



**BESSEMER AREA SCHOOLS
GOGEbic COUNTY, MICHIGAN
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2021**

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INDEPENDENT AUDITOR'S REPORT

To the President and Board of Education
Bessemer Area Schools
Bessemer, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bessemer Area Schools (the "School District"), 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 table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District 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.

Change in Accounting Principle

As stated in Note L to the basic financial statements, the School District adopted **GASB Statement No. 84, *Fiduciary Activities***, in 2021, which represents a change in its policy for reporting fiduciary activities. The fiduciary fund was converted to a special revenue fund. Our opinions are not modified with respect to this matter.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2021, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

A handwritten signature in dark ink that reads "Gabridge & Company". The script is cursive and fluid, with the ampersand being particularly stylized.

Gabridge & Company, PLC
Grand Rapids, MI
October 18, 2021

Management's Discussion and Analysis

Bessemer Area Schools
Management's Discussion and Analysis
June 30, 2021

This section of Bessemer Area Schools (the "School District"), Gogebic County, Michigan's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2021. It is to be read in conjunction with the School District's financial statements, which immediately follow. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and is intended to provide the financial results for the fiscal year ending June 30, 2021.

Financial Highlights

- The liabilities and deferred inflows of the School District exceeded its assets and deferred outflows at the close of this fiscal year by \$5,332,506 (shown as a deficit *net position*). The School District had a deficit *unrestricted net position* of \$(7,245,250).
- Expenses of \$5,136,746 exceeded revenues of \$5,078,851 leading to a decrease in net position of \$58,195 during the year.
- During the year, the School District's fund balances decreased by \$678,253 for an ending fund balance of \$718,027.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$145,013, or 3.2% of the general fund's total expenditures. Fund balance of the general fund *increased* by \$212,276 during the year.

Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and supplemental information. The basic financial statements include two kinds of statements that present different views of the School District:

- The first two statements, the statement of net position and the statement of activities, are *district-wide financial statements* that provide both short-term and long-term information about the School District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the School District, reporting the School District's operations in more detail than the district-wide statements. *Governmental funds statements* tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.

The basic financial statements also include the notes to the financial statements that explain the information in the basic financial statements and provide more detailed data. Supplementary

information follows and includes combining and individual fund statements as well as a budgetary comparison schedule for the general fund as well as schedules showing the School District's funding status of its pension and OPEB retirement plans.

District-wide Financial Statements

The district-wide financial statements report information about the School District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the School District's assets, deferred outflows, liabilities, and deferred inflows. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the School District's net position, and how they have changed. Net position – the difference between the School District's assets, deferred outflows and inflows, and liabilities - is one way to measure the School District's financial health or position. Over time, increases or decreases in the School District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.

To assess the School District's overall health, one should consider additional non-financial factors such as changes in the School District's property tax-base and the condition of school buildings and other facilities.

In the district-wide financial statements, the School District's activities are presented as governmental activities. *Governmental activities* include the School District's basic services, such as regular and special education, instructional support, transportation, administration, community services, food service, and athletics. State aid and property taxes finance most of these activities.

Financial Analysis of the School District as a Whole

The School District's cash and investments decreased by \$714,273, being similar to the decrease in governmental fund balance of \$687,953. Net capital assets increased by \$855,398, comprising of additions of \$1,116,823 less depreciation expense of \$261,425. Accounts payable increased by \$105,972 due to the timing of invoices related to the completion of the recent construction project. As a result of changes within pension and OPEB allocations, along with changes in assumptions, differences between actual and expected experience, and differences in investment income received versus projected resulted in an increase net pension liability of \$620,994, decreases in deferred outflows and inflows related to the pension of \$270,916 and \$309,494, respectively, while net OPEB liability decreased by \$408,919 and OPEB-related deferred outflows and inflows increased by \$62,235 and \$309,854, respectively.

The schedule on the following page summarizes the Schools net position for each of the past two fiscal years.

Bessemer Area Schools' Net Position

ASSETS	2021	2020
<i>Current Assets</i>		
Cash and investments	\$ 443,757	\$ 1,158,030
Due from other governmental units	767,092	609,855
Prepaid items	29,360	-
Inventories	13,342	15,666
Total Current Assets	1,253,551	1,783,551
<i>Noncurrent Assets</i>		
Capital assets, net	3,309,740	2,454,342
Total Assets	4,563,291	4,237,893
DEFERRED OUTFLOWS OF RESOURCES		
Pension related	2,127,116	2,398,032
OPEB related	731,166	668,931
Total Deferred Outflows of Resources	2,858,282	3,066,963
LIABILITIES		
<i>Current Liabilities</i>		
Accounts payable	170,950	64,978
Accrued salaries and other liabilities	341,061	413,509
Unearned revenue	23,513	982
Accrued interest payable	12,618	14,114
Current portion of long-term debt	156,000	156,000
Total Current Liabilities	704,142	649,583
<i>Noncurrent Liabilities</i>		
Long-term debt	1,310,453	1,470,950
Deferred compensation	53,294	57,860
Compensated absences	83,278	102,495
Net pension liability	8,252,018	7,631,024
Net OPEB liability	1,296,116	1,705,035
Total Liabilities	11,699,301	11,616,947
DEFERRED INFLOWS OF RESOURCES		
Pension related	74,215	383,709
OPEB related	980,563	670,709
Total Deferred Inflows of Resources	1,054,778	1,054,418
NET POSITION		
Net investment in capital assets	1,853,292	1,723,616
Restricted	59,452	73,463
Unrestricted	(7,245,250)	(7,163,588)
Total Net Position	\$ (5,332,506)	\$ (5,366,509)

The results of the fiscal year's operations for the School District as a whole are presented in the statement of activities, which shows the change in total net position for the year:

Bessemer Area Schools' Changes In Net Position

Revenues	2021	2020
Program Revenues		
Charges for services	\$ 110,087	\$ 81,872
Operating grants and contributions	1,458,338	1,085,335
Capital grants and contributions	185,665	-
Total Program Revenues	1,754,090	1,167,207
General Revenues		
Property taxes	732,711	698,601
Unrestricted state sources	2,591,460	2,574,291
Interest and investment earnings	290	15,875
Total General Revenues	3,324,461	3,288,767
Total Revenues	5,078,551	4,455,974
Expenses		
Instruction	3,134,452	3,138,982
Supporting services	1,368,245	1,336,652
Food services	212,264	211,128
Athletics	131,158	118,132
Interest on long-term debt	29,202	83,968
Depreciation (unallocated)	261,425	225,271
Total Expenses	5,136,746	5,114,133
Decrease in Net Position	(58,195)	(68,159)
<i>Net Position at Beginning of Period (Note L)</i>	<i>(5,274,311)</i>	<i>(4,708,350)</i>
Net Position at End of Period	\$ (5,332,506)	\$ (5,366,509)

Operating grants and contributions increased by \$373,003 as the School District received COVID-19 grant funding. Capital grants and contributions increased by \$185,665 as the School District received capital grants for the purchase of a new boiler and various technology improvements. Property taxes increased by \$34,110 as the School District's taxable value increased.

