



**BESSEMER AREA SCHOOLS
GOGEbic COUNTY, MICHIGAN
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2022**

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	5
BASIC FINANCIAL STATEMENTS	
District-wide Financial Statements	
Statement of Net Position	13
Statement of Activities	14
Fund Financial Statements	
Governmental Funds	
Balance Sheet	15
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	16
Statement of Revenues, Expenditures, and Changes in Fund Balance	17
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	18
Notes to the Financial Statements	20
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual: General Fund	48
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual: Food Service Fund	49
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual: Student Activities Fund	50
Schedule of School District's Proportionate Share of Net Pension Liability	51
Schedule of School District's Pension Contributions	52
Schedule of School District's Proportionate Share of Net OPEB Liability	53
Schedule of School District's OPEB Contributions	54
COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS	
Nonmajor Governmental Funds	
Combining Balance Sheet	56
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	57

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School, as of June 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the schedules of proportionate share of net pension and OPEB liabilities and contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required

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

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2022, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering School's internal control over financial reporting and compliance.



Gabridge & Company, PLC
Traverse City, Michigan
October 21, 2022

Management's Discussion and Analysis

Bessemer Area Schools
Management's Discussion and Analysis
June 30, 2022

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, 2022. 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, 2022.

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 \$4,468,760 (shown as a deficit *net position*). The School District had a deficit *unrestricted net position* of \$(6,399,457).
- Revenues of \$5,173,863 exceeded expenses of \$4,310,117 leading to an increase in net position of \$863,746 during the year.
- During the year, the School District's fund balances increased by \$281,736 for an ending fund balance of \$999,763.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$247,102, or 5.6% of the general fund's total expenditures. Fund balance of the general fund *increased* by \$181,384 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 increased by \$373,698, primarily due to the increase in net position of \$863,746. Net capital assets decreased by \$188,416, comprising of additions of \$129,887 less depreciation expense of \$318,303. Accounts payable increased by \$15,018 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 a decrease net pension liability of \$2,711,685, increase in deferred outflows and an increase of inflows related to the pension of \$580,414 and \$1,914,991, respectively, while net OPEB liability decreased by \$949,940 and OPEB-related deferred outflows decreased and inflows increased by \$130,046 and \$417,723, 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	2022	2021
<i>Current Assets</i>		
Cash and investments	\$ 817,455	\$ 443,757
Receivables	755,525	767,092
Prepaid items and inventory	6,956	42,702
<i>Total Current Assets</i>	1,579,936	1,253,551
<i>Noncurrent Assets</i>		
Capital assets, net	3,121,324	3,309,740
<i>Total Assets</i>	4,701,260	4,563,291
DEFERRED OUTFLOWS OF RESOURCES		
Pension related	1,546,702	2,127,116
OPEB related	601,120	731,166
<i>Total Deferred Outflows of Resources</i>	2,147,822	2,858,282
LIABILITIES		
<i>Current Liabilities</i>		
Accounts payable	185,968	170,950
Accrued salaries and other liabilities	394,205	341,061
Unearned revenue	-	23,513
Accrued interest payable	4,875	12,618
Current portion of long-term debt	153,156	156,000
<i>Total Current Liabilities</i>	738,204	704,142
<i>Noncurrent Liabilities</i>		
Long-term debt	1,184,878	1,310,453
Deferred compensation	26,897	53,294
Compensated absences	93,862	83,278
Net pension liability	5,540,333	8,252,018
Net OPEB liability	346,176	1,296,116
<i>Total Liabilities</i>	7,930,350	11,699,301
DEFERRED INFLOWS OF RESOURCES		
Pension related	1,989,206	74,215
OPEB related	1,398,286	980,563
<i>Total Deferred Inflows of Resources</i>	3,387,492	1,054,778
NET POSITION		
Net investment in capital assets	1,783,290	1,853,292
Restricted	147,407	59,452
Unrestricted	(6,399,457)	(7,245,250)
<i>Total Net Position</i>	\$ (4,468,760)	\$ (5,332,506)

