounting Practices

- Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Alcona Community Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2021. We noted no transactions entered into by the Alcona Community Schools 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 Alcona Community Schools' financial statements were:

Management's estimate of the Net Pension Liability and the Net OPEB Liability are based on the actuarial valuations audited by the Auditor General. We evaluated the key factors and assumptions used to develop the Net Pension Liability and the Net OPEB Liability in determining that they are reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatement

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The adjustments identified during the audit have been communicated to management. A summary of audit differences, both adjusted and unadjusted was provided to and accepted by management on September 24, 2021. Management has determined that the effects of the unadjusted audit differences are immaterial, both individually and in the aggregate, to the 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 September 24, 2021.

Management Consultations with Other Independent Accountants

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

**APPENDIX I
COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

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 Alcona Community Schools' 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 Management's Discussion and Analysis, the Budgetary Comparison Information, and the Required Pension and OPEB Schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

**APPENDIX II
MANAGEMENT COMMENTS**

In planning and performing our audit of the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Alcona Community Schools as of and for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered Alcona Community Schools’ internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Alcona Community Schools’ internal control. Accordingly, we do not express an opinion on the effectiveness of Alcona Community Schools’ internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

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

During our audit, we did become aware of the following deficiency in internal control, other than a significant deficiency or material weakness or other matter, that is an opportunity for strengthening internal controls and operating efficiency.

TIMELINESS OF ATHLETIC DEPOSITS

During our audit, it was noted that several athletic event deposits were not always deposited in a timely manner. Although management currently has good controls in place to ensure that each athletic event is supported by a financial report, the deposits for those events were not consistently brought to the District office within one week of the event. This delay makes it difficult for any potential issues uncovered by the control process to be followed up on. We also noted one instance where the documentation for an event was incomplete, however, this appeared to have been an isolated incident. We recommend that the District strive to ensure that the athletic event deposits are made in a timely fashion within one week of the event taking place.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

STATUS OF PRIOR YEAR COMMENTS:

We have reviewed the status of comments and recommendations made in the prior year. The status of prior year comments is as follows:

<u>Comment</u>	<u>Implemented/ Situation Corrected</u>	<u>Management Decision To Not Implement</u>	<u>Progress Made</u>	<u>Situation Still Exists</u>
Board Approval of Change Orders	X			