Changes within instruction and supporting expenses for the School District were largely caused by the changes in net pension liability, net OPEB liability, and their related deferrals. Interest on long-term debt decreased by \$54,766 as a result of decreased principal balances and a one-time issuance cost incurred in 2020.

Fund Financial Statements

The fund financial statements provide more detailed information about the School District's funds, focusing on its most significant or "major" funds - not the School District as a whole. Funds are

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

The School District utilizes *governmental funds* within this report. Most of the School District's basic services are included in governmental funds, which generally focus on: 1) how cash and other financial assets that can readily be converted to cash flow in and out and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. Since the district-wide financial statements and the fund financial statements use different methods of accounting to report the School District's financial condition, a reconciliation is included in the financial statements showing the differences between the two types of statements.

Financial Analysis of the School District's Funds

The School District uses funds to record and analyze financial information. The School District has five funds.

The ***general fund*** is the chief operating fund of the School District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$145,013. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total general fund expenditures and transfers out. Unassigned fund balance represents approximately 3.2% of total general fund expenditures.

The fund balance of the School District's general fund increased by \$212,276 for a total fund balance of \$546,672. Significant increases for revenues were within state and federal sources as a result of increased state aid and increased COVID-19 funding and capital grant funding. Within expenditures, supporting services expenditures increased the most significantly as a result of increased technology and operations and maintenance expenditures related to both capital and non-capital uses.

The ***food service fund***, a major fund, had a decrease of \$18,071 in fund balance for an ending balance of \$32,374. The decrease in fund balance was related to expenditures being greater than revenues even though federal funding had increased for the fund.

The ***student activities fund***, a new major fund, resulted from the conversion of the agency fund into a special revenue fund due to the implementation of ***GASB Statement No. 84, Fiduciary Activities***. Fund balance increased by \$9,700 during the year for an ending fund balance of \$101,898.

The ***2003 refunding bonds fund***, a major fund, had an increase of \$4,061 in fund balance for an ending balance of \$27,078. Both revenues and expenditures were similar in comparison to the prior year.

The *capital projects fund*, a major fund, had a decrease of \$886,219 in fund balance during the year, entirely a result of the 2019 school building and site project and related improvement expenditures of \$880,428. The ending fund balance was \$10,005.

General Fund Budgetary Highlights

During the year the School District revised its budget to attempt to match changes in the school funding environment and current needs of students and faculty. State law requires that budgets be amended during the year so actual expenditures do not exceed appropriations.

Original budget compared to final budget. There were two significant amendments made to the original budget for either the original estimated revenues or the original appropriated expenditures: federal sources revenue increased from \$132,813 to \$531,858 to account for the increased federal COVID-19 funding and operation and maintenance expenditures increased from \$420,381 to \$672,601 to account for the increased non-capital maintenance expenditures. As mentioned above, the original budget was amended during the year as actual results needed adjusting from the original budgeted estimates.

Final budget compared to actual results. The School District had the following expenditures in excess of the amounts appropriated during the year ended June 30, 2021:

<u>Fund/Function</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Negative Variance</u>
General Fund			
<i>Instruction</i>			
Secondary	\$ 991,324	\$ 1,058,132	\$ (66,808)
<i>Supporting services</i>			
Technology	88,865	181,181	(92,316)
Executive administration	261,059	266,278	(5,219)
Elementary office	104,025	108,109	(4,084)
Secondary office	93,212	96,974	(3,762)
Pupil transportation	146,891	148,375	(1,484)

Capital Asset and Debt Administration

Capital Assets

At June 30, 2021, the School District had \$3,309,740 invested in capital assets, a 34.9% increase in the amount reported from the prior year. This net increase consisted of additions of \$1,116,823 net of depreciation charges of \$261,425.

More detailed information about the School District's capital assets can be found in the notes to the financial statements section of this document.

Long-term Debt

At year-end, the School District had total long-term debt of \$1,466,453, down from \$1,626,950. The State limits the amount of general obligation debt that schools can issue. The School District is well under the State limit as of June 30, 2021.

More detailed information about the School District's long-term debt can be found in the notes to the financial statements section of this document.

Economic Factors and Next Year's Budget and Rates

The School District estimates that approximately \$4.3 million of revenues will be available for appropriation in the general fund in the upcoming budget. The School District continues to review all budget line items for opportunities to reduce expenditures when possible while providing an excellent education to the district it serves. The budget will be monitored during the year to identify any necessary amendments. Additionally, administration and the Board of Education are currently working to determine the significance that the COVID-19 Pandemic will have on the School District's upcoming revenues and expenditures.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact:

Bessemer Area Schools
301 E. Sellar Street
Bessemer, MI 49911

Or by telephone (906) 667-0802

Basic Financial Statements

Bessemer Area Schools
Statement of Net Position
June 30, 2021

ASSETS

Current Assets

Cash and investments	\$ 443,757
Due from other governmental units	767,092
Prepaid items	29,360
Inventories	13,342
Total Current Assets	1,253,551

Noncurrent Assets

Capital assets being depreciated, net	3,309,740
Total Assets	4,563,291

DEFERRED OUTFLOWS OF RESOURCES

Pension related	2,127,116
OPEB related	731,166
Total Deferred Outflows of Resources	2,858,282

LIABILITIES

Current Liabilities

Accounts payable	170,950
Accrued salaries and other Liabilities	341,061
Unearned revenue	23,513
Accrued interest payable	12,618
Current portion of long-term debt	156,000
Total Current Liabilities	704,142

Noncurrent Liabilities

Long-term debt	1,310,453
Deferred compensation	53,294
Compensated absences	83,278
Net pension liability	8,252,018
Net OPEB liability	1,296,116
Total Liabilities	11,699,301

DEFERRED INFLOWS OF RESOURCES

Pension related	74,215
OPEB related	980,563
Total Deferred Inflows of Resources	1,054,778

NET POSITION

Net investment in capital assets	1,853,292
<i>Restricted for:</i>	
Debt service	27,078
Food service	32,374
<i>Unrestricted</i>	(7,245,250)
Total Net Position	\$ (5,332,506)

The Notes to the Financial Statements are an integral part of these Financial Statements

Bessemer Area Schools
Statement of Activities
For the Year Ended June 30, 2021

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government					
Governmental Activities:					
Athletics	\$ 131,158	\$ 31,261	\$ --	\$ --	\$ (99,897)
Food services	212,264	15,766	170,284	--	(26,214)
Supporting services	1,368,245	59,280	224,129	185,665	(899,171)
Instruction	3,134,452	3,780	1,063,925	--	(2,066,747)
Interest on long-term debt	29,202	--	--	--	(29,202)
Depreciation (unallocated)	261,425	--	--	--	(261,425)
Total	\$ 5,136,746	\$ 110,087	\$ 1,458,338	\$ 185,665	(3,382,656)
General Purpose Revenues:					
State sources					2,591,460
Property taxes, levied for general operations					593,464
Property taxes, levied for debt service					139,247
Interest and investment earnings					290
Total General Revenues					3,324,461
Change in Net Position					(58,195)
<i>Net Position at Beginning of Period (Restated, Note L)</i>					<i>(5,274,311)</i>
Net Position at End of Period					\$ (5,332,506)