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	2022	2021
Program Revenues		
Charges for services	\$ 152,389	\$ 110,087
Operating grants and contributions	1,293,493	1,461,301
Capital grants and contributions	234,120	185,665
Total Program Revenues	1,680,002	1,757,053
General Revenues		
Property taxes	761,145	732,711
Unrestricted state sources	2,731,908	2,591,460
Interest and investment earnings	808	290
Total General Revenues	3,493,861	3,324,461
Total Revenues	5,173,863	5,081,514
Expenses		
Instruction	2,469,211	3,134,452
Supporting services	1,147,331	1,371,208
Food services	237,646	212,264
Athletics	117,026	131,158
Interest on long-term debt	20,600	29,202
Depreciation (unallocated)	318,303	261,425
Total Expenses	4,310,117	5,139,709
Change in Net Position	863,746	(58,195)
<i>Net Position at Beginning of Period</i>	<i>(5,332,506)</i>	<i>(5,274,311)</i>
Net Position at End of Period	\$ (4,468,760)	\$ (5,332,506)

Charges for services increased \$42,302 as activities are approaching pre-COVID levels which, in turn, led to increased charges for services. Operating grants and contributions decreased by \$167,808 as the School District received less COVID-19 grant funding. Capital grants and contributions increased by \$48,455 as the School District received capital grants for the building projects. Property taxes increased by \$28,434 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 \$8,602 as a result of decreased principal balances.

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 \$247,102. 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 5.6% of total general fund expenditures.

The fund balance of the School District's general fund increased by \$181,384 for a total fund balance of \$728,056. 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 an increase of \$83,358 in fund balance for an ending balance of \$115,732. The increase in fund balance was related to revenues being greater than expenditures.

The ***student activities fund***, a non-major fund, had an increase of \$22,402 during the year for an ending fund balance of \$124,300.

The ***2003 refunding bonds fund***, a non-major fund, had an increase of \$4,591 in fund balance for an ending balance of \$31,669. Both revenues and expenditures were similar in comparison to the prior year.

The ***capital projects fund***, a non-major, had a decrease of \$9,999 in fund balance during the year, entirely a result of the 2019 school building and site project and related improvement expenditures of \$10,000. The ending fund balance was \$6.

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 \$3,353,000 to \$3,473,038 to account for the increased State funding and operation and maintenance expenditures decreased from \$585,231 to \$516,934 to account for the decreased 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, 2022:

Fund/Function	Final Budget	Actual Amount	Negative Variance
General Fund			
Special education	\$ 294,153	\$ 301,660	\$ (7,507)
Title I	96,684	98,185	(1,501)
Guidance services	37,386	37,616	(230)
Executive administration	225,146	229,847	(4,701)
Secondary office	93,784	127,226	(33,442)
Fiscal services	6,348	19,528	(13,180)
Operation and maintenance	516,934	649,356	(132,422)
Pupil transportation	184,807	185,792	(985)
Athletics	127,413	127,703	(290)
Food Service Fund			
Food services	235,259	249,163	(13,904)

Capital Asset and Debt Administration

Capital Assets

At June 30, 2022, the School District had \$3,121,324 invested in capital assets, a 5.7% decrease in the amount reported from the prior year. This net increase consisted of additions of \$129,887 net of depreciation charges of \$318,303.

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 \$1,050,468, down from \$1,154,965. 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, 2022.

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 next year's revenues will not significantly change compared to the prior year. 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.

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 Public Schools
Statement of Net Position
June 30, 2022

ASSETS

Current Assets

Cash and investments	\$ 817,455
Due from other governmental units	745,105
Accounts Receivable	10,420
Inventories	6,956
Total Current Assets	1,579,936

Noncurrent Assets

Capital assets not being depreciated	100,243
Capital assets being depreciated, net	3,021,081
Total Assets	4,701,260

DEFERRED OUTFLOWS OF RESOURCES

Pension related	1,546,702
OPEB related	601,120
Total Deferred Outflows of Resources	2,147,822

LIABILITIES

Current Liabilities

Accounts payable	185,968
Accrued salaries and other Liabilities	394,205
Accrued interest payable	4,875
Current portion of long-term debt	153,156
Total Current Liabilities	738,204

Noncurrent Liabilities

Long-term debt	1,184,878
Deferred compensation	26,897
Compensated absences	93,862
Net pension liability	5,540,333
Net OPEB liability	346,176
Total Liabilities	7,930,350

DEFERRED INFLOWS OF RESOURCES

Pension related	1,989,206
OPEB related	1,398,286
Total Deferred Inflows of Resources	3,387,492

NET POSITION

Net investment in capital assets	1,783,290
<i>Restricted for:</i>	
Debt service	31,669
Food service	115,732
Capital projects	6
<i>Unrestricted</i>	(6,399,457)
Total Net Position	\$ (4,468,760)

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

Bessemer Area Public Schools
Statement of Activities
For the Year Ended June 30, 2022

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government					
Governmental Activities:					
Athletics	\$ 117,026	\$ 33,779	\$ --	\$ --	\$ (83,247)
Food services	237,646	22,554	309,967	--	94,875
Supporting services	1,147,331	96,056	207,236	234,120	(609,919)
Instruction	2,469,211	--	776,290	--	(1,692,921)
Interest on long-term debt	20,600	--	--	--	(20,600)
Depreciation (unallocated)	318,303	--	--	--	(318,303)
Total	\$ 4,310,117	\$ 152,389	\$ 1,293,493	\$ 234,120	(2,630,115)

General Purpose Revenues and Transfers:

Unrestricted State aid	2,731,908
Property taxes, levied for general operations	624,292
Property taxes, levied for debt service	136,853
Interest and investment earnings	808
Total General Revenues and Transfers	3,493,861
Change in Net Position	863,746
<i>Net Position at Beginning of Period</i>	<i>(5,332,506)</i>
Net Position at End of Period	\$ (4,468,760)

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

Bessemer Area Public Schools
Balance Sheet
Governmental Funds
June 30, 2022

		<u>Special Revenue</u>		
	<u>General</u>	<u>Food Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and investments	\$ 128,603	\$ 532,877	\$ 155,975	\$ 817,455
Due from other governmental units	745,105	--	--	745,105
Accounts Receivable	--	10,420	--	10,420
Inventories	4,954	2,002	--	6,956
Due from other funds	429,567	--	--	429,567
<i>Total Assets</i>	\$ 1,308,229	\$ 545,299	\$ 155,975	\$ 2,009,503
LIABILITIES				
Accounts payable	\$ 185,968	\$ --	\$ --	\$ 185,968
Accrued salaries and other Liabilities	394,205	--	--	394,205
Due to other funds	--	429,567	--	429,567
<i>Total Liabilities</i>	580,173	429,567	--	1,009,740
FUND BALANCE				
Nonspendable	4,954	2,002	--	6,956
Restricted	--	113,730	31,675	145,405
Committed	--	--	124,300	124,300
Assigned	476,000	--	--	476,000
Unassigned	247,102	--	--	247,102
<i>Total Fund Balance</i>	728,056	115,732	155,975	999,763
<i>Total Liabilities and Fund Balance</i>	\$ 1,308,229	\$ 545,299	\$ 155,975	\$ 2,009,503

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

Bessemer Area Public Schools
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2022

Total Fund Balance - Governmental Funds	\$ 999,763
General government capital assets of \$12,516,057, net of accumulated depreciation of \$9,394,733, are not financial resources and, accordingly, are not reported in the funds.	3,121,324
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.	(5,982,837)
Accrued interest is not due and payable in the current period and, therefore, is not reported in the funds.	(4,875)
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.	(1,143,342)
Compensated absences and deferred compensation are not due and payable in the current period and, therefore, are not reported in the funds.	(120,759)
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, lease obligations, and bond premium.	(1,338,034)
Total Net Position-Governmental Activities	\$ <u>(4,468,760)</u>

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

Bessemer Area Public Schools
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2022