The Notes to the Financial Statements are an integral part of these Financial Statements

**Bessemer Area Schools
Balance Sheet
Governmental Funds
June 30, 2021**

	<u>Special Revenue</u>			<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
	<u>General</u>	<u>Food Service</u>	<u>Student Activities</u>	<u>2003 Refunding Bonds</u>	<u>Capital Projects</u>	<u>Governmental Funds</u>
ASSETS						
Cash and investments	\$ --	\$ 304,776	\$ 101,898	\$ 27,078	\$ 10,005	\$ 443,757
Due from other governmental units	759,498	7,594	--	--	--	767,092
Prepaid items	29,360	--	--	--	--	29,360
Inventories	12,299	1,043	--	--	--	13,342
Due from other funds	281,039	--	--	--	--	281,039
<i>Total Assets</i>	\$ 1,082,196	\$ 313,413	\$ 101,898	\$ 27,078	\$ 10,005	\$ 1,534,590
LIABILITIES						
Accounts payable	\$ 170,950	\$ --	\$ --	\$ --	\$ --	\$ 170,950
Accrued salaries and other Liabilities	341,061	--	--	--	--	341,061
Unearned revenue	23,513	--	--	--	--	23,513
Due to other funds	--	281,039	--	--	--	281,039
<i>Total Liabilities</i>	535,524	281,039	--	--	--	816,563
FUND BALANCE						
Nonspendable	41,659	1,043	--	--	--	42,702
Restricted	--	31,331	--	27,078	10,005	68,414
Committed	--	--	101,898	--	--	101,898
Assigned	360,000	--	--	--	--	360,000
Unassigned	145,013	--	--	--	--	145,013
<i>Total Fund Balance</i>	546,672	32,374	101,898	27,078	10,005	718,027
<i>Total Liabilities and Fund Balance</i>	\$ 1,082,196	\$ 313,413	\$ 101,898	\$ 27,078	\$ 10,005	\$ 1,534,590

The Notes to the Financial Statements are an integral part of these Financial Statements

Bessemer Area Schools
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2021

Total Fund Balance - Governmental Funds	\$ 718,027
General government capital assets of \$12,386,170, net of accumulated depreciation of \$9,076,430, are not financial resources and, accordingly, are not reported in the funds.	3,309,740
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. This amount represents the sum of bonds payable and bond premium.	(1,466,453)
The net pension liability and its related deferrals are not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the funds.	(6,199,117)
Accrued interest is not due and payable in the current period and, therefore, is not reported in the funds.	(12,618)
The net OPEB liability and its related deferrals are not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the funds.	(1,545,513)
Compensated absences and deferred compensation are not due and payable in the current period and, therefore, are not reported in the funds.	(136,572)
Total Net Position - Governmental Activities	\$ <u>(5,332,506)</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Bessemer Area Schools
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2021

	<u>Special Revenue</u>			<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Food Service</u>	<u>Student Activities</u>	<u>2003 Refunding Bonds</u>	<u>Capital Projects</u>	
Revenues						
Local sources	\$ 687,914	\$ 15,766	\$ 46,746	\$ 139,256	\$ 152	\$ 889,834
State sources	3,391,825	8,992	--	--	--	3,400,817
Federal sources	626,608	161,292	--	--	--	787,900
Total Revenues	<u>4,706,347</u>	<u>186,050</u>	<u>46,746</u>	<u>139,256</u>	<u>152</u>	<u>5,078,551</u>
Expenditures						
Instruction	2,882,046	--	--	--	--	2,882,046
Supporting services	1,487,995	--	37,046	--	5,943	1,530,984
Food services	--	204,121	--	--	--	204,121
Athletics	124,030	--	--	--	--	124,030
Capital outlay	--	--	--	--	880,428	880,428
Debt service - principal	--	--	--	100,000	--	100,000
Debt service - interest	--	--	--	35,195	--	35,195
Total Expenditures	<u>4,494,071</u>	<u>204,121</u>	<u>37,046</u>	<u>135,195</u>	<u>886,371</u>	<u>5,756,804</u>
Excess of Revenues Over (Under) Expenditures	<u>212,276</u>	<u>(18,071)</u>	<u>9,700</u>	<u>4,061</u>	<u>(886,219)</u>	<u>(678,253)</u>
Net Change in Fund Balance	<u>212,276</u>	<u>(18,071)</u>	<u>9,700</u>	<u>4,061</u>	<u>(886,219)</u>	<u>(678,253)</u>
<i>Fund Balance at Beginning of Period</i>						
<i>(Restated, Note L)</i>	334,396	50,445	92,198	23,017	896,224	1,396,280
Fund Balance at End of Period	<u>\$ 546,672</u>	<u>\$ 32,374</u>	<u>\$ 101,898</u>	<u>\$ 27,078</u>	<u>\$ 10,005</u>	<u>\$ 718,027</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Bessemer Area Schools
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the Year Ended June 30, 2021

Total Net Change in Fund Balances - Governmental Funds	\$ (678,253)
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds, the interest expenditure is reported when due.	1,496
Repayment of long-term debt principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities in the statement of net position. This amount also includes the amortization of bond premium.	160,497
Some expenses, such as changes in compensated absences and deferred compensation, reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	23,783
The statement of net position reports the net pension liability and pension related deferrals related to the net pension liability as pension expense. However, the expenditures recorded on the governmental funds equals actual pension contributions.	(582,416)
The funds report capital outlays as expenditures, however, in the statement of activities, the costs of those assets are allocated over their useful lives as depreciation expense. This is the amount by which capital outlay of \$1,116,823 exceeds depreciation expense of \$261,425.	855,398
The statement of net position reports the net OPEB liability and OPEB related deferrals related to the net OPEB liability as OPEB expense. However, the expenditures recorded on the governmental funds equals actual OPEB contributions.	161,300
Changes in Net Position - Governmental Activities	\$ <u>(58,195)</u>

Notes to the Financial Statements

Bessemer Area Schools
Notes to the Financial Statements

Note A - Summary of Significant Accounting Policies

The financial statements of Bessemer Area Schools, Gogebic County, Michigan (the “School District”) have been prepared as prescribed by the Michigan Department of Education. These policies are in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies.

Reporting Entity

In conformity with generally accepted accounting principles, other autonomously operated governmental organizations are not considered to be part of the School District entity for financial reporting purposes. The criteria established for determining the various governmental organizations to be included in the School District’s financial statements include oversight responsibility, scope of public service and special financing relationships. Based upon the application of these criteria, the financial statements of the School District contain all the funds controlled by the School District’s Board of Education as no other entity meets the criteria to be considered a blended component unit or a discretely presented component of the School District nor is the School District a component unit of another entity.