		<u>Special Revenue</u>		
	<u>General</u>	<u>Food Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Local sources	\$ 754,356	\$ 22,554	\$ 228,501	\$ 1,005,411
State sources	3,479,653	9,602	--	3,489,255
Federal sources	378,832	300,365	--	679,197
Total Revenues	4,612,841	332,521	228,501	5,173,863
Expenditures				
Instruction	2,878,925	--	--	2,878,925
Supporting services	1,424,829	--	78,667	1,503,496
Food services	--	249,163	--	249,163
Athletics	127,703	--	--	127,703
Debt service - principal	--	--	100,000	100,000
Debt service - interest	--	--	32,840	32,840
Total Expenditures	4,431,457	249,163	211,507	4,892,127
Excess of Revenues Over (Under) Expenditures	181,384	83,358	16,994	281,736
Net Change in Fund Balance	181,384	83,358	16,994	281,736
<i>Fund Balance at Beginning of Period</i>	<i>546,672</i>	<i>32,374</i>	<i>138,981</i>	<i>718,027</i>
Fund Balance at End of Period	\$ 728,056	\$ 115,732	\$ 155,975	\$ 999,763

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

Bessemer Area Public Schools
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the Year Ended June 30, 2022

Total Net Change in Fund Balances - Governmental Funds	\$ 281,736
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds, the interest expenditure is reported when due.	7,743
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.	128,419
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.	15,813
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.	216,280
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 depreciation expense of \$318,303 exceeds capital outlay expenditures of \$129,887.	(188,416)
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.	402,171
Changes in Net Position-Governmental Activities	\$ <u>863,746</u>

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

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 2022 are state appropriations for the year ended June 30, 2022, 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, 2022:

Fund/Function	Final Budget	Actual Amount	Negative Variance
General Fund			
Special education	\$ 294,153	\$ 301,660	\$ (7,507)
Title I	96,684	98,185	(1,501)
Guidance services	37,386	37,616	(230)
Executive administration	225,146	229,847	(4,701)
Secondary office	93,784	127,226	(33,442)
Fiscal services	6,348	19,528	(13,180)
Operation and maintenance	516,934	649,356	(132,422)
Pupil transportation	184,807	185,792	(985)
Athletics	127,413	127,703	(290)
Food Service Fund			
Food services	235,259	249,163	(13,904)

Net Position Deficit

As of June 30, 2022, the School District had a deficit unrestricted net position of (\$6,399,457) and total net position had a deficit balance of (\$4,468,760).

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	<u>\$ 817,455</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, \$447,592 of the School District's bank balance of \$947,592 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, 2022, 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.

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.

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.

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.

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.
- 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.

Bessemer Area Schools

Notes to the Financial Statements

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.

Note D - Long-term Liabilities

Long-term liability balances and activity for the year ended June 30, 2022 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Direct placement					
2019 school building and site bonds	\$ 1,110,000	\$ -	\$ (100,000)	\$ 1,010,000	\$ 105,000
Bond premium	44,965	-	(4,497)	40,468	-
<i>Subtotal</i>	<u>1,154,965</u>	<u>-</u>	<u>(104,497)</u>	<u>1,050,468</u>	<u>105,000</u>
Other long-term obligations					
2019 Lease obligation	311,488	-	(23,922)	287,566	48,156
Deferred compensation	53,294	-	(26,397)	26,897	-
Compensated absences	83,278	14,364	(3,779)	93,863	-
<i>Subtotal</i>	<u>448,060</u>	<u>14,364</u>	<u>(54,098)</u>	<u>408,326</u>	<u>48,156</u>
Total long-term obligations	<u>\$ 1,603,025</u>	<u>\$ 14,364</u>	<u>\$ (158,595)</u>	<u>\$ 1,458,794</u>	<u>\$ 153,156</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.

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:

Bessemer Area Schools
Notes to the Financial Statements

2019 School Building and Site Bonds			
FYE	Principal	Interest	Total
2023	\$ 105,000	\$ 29,250	\$ 134,250
2024	105,000	27,150	132,150
2025	110,000	24,000	134,000
2026	110,000	20,700	130,700
2027	110,000	17,400	127,400
2028	115,000	14,100	129,100
2029	115,000	10,650	125,650
2030	120,000	7,200	127,200
2031	120,000	3,600	123,600
Total:	\$ 1,010,000	\$ 154,050	\$ 1,164,050

2019 Lease Purchase Agreement

\$367,488 has been recorded as an intangible right to use lease. Due to the implementation of GASB Statement No.87, Leases, this lease for four 2020 IC CE 77 passenger buses met the criteria for a lease; thus, requiring them to be recorded by the School District. This asset will be amortized over the lease term of four years with an additional four years, as the School District plans to renew their four-year lease for the buses. There are no residual value guarantees in the lease provisions. The lease will end in September 2028. A summary of principal and interest amounts for the remaining lease is as follows:

FYE	Principal	Interest	Total
2023	\$ 48,156	\$ 7,844	\$ 56,000
2024	49,721	6,279	56,000
2025	45,172	10,828	56,000
2026	46,640	9,360	56,000
2027	48,156	7,844	56,000
2028	49,721	6,279	56,000
Totals	\$ 287,566	\$ 48,435	\$ 336,000

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

Bessemer Area Schools

Notes to the Financial Statements

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, 2022:

Teachers union and school administrators	\$ 82,191
AFCME union	11,671
	<u>\$ 93,862</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 \$26,897.

Note E - Capital Assets

Capital assets balances and activity for the year ended June 30, 2022 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated				
Construction in progress	\$ -	\$ 100,243	\$ -	\$ 100,243
Capital assets being depreciated				
Buildings and improvements	11,022,911	-	-	11,022,911
Equipment	632,687	29,644	-	662,331
Furniture and fixtures	181,200	-	-	181,200
School buses and vehicles	181,884	-	-	181,884
Intangible right to use - buses	367,488	-	-	367,488
<i>Subtotal</i>	<u>12,386,170</u>	<u>29,644</u>	<u>-</u>	<u>12,415,814</u>
Less Accumulated Depreciation				
Buildings and improvements	(8,409,651)	(214,224)	-	(8,623,875)
Equipment	(356,728)	(26,354)	-	(383,082)
Furniture and fixtures	(149,850)	(2,490)	-	(152,340)
School buses and vehicles	(75,985)	(22,736)	-	(98,721)
Intangible right to use - buses	(84,216)	(52,499)	-	(136,715)
<i>Subtotal</i>	<u>(9,076,430)</u>	<u>(318,303)</u>	<u>-</u>	<u>(9,394,733)</u>
Capital assets being depreciated, net	<u>3,309,740</u>	<u>(288,659)</u>	<u>-</u>	<u>3,021,081</u>
Capital assets, net	<u>\$ 3,309,740</u>	<u>\$ (188,416)</u>	<u>\$ -</u>	<u>\$ 3,121,324</u>

Depreciation expense for the fiscal year amounted to \$318,303. The School District determined that was impractical to allocate depreciation expense to the various activities as the capital assets serve multiple functions.

Bessemer Area Schools

Notes to the Financial Statements

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 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.

Bessemer Area Schools
Notes to the Financial Statements

Contributions

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2019 valuation will be amortized over a 19-year period beginning October 1, 2019 and ending September 30, 2038.

The schedule below summarizes pension contribution rates in effect for fiscal year ended September 30, 2021.

<u>Benefit Structure</u>	<u>Member</u>	<u>Non-Universities</u>
Basic	0.0 - 4.0%	19.78%
Member investment plan	3.0 - 7.0%	19.78%
Pension plus	3.0 - 6.4%	16.82%
Pension plus 2	6.2%	19.59%
Defined contribution	0.0%	13.39%

Required contributions to the pension plan from the School District were \$702,650 for the year ended September 30, 2021.

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

At June 30, 2022, the School District reported a liability of \$5,540,333 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2020. 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, 2021, the School District's proportion was 0.02340%, which was an decrease of 0.00062% from its proportion measured as of September 30, 2020.

For the year ending June 30, 2022, the School District recognized pension expense of \$688,654.

Bessemer Area Schools

Notes to the Financial Statements

At June 30, 2022, 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	\$ 85,822	\$ 32,626
Changes of assumptions	349,243	-
Net difference between projected and actual earnings on pension plan investments	-	1,781,199
Changes in proportion and differences between employer contributions and proportionate share of contributions	275,166	175,381
Employer contributions subsequent to the measurement date	836,471	-
Total	\$ 1,546,702	\$ 1,989,206

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 be recognized as a reduction of the net pension liability in the year ending June 30, 2023. 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 September 30	Amount:
2022	\$ (71,036)
203	(260,927)
2024	(446,987)
2025	(500,025)

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, 2020
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:	RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP- 2017 from 2006.