Basis of Presentation

District-wide Financial Statements

The district-wide financial statements (statement of net position and statement of activities) report information on all of the activities of the School District. All of the School District activities are considered to be governmental activities. Interfund activity, including operating transfers between activities and amounts due to and from governmental activities, have been eliminated in the School District-wide statements.

Fund-based Financial Statements

Separate financial statements are provided on the basis of funds, each of which is considered a separate fiscal and accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise assets, liabilities, fund equity, revenues, and expenditures. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Governmental funds are grouped in the financial statements as major funds or nonmajor funds. The School District reports the following major funds:

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

Bessemer Area Schools

Notes to the Financial Statements

The *food service fund*, a special revenue fund, is used by the School District to account for food service activities. Funding is received primarily from charges for meals and federal operating grants.

The *student activities fund*, a special revenue fund, accounts for the transactions of student and parent groups for school and school-related purposes.

The *2003 refunding bonds fund*, a debt service fund, is used to account for the payment of principal and interest on the 2003 refunding bonds. Funding is received primarily from a voter-approved debt service millage.

The *capital projects fund*, a capital projects fund, is used by the School District to account for the general capital activities. The fund was funded by the 2019 school building and site bonds.

Basis of Accounting

District-wide Financial Statements

The district-wide financial statements report all financial and capital assets, short and long-term liabilities, revenues, expenses, gains, and losses using the economic resources measurement focus and the accrual basis of accounting. All revenue is recorded when earned and expenses are recorded when a liability is incurred.

The statement of activities reports net cost information based on the School District's functions. Direct expenses are listed by function with program revenues for each function offset against those expenses. Program revenues include charges for services that are fees and other charges to the users or recipients of the services the School District provides. Program revenues also include operating grants and contributions that are restricted for a particular purpose. Property taxes, unrestricted state aid, and other revenues that are not program revenues are reported as general revenues.

Fund-based Financial Statements

The governmental funds are accounted for by using the modified accrual basis of accounting as required by the Michigan Department of Education. Under the modified accrual basis of accounting, revenue is recognized when the revenue is subject to accrual, eligibility requirements are met, and the revenues are available to finance expenditures of the fiscal period. Revenue is considered available when the revenue has been collected in the current period or soon enough after the end of the period to be used to pay current period liabilities. The School District considers revenues to be available if collected within 60 days of the end of the period. Expenditures are recorded when the related liability is incurred. Exceptions to this general rule include certain compensated absences and principal and interest on long-term debt, both of which are recognized when due. Property taxes are recognized in the fiscal year for which the taxes have been levied.

Bessemer Area Schools
Notes to the Financial Statements

Property Taxes

Property taxes attach as an enforceable lien on property as of December 31. School taxes are levied on the ensuing July 1, with summer collections due by August 15 and winter collections due by February 14 annually from the respective governmental units. Current property taxes are collected for the School District by the City of Bessemer and Township of Bessemer. Delinquent real property taxes of the School District are purchased annually by the County of Gogebic.

State Foundation Revenue

The State of Michigan follows a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information regarding average pupil membership supplied by the districts. The funds received in July and August of 2021 are state appropriations for the year ended June 30, 2021, and, as such, are recorded as accounts receivable.

State Categorical Revenue

The School District 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 deferred revenue.

Federal Revenue

Expenditure-driven grants are recognized as revenue when revenue is available, the qualifying expenditures have been incurred, and all other grant requirements have been met.

Cash and Cash Equivalents

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

State statutes and School District policy authorize the School District to invest in:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.

Bessemer Area Schools

Notes to the Financial Statements

- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers' acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions, that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

Investments

Investments are stated at fair market value. Investments are exposed to various risks, such as significant external events, interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of net position.

Interfund Balances

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

Inventories

Inventories are stated at cost and consist principally of supplies and heating fuel. Inventories are recorded as expenditures when consumed rather than when purchased.

Capital Assets

Capital assets include land and improvements, buildings, furniture and fixtures, equipment, school buses and vehicles and are reported in the district-wide financial statements. Capital assets are defined by the School District as assets with an acquisition cost of more than \$1,000 or betterments totaling \$20,000 with an estimated useful life in excess of one year. Assets meeting this criteria are recorded at historical cost or estimated historical costs if the amount is not known. Any donated capital assets are recorded at acquisition value at the date of donation. The costs of capital assets are charged to expense using an annual allocation of depreciation expense. Taking the depreciable

Bessemer Area Schools

Notes to the Financial Statements

cost of an asset and dividing that cost by its estimated useful life calculates the annual expense. The expense is recorded on the district-wide Statement of Activities and included as a direct expense of an identifiable function if the asset's sole purpose can be identified as being for that function. Depreciation expense (unallocated) is the amount of depreciation expense that cannot be charged to any particular function.

The capital assets, excluding land, are depreciated using the straight-line method with a half-year of depreciation taken in the year of acquisition over the following useful lives:

	<u>Years</u>
Buildings and improvements	20 - 50
Furniture, fixtures, and equipment	5 - 20
School buses and vehicles	8

Pension

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 in accordance with the benefit terms. Investments are reported at fair value.

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.

Deferred Outflows of Resources

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

Bessemer Area Schools

Notes to the Financial Statements

Deferred Inflows of Resources

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

Compensated Absences

The liability for accumulated sick pay is recorded in the district-wide statement of net position.

Long-term Obligations

Long-term debt is recognized as a liability in the district-wide financial statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

Net Position Flow Assumption

Sometimes the School District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the School District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance Flow Assumptions

Sometimes the School will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in

Bessemer Area Schools

Notes to the Financial Statements

which the resources are considered to be applied. It is the School's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Equity

In the fund financial statements fund balance is presented in five possible categories, each of which identifies the extent to which the School District is bound to honor constraints on the specific purpose for which the amounts can be spent:

Nonspendable – amounts which cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained directly. The School District reports inventories and prepaid expenditures as nonspendable fund balances.

Restricted – amounts that have constraints placed on their use by an external party or constitutional provisions or enabling legislation (e.g., grants, contributions, specific fee mandates).

Committed – amounts that are committed for specific purposes by the Board of Education, as the School District's highest level of decision-making authority, pursuant to constraints imposed by formal actions taken, such as a majority vote or resolution. These committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specific use through the same type of formal action taken to establish the commitment. Committed fund balance does not lapse at year end.

Assigned – amounts that are constrained by the District Administrator to be used for specific purposes, but are neither restricted nor committed. Assigned fund balance does not lapse at year end.

Unassigned – amounts that are available for any purpose. The general fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include negative balances in the governmental funds reporting resources restricted for specific programs.

Designations of fund balance represent tentative management plans that are subject to change. It is the School District's policy to first use restricted resources when both restricted and unrestricted net position or fund balances are available. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first (when appropriate), followed in order by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

Bessemer Area Schools
Notes to the Financial Statements

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Note B - Stewardship, Compliance and Accountability

Budgets - The School District follows these procedures in establishing the budgetary data reflected in the financial statements for the general fund and special revenue fund.

- Prior to July 1, the School District Administrator and Business Manager submit, to the Board of Education, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
- A public hearing is held to obtain taxpayer comments.
- Prior to July 1, the budget is legally enacted at a regular meeting by Board approval.
- Any revisions to the budgeted amounts must be approved by the Board.
- Budgets for the general and special revenue funds are adopted on a basis consistent with generally accepted accounting principles. These budgets lapse at the end of each year.
- Budgeted amounts presented in the financial statements are as originally adopted, or as amended, by the Board prior to June 30.

Public Act 621 of 1978 Disclosures - Public Act 621 of 1978 requires local units of government to prepare and to monitor their fiscal year budgets in accordance there with. The Act provides that a school district must amend its budget if it becomes apparent that the school district's actual revenues will deviate from those budgeted, or if the school district's expenditures will exceed the amounts appropriated.

Bessemer Area Schools

Notes to the Financial Statements

The School District had the following expenditures in excess of the amounts appropriated during the year ended June 30, 2021:

Fund/Function	Final Budget	Actual Amount	Negative Variance
General Fund			
<i>Instruction</i>			
Secondary	\$ 991,324	\$ 1,058,132	\$ (66,808)
<i>Supporting services</i>			
Technology	88,865	181,181	(92,316)
Executive administration	261,059	266,278	(5,219)
Elementary office	104,025	108,109	(4,084)
Secondary office	93,212	96,974	(3,762)
Pupil transportation	146,891	148,375	(1,484)
Food Service Fund			
Food services	191,538	204,121	(12,583)

Net Position Deficit

As of June 30, 2021, the School District had a deficit unrestricted net position of (\$7,24250) and total net position had a deficit balance of (\$5,332,506).

Note C - Cash 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 investments	
Checking and savings accounts	\$ 434,476
Pooled investments	9,281
Total	<u>\$ 443,757</u>

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits might not be returned. State law does not require, and the School District does not have a policy for deposit custodial credit risk. As of year-end, \$225,171 of the School District's bank balance of \$480,033 was exposed to custodial credit risk. Due to the dollar amounts of cash deposits and the limits of FDIC insurance, the School District believes it is impractical to insure all bank deposits. As a result, the School District evaluates each financial institution with which it deposits School District funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Bessemer Area Schools

Notes to the Financial Statements

Custodial Credit Risk - Investments. For an investment, custodial credit risk 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. In order to minimize this risk, School District policy limits the types of investments and pre-qualifies financial institutions. As of June 30, 2021, none of the School District's investments were exposed to risk since the securities are held in the School District's name by the counterparty. The School District had \$9,281 held in the Michigan Liquid Asset Fund Plus Cash Management Class as of June 30, 2021.

Credit Risk. State law limits investments to specific government securities, certificates of deposits, and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The School District's investment policy does not have specific limits in excess of state law on investment credit risk. The School District's investments of \$9,281 had a credit risk rating of AAAM from the Standard & Poor's rating agency.

Interest Rate Risk. Interest rate risk is the risk that the market rate of securities in the portfolio will fall due to changes in market interest rates. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The School District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The School District's only investment of \$9,281 had no maturity date.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the School District's investment in a single issuer. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. The School District's investment policy does not limit investments in a single financial institution of a single security type (with the exception of U.S. treasuries and agencies and authorized pools) to a percentage of the total investment portfolio. All investments held at year end are reported above.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is also established which requires an entity to maximize the use of observable and minimize the use of unobservable inputs.

There are three levels of inputs that may be used to measure fair value:

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

Bessemer Area Schools

Notes to the Financial Statements

- Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.
- Level 3: Prices determined using significant unobservable inputs. Unobservable inputs may be used in situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period). Unobservable inputs reflect the organization's own assumptions about the factors market participants would use in pricing an investment, and would be based on the best information available.

As of June 30, 2021, the fair value measure of the MILAF+ Cash Management Class was Level 2 and in the amount of \$9,281.

Note D - Long-term Liabilities

Long-term liability balances and activity for the year ended June 30, 2021 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Direct placement					
2019 school building and site bonds	\$ 1,210,000	\$ -	\$ (100,000)	\$ 1,110,000	\$ 100,000
Bond premium	49,462	-	(4,497)	44,965	-
<i>Subtotal</i>	<u>1,259,462</u>	<u>-</u>	<u>(104,497)</u>	<u>1,154,965</u>	<u>100,000</u>
Other long-term obligations					
2019 lease-purchase agreement	367,488	-	(56,000)	311,488	56,000
Deferred compensation	57,860	45,851	(50,417)	53,294	-
Compensated absences	102,495	6,200	(25,417)	83,278	-
<i>Subtotal</i>	<u>527,843</u>	<u>52,051</u>	<u>(131,834)</u>	<u>448,060</u>	<u>56,000</u>
Total long-term obligations	<u>\$ 1,787,305</u>	<u>\$ 52,051</u>	<u>\$ (236,331)</u>	<u>\$ 1,603,025</u>	<u>\$ 156,000</u>

The deferred compensation and compensated absences will be paid by the general fund and food service fund.

2019 School Building and Site Bonds

On June 27, 2019, the School District issued \$1,310,000 of 2019 School Building and Site Bonds to finance various capital projects. The bonds are unlimited general tax obligations of the School District and bear interest rates of 2.00% and 3.00%. Interest is due semiannually. Principal payments range between \$100,000 and \$120,000 per annum. The bonds have a maturity date of May 1, 2031.

Bessemer Area Schools

Notes to the Financial Statements

2019 Lease Purchase Agreement

On August 28, 2019 the School District issued a \$367,488 lease purchase agreement to lease four 2020 buses. Principal and interest payments are due annually on September 15 through 2023. Principal ranges from \$56,000 to \$199,488 with interest accruing at 3.0%. The titles of the buses revert to the School District with the final installment. The cost of the four buses was \$367,488 with a net book value of \$283,272 as of June 30, 2021.

The aggregate amounts of long-term debt principal and interest maturities (excluding deferred compensation, compensated absences, and bond premium) for the five years ending June 30, 2025, and in five-year increments after until maturity are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 156,000	\$ 40,610	\$ 196,610
2023	161,000	37,094	198,094
2024	304,488	33,429	337,917
2025	110,000	24,000	134,000
2026	110,000	20,700	134,000
2027 -2031	580,000	52,950	640,050
	<u>\$ 1,421,488</u>	<u>\$ 208,783</u>	<u>\$ 1,630,271</u>

Compensated Absences - Compensated absences consist of amounts due to employees for unused accumulated sick leave upon termination of their employment. Members of the teachers' union can accumulate up to 155 days of sick leave and will be paid \$43 per day for unused sick leave upon resignation and \$85 per day for unused sick leave upon retirement. Members of the local AFSCME union can accumulate up to 140 days and will be paid \$40 per day upon termination or \$60 per day upon retirement. The District administrator; a former principal and business manager will be paid \$100 (or \$50 per day if terminated for cause) \$110 (or \$55 per day if terminated for cause) and \$75, respectively, upon retirement per accumulated sick day up to a maximum of 132 days for the District administrator and 150 days for a former principal and business manager upon termination of employment.