Notes:

- Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2018 valuation. The total pension liability as of September 30, 2021, is based on the results of an actuarial valuation date of September 30, 2020, 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: 4.4367
- Recognition period for assets in years: 5.0000
- Full actuarial assumptions are available in the 2021 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

Bessemer Area Schools

Notes to the Financial Statements

major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2021, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return*
Domestic equity pools	25.0%	5.4%
Private equity pools	16.0	9.1
International equity pools	15.0	7.5
Fixed income pools	10.5	(0.7)
Real estate and infrastructure pools	10.0	5.4
Absolute return pools	9.0	2.6
Real return/opportunistic pools	12.5	6.1
Short-term investment pools	2.0	(1.3)
Total	100.0%	

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

Rate of Return

For the fiscal year ended September 30, 2021, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 27.3%. 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%
\$7,921,174	\$5,540,333	\$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, 2021.

Benefit Structure	Member	Non-Universities
Premium subsidy	3.00%	8.43%
Personal healthcare fund (PHF)	0.00%	7.57%

Required contributions to the OPEB plan from the School District were \$168,360 for the year ended September 30, 2021.

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

At June 30, 2022, the School District reported a liability of \$346,176 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2020. 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, 2021, the School District's proportion was 0.02268%, which was an decrease of 0.00151% from its proportion measured as of October 1, 2020.

For the year ending June 30, 2022, the School District recognized OPEB expense of (\$157,277). At June 30, 2022, 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	\$ -	\$ 988,134
Changes of assumptions	289,386	43,303
Net difference between projected and actual earnings on pension plan investments	-	260,919
Changes in proportion and differences between employer contributions and proportionate share of contributions	119,548	105,930
Employer contributions subsequent to the measurement date	192,186	-
Total	\$ 601,120	\$ 1,398,286

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, 2023.

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:
2022	\$ (242,739)
2023	(220,012)
2024	(208,604)
2025	(217,214)
2026	(89,092)
Thereafter	(11,691)

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, 2020
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:	7.75% Year 1 graded to 3.5% Year 15; 3.0% Year 12
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, 2018 valuation. The total OPEB liability as of September 30, 2021, is based on the results of an actuarial valuation date of September 30, 2020, 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: 6.1312
- Recognition period for assets in years: 5.0000
- Full actuarial assumptions are available in the 2021 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, 2021, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return*
Domestic equity pools	25.0%	5.4%
Private equity pools	16.0	9.1
International equity pools	15.0	7.5
Fixed income pools	10.5	(0.7)
Real estate and infrastructure pools	10.0	5.4
Absolute return pools	9.0	2.6
Real return/opportunistic pools	12.5	6.1
Short-term investment pools	2.0	(1.3)
Total	100.0%	

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

Rate of Return

For the fiscal year ended September 30, 2021, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 27.14%. 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

Bessemer Area Schools

Notes to the Financial Statements

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%
\$643,257	\$346,176	\$94,060

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
\$84,256	\$346,176	\$640,866

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2021 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

Bessemer Area Schools

Notes to the Financial Statements

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 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, 2022 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.

Bessemer Area Schools

Notes to the Financial Statements

The following schedule summarizes the School District's components of fund balance as of June 30, 2022:

	<u>Special Revenue</u>		<u>Other</u>	
	<u>General</u>	<u>Food Service</u>	<u>Governmental</u>	<u>Total</u>
			<u>Funds</u>	
Nonspendable:				
Inventories	\$ 4,954	\$ 2,002	\$ -	\$ 6,956
Restricted for:				
Debt service	-	-	31,669	31,669
Capital projects	-	-	6	6
Food service	-	113,730	-	113,730
<i>Total restricted</i>	<u>-</u>	<u>113,730</u>	<u>31,675</u>	<u>145,405</u>
Committed for:				
Student activities	-	-	124,300	124,300
Assigned for:				
Bus purchase	65,000	-	-	65,000
Bus lease	56,000	-	-	56,000
5% revenue reserve	355,000	-	-	355,000
<i>Total assigned</i>	<u>476,000</u>	<u>-</u>	<u>-</u>	<u>476,000</u>
Unassigned	223,589	-	-	223,589
<i>Total Fund Balances</i>	<u>\$ 704,543</u>	<u>\$ 115,732</u>	<u>\$ 155,975</u>	<u>\$ 976,250</u>

Note J - Interfund Receivables and Payables

Interfund balances as of June 30, 2022 consisted of \$429,567 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.