Following is a summary of compensated absences due at June 30, 2021:

Teachers union and school administrators	\$ 67,828
AFCME union	15,450
	<u>\$ 83,278</u>

Deferred Compensation - Deferred compensation consists of early retirement incentives that the School District negotiated with several teachers. Future payments for hospitalization for retired teachers to age 65 total \$53,294.

Bessemer Area Schools
Notes to the Financial Statements

Note E - Capital Assets

Capital assets balances and activity for the year ended June 30, 2021 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated				
Construction in progress	\$ 212,677	\$ -	\$ (212,677)	\$ -
Capital assets being depreciated				
Buildings and improvements	9,929,806	1,093,105	-	11,022,911
Equipment	438,930	193,757	-	632,687
Furniture and fixtures	181,200	-	-	181,200
School buses and vehicles	506,734	42,638	-	549,372
<i>Subtotal</i>	<u>11,056,670</u>	<u>1,329,500</u>	<u>-</u>	<u>12,386,170</u>
Less Accumulated Depreciation				
Buildings and improvements	(8,235,101)	(174,550)	-	(8,409,651)
Equipment	(339,703)	(17,025)	-	(356,728)
Furniture and fixtures	(147,339)	(2,511)	-	(149,850)
School buses and vehicles	(92,862)	(67,339)	-	(160,201)
<i>Subtotal</i>	<u>(8,815,005)</u>	<u>(261,425)</u>	<u>-</u>	<u>(9,076,430)</u>
Capital assets being depreciated, net	<u>2,241,665</u>	<u>1,068,075</u>	<u>-</u>	<u>3,309,740</u>
Capital assets, net	<u>\$ 2,454,342</u>	<u>\$ 1,068,075</u>	<u>\$ (212,677)</u>	<u>\$ 3,309,740</u>

Depreciation expense for the fiscal year amounted to \$261,425. The School District determined that was impractical to allocate depreciation expense to the various activities as the capital assets serve multiple functions.

Note F - Pension 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

Bessemer Area Schools

Notes to the Financial Statements

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.

Bessemer Area Schools

Notes to the Financial Statements

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

Benefit Structure	Member	Non-Universities
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 \$660,172 for the year ended September 30, 2020.

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

At June 30, 2021, the School District reported a liability of \$8,252,018 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 proportion 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 proportion was 0.02402%, which was an increase of 0.00098% from its proportion measured as of September 30, 2019.

For the year ending June 30, 2021, the School District recognized pension expense of \$1,282,273.

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	\$ 126,084	\$ 17,613
Changes of assumptions	914,403	-
Net difference between projected and actual earnings on pension plan investments	34,671	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	418,896	56,602
Employer contributions subsequent to the measurement date	633,062	-
Total	\$ 2,127,116	\$ 74,215

Contributions subsequent to the measurement date reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will

Bessemer Area Schools

Notes to the Financial Statements

be recognized as a reduction of the net pension liability in the year ending 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:

Plan Year Ended		Amount:
September 30		
2021	\$	597,001
2022		466,717
2023		272,686
2024		83,435

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.

Bessemer Area Schools
Notes to the Financial Statements

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2019
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return:	
- MIP and Basic Plans:	6.80%, net of investment expenses
- Pension Plus Plan:	6.80%, net of investment expenses
- Pension Plus 2 Plan:	6.00%, net of investment expenses
Projected Salary Increases:	2.75 - 11.55%, including wage inflation at 2.75%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Mortality:	
Retirees:	RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Active Members:	P-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 period 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
- Recognition period for assets in years: 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 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

Bessemer Area Schools

Notes to the Financial Statements

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:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return*
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
Total	100.0%	

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

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 provided through non-university employers only). 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.

Bessemer Area Schools

Notes to the Financial Statements

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 the discount rate of 6.80% (6.0% for the Hybrid 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 higher:

1% Decrease (Non-Hybrid/Hybrid)	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)	1% Increase (Non-Hybrid/Hybrid)
5.80% / 5.80% / 5.0%	6.80% / 6.80% / 6.0%	7.80% / 7.80% / 7.0%
\$10,680,837	\$8,252,018	\$6,239,068

* Discount rates listed in the following order: Basic and Member Investment Plan (MIP), Pension Plus, and Pension Plus 2. Non-university employers provide Basic, MIP, Pension Plus and Pension Plus 2 plans. University employers provide only the Basic and MIP plans.

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.

Note G - Postemployment Benefits Other Than Pensions (OPEB)

Plan Description

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

Bessemer Area Schools

Notes to the Financial Statements

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.

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.

Bessemer Area Schools

Notes to the Financial Statements

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.

<u>Benefit Structure</u>	<u>Member</u>	<u>Non-Universities</u>
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 \$170,934 for the year ended September 30, 2020.

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

At June 30, 2021, the School District reported a liability of \$1,296,116 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 0.02419%, which was an increase of 0.00044% from its proportion measured as of October 1, 2019.

For the year ending June 30, 2021, the School District recognized OPEB expense of \$812. At June 30, 2021, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Bessemer Area Schools

Notes to the Financial Statements

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ -	\$ 965,727
Changes of assumptions	427,355	-
Net difference between projected and actual earnings on pension plan investments	10,818	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	159,776	14,836
Employer contributions subsequent to the measurement date	133,217	-
Total	\$ 731,166	\$ 980,563

Contributions subsequent to the measurement date 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 OPEB expense as follows:

Plan Year Ended September 30	Amount:
2021	\$ (106,612)
2020	(91,604)
2023	(67,412)
2024	(54,688)
2025	(62,298)

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.

Bessemer Area Schools

Notes to the Financial Statements

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2019
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return:	6.95%, net of investment expenses
Projected Salary Increases:	2.75 - 11.55%, including wage inflation at 2.75%
Healthcare Cost Trend Rate:	7.0% Year 1 graded to 3.5% Year 15; 3.0% Year 120
Mortality:	
Retirees:	RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Active Members:	RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.
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 period 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, 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: 5.6018
- Recognition period for assets in years: 5.0000
- Full actuarial assumptions are available in the 2020 MPSERS Comprehensive Annual

Bessemer Area Schools

Notes to the Financial Statements

Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-term Expected 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, 2020, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return*
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
Total	100.0%	

*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

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

Sensitivity of the 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 the 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	Current Discount Rate	1% Increase
5.95%	6.95%	7.95%
\$1,665,008	\$1,296,116	\$985,539

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 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
\$973,648	\$1,296,116	\$1,662,883

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 H - 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 and 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 the year, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. Each of the pools maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum

Bessemer Area Schools

Notes to the Financial Statements

coverage being unlimited. The School District has not been informed of any special assessments being required.