Required Supplementary Information

Bessemer Area Public Schools
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Consolidated General Fund
For the Year Ended June 30, 2022

	Budgeted Amounts			Variance Favorable (Unfavorable)
	Original	Final	Actual	Final to Actual
Revenues				
Local sources	\$ 667,800	\$ 727,947	\$ 754,356	\$ 26,409
State sources	3,353,000	3,473,038	3,479,653	6,615
Federal sources	296,147	286,047	378,832	92,785
Total Revenues	4,316,947	4,487,032	4,612,841	125,809
Expenditures				
Instruction				
Elementary	1,233,800	1,256,398	1,241,455	14,943
Secondary	1,008,337	1,057,723	1,031,791	25,932
Special education	386,400	294,153	301,660	(7,507)
Title I	87,954	96,684	98,185	(1,501)
At risk	185,000	180,244	177,669	2,575
Title IIA	15,712	18,165	18,165	--
Title IV	10,000	10,000	10,000	--
Total instruction	2,927,203	2,913,367	2,878,925	34,442
Supporting Services				
Guidance services	25,000	37,386	37,616	(230)
Health services	800	141	141	--
Board of education	43,730	35,858	19,072	16,786
Executive administration	246,550	225,146	229,847	(4,701)
Elementary office	144,740	105,704	77,287	28,417
Secondary office	100,400	93,784	127,226	(33,442)
Fiscal services	8,500	6,348	19,528	(13,180)
Other business services	8,500	6,374	6,374	--
Operation and maintenance	585,231	516,934	649,356	(132,422)
Pupil transportation	158,155	184,807	185,792	(985)
Technology	71,000	73,098	72,590	508
Total supporting services	1,392,606	1,285,580	1,424,829	(139,249)
Athletics	144,740	127,413	127,703	(290)
Total Expenditures	4,464,549	4,326,360	4,431,457	(105,097)
Other Financing Uses				
Total Expenditures and Other Financing Uses	4,464,549	4,326,360	4,431,457	(105,097)
Excess (Deficiency) of Revenues Over Expenditures	(147,602)	160,672	181,384	20,712
Net Change in Fund Balance	(147,602)	160,672	181,384	20,712
Fund Balance at Beginning of Period	546,672	546,672	546,672	--
Fund Balance at End of Period	\$ 399,070	\$ 707,344	\$ 728,056	\$ 20,712

Bessemer Area Public Schools
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Food Service
For the Year Ended June 30, 2022

	Budgeted Amounts			Variance Favorable (Unfavorable)
	Original	Final	Actual	Final to Actual
Revenues				
Local sources	\$ 10,500	\$ 22,555	\$ 22,554	\$ (1)
State sources	6,500	8,282	9,602	1,320
Federal sources	170,000	275,437	300,365	24,928
Total Revenues	187,000	306,274	332,521	26,247
Expenditures				
Food services	200,200	235,259	249,163	(13,904)
Total Expenditures	200,200	235,259	249,163	(13,904)
Excess (Deficiency) of Revenues				
Over Expenditures	(13,200)	71,015	83,358	12,343
Net Change in Fund Balance	(13,200)	71,015	83,358	12,343
<i>Fund Balance at Beginning of Period</i>	<i>32,374</i>	<i>32,374</i>	<i>32,374</i>	<i>--</i>
Fund Balance at End of Period	\$ 19,174	\$ 103,389	\$ 115,732	\$ 12,343

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

	<u>2021</u>	<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 (%)	0.02340%	0.02402%	0.02304%	0.02156%	0.02160%	0.02199%	0.02279%	0.02373%
School District's Proportionate Share of Net Pension Liability	\$ 5,540,333	\$ 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	\$ 2,093,669	\$ 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	264.62%	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	72.60%	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 Eight School District Fiscal Years (Amounts determined as of June 30 of each year)

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily Required Contributions	\$ 702,650	\$ 660,172	\$ 612,143	\$ 587,025	\$ 506,577	\$ 437,065	\$ 429,061	\$ 423,352
Contributions in Relation to Statutorily Required Contributions	<u>702,650</u>	<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>	<u>\$ -</u>
School District's Covered Payroll	\$ 2,093,076	\$ 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	33.57%	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>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
School District's Portion of Net OPEB Liability (%)	0.02268%	0.02419%	0.02375%	0.02152%	0.02158%
School District's Proportionate Share of Net OPEB Liability	\$ 346,176	\$ 1,296,116	\$ 1,705,035	\$ 1,710,885	\$ 1,911,240
School District's Covered Payroll	\$ 2,093,669	\$ 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	16.53%	59.76%	81.56%	92.91%	105.74%
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	87.33%	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>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily Required Contributions	\$ 168,360	\$ 170,934	\$ 163,100	\$ 139,708	\$ 168,030
Contributions in Relation to Statutorily Required Contributions	<u>168,360</u>	<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>	<u>\$ -</u>
School District's Covered Payroll	\$ 2,093,076	\$ 2,157,879	\$ 2,134,402	\$ 2,060,511	\$ 1,817,383
Contributions as a Percentage of Covered Payroll	8.04%	7.92%	7.64%	6.78%	9.25%

Combining and Individual Fund Statements and Schedules

**Bessemer Area Public Schools
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2022**

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Student Activities</u>	<u>2003 Refunding Bonds</u>	<u>Capital Projects</u>	
ASSETS				
Cash and investments	\$ 124,300	\$ 31,669	\$ 6	\$ 155,975
<i>Total Assets</i>	\$ 124,300	\$ 31,669	\$ 6	\$ 155,975
LIABILITIES				
<i>Total Liabilities</i>	\$ --	\$ --	\$ --	\$ --
FUND BALANCE				
Restricted	--	31,669	6	31,675
Committed	124,300	--	--	124,300
Unassigned	--	--	--	--
<i>Total Fund Balance</i>	124,300	31,669	6	155,975
<i>Total Liabilities and Fund Balance</i>	\$ 124,300	\$ 31,669	\$ 6	\$ 155,975

Bessemer Area Public Schools
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2022

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Student Activities</u>	<u>2003 Refunding Bonds</u>	<u>Capital Projects</u>	
Revenues				
Local sources	\$ 91,069	\$ 137,431	\$ 1	\$ 228,501
Total Revenues	<u>91,069</u>	<u>137,431</u>	<u>1</u>	<u>228,501</u>
Expenditures				
Supporting services	68,667	--	10,000	78,667
Debt service - principal	--	100,000	--	100,000
Debt service - interest	--	32,840	--	32,840
Total Expenditures	<u>68,667</u>	<u>132,840</u>	<u>10,000</u>	<u>211,507</u>
Excess of Revenues Over (Under) Expenditures	<u>22,402</u>	<u>4,591</u>	<u>(9,999)</u>	<u>16,994</u>
Net Change in Fund Balance	22,402	4,591	(9,999)	16,994
Fund Balance at Beginning of Period	101,898	27,078	10,005	138,981
Fund Balance at End of Period	<u>\$ 124,300</u>	<u>\$ 31,669</u>	<u>\$ 6</u>	<u>\$ 155,975</u>

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, the major fund, and the aggregate remaining fund information of Bessemer Area Schools (the "School"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated October 21, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Report on Compliance and Other Matters

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

Purpose of This Report

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

A handwritten signature in dark ink that reads "Gabridge & Company". The signature is written in a cursive, flowing style.

Gabridge & Company, PLC
Traverse City, MI
October 21, 2022

October 21, 2022

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") for the year ended June 30, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 26, 2022. 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 are described in Note 1 to the financial statements. We noted no transactions entered into by the governmental unit 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 estimate affecting the School's financial statements was:

- 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.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 26, 2022.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit'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 management's discussion and analysis and the budgetary comparison schedule, 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 use of management, the Board of Education, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

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

Gabridge & Company, PLC
Traverse City, MI