The School District's comprehensive general liability coverage is \$1,000,000 combined single limit of liability per occurrence and no deductible amount. The workers' disability compensation coverage is based on statutory limits. The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

All risk management activities are accounted for in the general fund and the special revenue fund of the School District. Expenditures and claims are recognized when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

Management estimates that the amount of actual or potential claims against the School District as of June 30, 2021 will not materially affect the financial condition of the School District. Therefore, the financial statements contain no provision for estimated claims. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

Note I - Fund Balances – Governmental Funds

The School District reports fund balance in governmental funds based on the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The following schedule summarizes the School District's components of fund balance as of June 30, 2021:

		Special Revenue		Debt Service	Capital Projects	
	General	Food Service	Student Activities	2003 Refunding Bonds	Capital Projects	Total
Nonspendable:						
Prepaid items	\$ 29,360	\$ -	\$ -	\$ -	\$ -	\$ 29,360
Inventories	12,299	1,043	-	-	-	13,342
<i>Total nonspendable</i>	<u>41,659</u>	<u>1,043</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>42,702</u>
Restricted for:						
Debt service	-	-	-	27,078	-	27,078
Capital projects	-	-	-	-	10,005	10,005
Food service	-	31,331	-	-	-	31,331
<i>Total restricted</i>	<u>-</u>	<u>31,331</u>	<u>-</u>	<u>27,078</u>	<u>10,005</u>	<u>68,414</u>
Committed for:						
Student activities	-	-	101,898	-	-	101,898
Assigned for:						
Bus lease	60,000	-	-	-	-	60,000
5% revenue reserve	300,000	-	-	-	-	300,000
<i>Total assigned</i>	<u>360,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>360,000</u>
Unassigned	145,013	-	-	-	-	145,013
Total Fund Balances	<u>\$ 546,672</u>	<u>\$ 32,374</u>	<u>\$ -</u>	<u>\$ 27,078</u>	<u>\$ 10,005</u>	<u>\$ 718,027</u>

Bessemer Area Schools
Notes to the Financial Statements

Note J - Interfund Receivables and Payables

Interfund balances as of June 30, 2021 consisted of \$281,039 due from the food service fund to the general fund.

Interfund balances resulted primarily from the time lag between the dates that: 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

Note K - Subsequent Events

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. First identified in late 2019 and now known as COVID-19, the outbreak has impacted millions of individuals in the United States and worldwide. In response, the United States federal government and individual state and local governments have implemented measures to combat the outbreak that have impacted business operations. During the 2020-2021 fiscal year, the School District's operations were significantly impacted, as shelter-in-place orders and government mandates impacted census volumes. The School District has moved to mitigate the impact by managing the workforce, actively managing cash balances, and implementing other cost reduction measures.

Note L - New Accounting Pronouncement Adopted

The School District adopted the provisions of **GASB Statement No.84, *Fiduciary Activities***, in the current year. As a result of this adoption, the activity of the agency fund titled "Student Activities" was converted and moved to a special revenue fund titled "Student Activities". Changes in fund balance and net position required by the Statement increased the beginning balances by \$92,198 as of July 1, 2020.

Required Supplementary Information

Bessemer Area Schools
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended June 30, 2021

	Budgeted Amounts			Variance Positive (Negative) Final to Actual
	Original	Final	Actual	
Revenues				
Local sources	\$ 633,150	\$ 688,116	\$ 687,914	\$ (202)
State sources	3,039,149	3,372,538	3,391,825	19,287
Federal sources	132,813	531,858	626,608	94,750
Total Revenues	3,805,112	4,592,512	4,706,347	113,835
Expenditures				
Instruction				
Elementary	1,093,688	1,163,729	1,161,170	2,559
Secondary	844,723	991,324	1,058,132	(66,808)
Special education	382,395	332,464	324,762	7,702
Title I	83,634	97,726	97,725	1
At risk	150,000	187,540	184,811	2,729
Small rural grant	25,000	28,890	28,890	--
Title IIA	14,179	16,556	16,556	--
Title IV	10,000	10,000	10,000	--
Total instruction	2,603,619	2,828,229	2,882,046	(53,817)
Supporting services				
Guidance services	34,274	36,757	36,572	185
Health services	300	832	187	645
Technology	70,000	88,865	181,181	(92,316)
Board of education	45,630	29,279	23,469	5,810
Executive administration	221,450	261,059	266,278	(5,219)
Elementary office	146,010	104,025	108,109	(4,084)
Secondary office	113,252	93,212	96,974	(3,762)
Fiscal services	7,200	6,681	7,340	(659)
Other business services	3,000	6,358	6,358	--
Operation and maintenance	420,381	672,601	613,152	59,449
Pupil transportation	152,666	146,891	148,375	(1,484)
Total supporting services	1,214,163	1,446,560	1,487,995	(41,435)
Athletics	124,567	124,294	124,030	264
Total Expenditures	3,942,349	4,399,083	4,494,071	(94,988)
Excess (Deficiency) of Revenues Over Expenditures	(137,237)	193,429	212,276	18,847
Net Change in Fund Balance	(137,237)	193,429	212,276	18,847
Fund Balance at Beginning of Period	334,396	334,396	334,396	--
Fund Balance at End of Period	\$ 197,159	\$ 527,825	\$ 546,672	\$ 18,847

Bessemer Area Schools
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Food Service
For the Year Ended June 30, 2021

	Budgeted Amounts			Variance Positive (Negative) Final to Actual
	Original	Final	Actual	
Revenues				
Local sources	\$ (3,500)	\$ (15,765)	\$ 15,766	\$ 31,531
State sources	(5,000)	(6,733)	8,992	15,725
Federal sources	(170,000)	(141,738)	161,292	303,030
Total Revenues	(178,500)	(164,236)	186,050	350,286
Expenditures				
Food services	190,050	191,538	204,121	(12,583)
Total Expenditures	190,050	191,538	204,121	(12,583)
Excess (Deficiency) of Revenues Over Expenditures	(368,550)	(355,774)	(18,071)	337,703
Net Change in Fund Balance	(368,550)	(355,774)	(18,071)	337,703
<i>Fund Balance at Beginning of Period</i>	50,445	50,445	50,445	--
Fund Balance at End of Period	\$ (318,105)	\$ (305,329)	\$ 32,374	\$ 337,703

Bessemer Area Schools
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Student Activities
For the Year Ended June 30, 2021

	Budgeted Amounts			Variance Positive (Negative) Final to Actual
	Original	Final	Actual	
Revenues				
Local sources	\$ 33,300	\$ 35,261	\$ 46,746	\$ 11,485
Total Revenues	33,300	35,261	46,746	11,485
Expenditures				
Student activities	124,567	124,294	37,046	87,248
Total Expenditures	124,567	124,294	37,046	87,248
Excess (Deficiency) of Revenues Over Expenditures	(91,267)	(89,033)	9,700	98,733
Net Change in Fund Balance	(91,267)	(89,033)	9,700	98,733
Fund Balance at Beginning of Period (Restated, Note L)	92,198	92,198	92,198	--
Fund Balance at End of Period	\$ 931	\$ 3,165	\$ 101,898	\$ 98,733

Bessemer Area Schools
Schedule of School District's Proportionate Share of Net Pension Liability
Michigan Public School Employee Retirement Plan
Last Seven Fiscal Years (Amounts were determined as of September 30 of each fiscal year)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
School District's Portion of Net Pension Liability (%)	0.02402%	0.02304%	0.02156%	0.02160%	0.02199%	0.02279%	0.02373%
School District's Proportionate Share of Net Pension Liability	\$ 8,252,018	\$ 7,631,024	\$ 6,480,685	\$ 5,596,843	\$ 5,486,532	\$ 5,565,274	\$ 5,226,389
School District's Covered Payroll	\$ 2,168,894	\$ 2,090,456	\$ 1,841,538	\$ 1,807,446	\$ 1,795,779	\$ 1,797,173	\$ 1,892,852
School District's Proportionate Share of Net Pension Liability as a Percentage of its Covered Payroll	380.47%	365.04%	351.92%	309.65%	305.52%	309.67%	276.11%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	59.72%	60.31%	62.36%	64.21%	63.27%	63.17%	66.20%

Bessemer Area Schools
Schedule of School District's Pension Contributions
Michigan Public School Employee Retirement Plan
Last Seven School District Fiscal Years (Amounts determined as of June 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	\$ 660,172	\$ 612,143	\$ 587,025	\$ 506,577	\$ 437,065	\$ 429,061	\$ 423,352
Contributions in Relation to Statutorily Required Contributions	<u>660,172</u>	<u>612,143</u>	<u>587,025</u>	<u>506,577</u>	<u>437,065</u>	<u>429,061</u>	<u>423,352</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's Covered Payroll	\$ 2,157,879	\$ 2,134,402	\$ 2,060,511	\$ 1,817,383	\$ 1,795,779	\$ 1,797,173	\$ 1,892,852
Contributions as a Percentage of Covered Payroll	30.59%	28.68%	28.49%	27.87%	24.34%	23.87%	22.37%

Bessemer Area Schools
Schedule of School District's Proportionate Share of Net OPEB Liability
Michigan Public School Employee Retirement Plan
Last Four Fiscal Years (Amounts were determined as of September 30 of each fiscal year)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
School District's Portion of Net OPEB Liability (%)	0.00000%	0.02375%	0.02152%	0.02158%
School District's Proportionate Share of Net OPEB Liability	\$ 1,296,116	\$ 1,705,035	\$ 1,710,885	\$ 1,911,240
School District's Covered Payroll	\$ 2,168,894	\$ 2,090,456	\$ 1,841,538	\$ 1,807,446
School District's Proportionate Share of Net OPEB Liability as a Percentage of its Covered Payroll	59.76%	81.56%	92.91%	105.74%
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	59.44%	48.46%	42.95%	36.39%

Bessemer Area Schools
Schedule of School District's OPEB Contributions
Michigan Public School Employee Retirement Plan
Last Four School District Fiscal Years (Amounts determined as of June 30 of each year)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily Required Contributions	\$ 170,934	\$ 163,100	\$ 139,708	\$ 168,030
Contributions in Relation to Statutorily Required Contributions	<u>170,934</u>	<u>163,100</u>	<u>139,708</u>	<u>168,030</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's Covered Payroll	\$ 2,157,879	\$ 2,134,402	\$ 2,060,511	\$ 1,817,383
Contributions as a Percentage of Covered Payroll	7.92%	7.64%	6.78%	9.25%

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS*

To the President and Board of Education
Bessemer Area Schools
Bessemer, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bessemer Area Schools (the "School District"), 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, and have issued our report thereon dated October 18, 2021.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control that we consider to be a material weakness, listed as finding 2021-001.

Compliance and Other Matters

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

Response to Finding

The School District's response to the finding identified in our audit (2021-001) is described in the accompanying schedule of findings and responses. The School District's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

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.



Gabridge & Company, PLC
Grand Rapids, MI
October 18, 2021

Bessemer Area Schools

Schedule of Findings and Responses

Segregation of Duties - Finding 2021-001

Condition: As is the case with many organizations of similar size, the School District lacked a sufficient number of accounting personnel in order to ensure an appropriate segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carry with it a greater risk of fraud and abuse.

Findings: In our review of the School District's operating procedures, we found the following lack of segregation of duties.

- Receipting - The Business Manager wrote receipts, posted cash receipts, prepared deposits, made deposits, and reconciled the bank statements.
- Journal Entries – The Business Manager posts and reviews the journal entries.

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the School District's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept given the School District's unique circumstances.

Cause: This condition is a result of the School District's limited resources and the small size of its accounting staff.

Effect: As a result of this condition, the School District is exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management in a timely manner.

Recommendation: While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would, nevertheless, encourage management to actively seek ways to further strengthen its internal controls by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

Management's Response-Corrective Action Plan: The School District has limited administrative staff but will work on developing additional review and verifications.



Bessemer Area School District



Mr. Daniel Niemi, Superintendent
Mr. Mark Switzer – K-6 Principal/District Counselor
Miss Kassi Huotari – Business Manager/
Transportation Supervisor

301 E. Sellar Street
Bessemer, MI 49911
(906) 667-0802
FAX: (906) 667-0318

Mr. Daniel Niemi, Principal
A.D. Johnston Jr./Sr. High School
100 W. Lead Street, Bessemer, MI
(906) 667-0413 FAX: (906) 667-0320

October 18, 2021

CORRECTIVE ACTION PLAN

Finding: 2021-001 - Segregation of Incompatible Duties

Auditor Description of Condition and Effect: As is the case with many organizations of similar size, the School lacked a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carry with it a greater risk of fraud and abuse.

In our review of the School's operating procedures, we found the following lack of segregation of duties.

- Receipting - The Business Manager wrote receipts, posted cash receipts, prepared deposits, made deposits, and reconciled the bank statements.
- Journal Entries – The Business Manager posts and reviews the journal entries

The condition is a result of the School's limited resources and the small size of its accounting staff. As a result of this condition, the School is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented or detected and corrected by management on a timely basis.

Auditor Recommendation: While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

Corrective Action: Due to the limited funding available to the School, the School does not have the resources to properly address this process. We intend to re-evaluate this weakness once funding becomes available for the independent review.

Responsible Person: Kassi Huotari, Business Manager / Transportation Supervisor
Anticipated Completion Date: December 31, 2021

October 18, 2021

To the President and Board of Education
Bessemer Area Schools
Bessemer, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bessemer Area Schools (the "School District") for the year ended June 30, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 3, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note 1 to the financial statements. There were no new accounting policies adopted and, except as stated in Note L to the financial statements, the application of existing policies was not changed during the fiscal year ended June 30, 2021. We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- The assumptions used in the actuarial valuations of the pension and other post-employment benefits are based on historical trends and industry standards.

We evaluated the key factors and assumptions used to develop this estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Furthermore, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. In addition, professional standards require us to communicate all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. We did not identify any material misstatements during our audit.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 18, 2021.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the management's discussion and analysis, budgetary comparison information, and 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.

Restriction on Use

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

Very truly yours,

A handwritten signature in dark ink that reads "Gabridge & Company". The script is cursive and fluid, with the ampersand being a simple loop.

Gabridge & Company, PLC
Grand Rapids, MI