GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

KEWEENAW COUNTY

COPPER HARBOR, MICHIGAN 49918

FINANCIAL STATEMENTS

For the Year Ended June 30, 2022

Susan D Sanford, CPA PLLC   3303 Silver Lake Road, Traverse City, MI 49684
susan.sanford@cpa.com

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

KEWEENAW COUNTY

Board of Education

Grant Township School District No. 2

346 Gratiot Street
Copper Harbor, M 49918

Phone: (906) 289-4447

Website: www.copperharborschool.org

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

TABLE OF CONTENTS

Susan D. Sanford, CPA PLLC
3303 Silver Lake Road, Traverse City, MI 49684
(231) 357-5092
Email: susan.sanford@cpa.com

Member of:
-American Association of Certified Public Accountants
-Certified Fraud Examiners Association
-Michigan Association of Certified Public Accountants

Independent Auditor's Report

To the Grant Township School District No. 2
Board of Education
346 Gratiot Street
Copper Harbor, Michigan 49918

Opinions

I have audited the financial statements of the governmental activities and the major fund of the Grant Township School District No. 2 (the "District"), as of and for the year ended June 30, 2022 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

In my opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Grant Township School District No. 2 as of June 30, 2022 and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

To the Members of the Board of
Grant Township School District No. 2
Copper Harbor, Michigan 49918

Independent Auditor's Responsibilities for the Audit of the Financial Statements

My 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 my 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 GAAS 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 GAAS and *Government Auditing Standards*, I:

- 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 District'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 my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

I am 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 I identified during the audit.

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplemental information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplemental 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

To the Members of the Board of
Grant Township School District No. 2
Copper Harbor, Michigan 49918

information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated October 31, 2022, on my consideration of the District's internal control over financial reporting and on my 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 my 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 District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Very truly yours,

Susan D Sanford, CPA PLLC

Susan D Sanford, CPA PLLC
Certified Public Accountant

October 31, 2022

MANAGEMENT’S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2022

Using this Annual Report

Our discussion and analysis of Grant Township School District No. 2 (the "District") is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the District's financial activity; c) identify changes in the District's financial position (its ability to address the next and subsequent year challenges; d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

Financial Highlights

- The District's total net position increased $3,658 (5 percent) as a result of this year's operations.
- The net position at the end of the fiscal year was $79,629, which included an unrestricted deficit of $103,867 in this balance. The deficit was created when the net pension and net other postemployment liabilities and deferred amounts were recognized, which had a net decrease of $326,824 toward the net position.
- The General Fund's unassigned fund balance at the end of the fiscal year was $199,072 which represents 84 percent of the actual total General Fund expenditures for the current fiscal year.

Overview of the Financial Statements

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

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status. These statements report information about the District, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the government's assets and liabilities. 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 government-wide statements report the District's net position and how they have changed.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities report information about the District, as a whole, and about its activities in a way that helps answer the question of whether the District, as a whole, is better off or worse off as a result of the year's activities. The two statements, mentioned above, report the District's net position and how it has changed. The reader can think of the District's net position (the difference between assets and liabilities) as one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating.

Reporting the District's Major Fund

The fund financial statements begin with the Statement of Net Position and provide detailed information about the major fund. The District has only one fund (general fund) in which all of the District's activities are accounted.

Governmental Fund--The governmental fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the District's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

Financial Analysis of the District as a Whole

Condensed Statement of Net Position

	2021	2022	Variance	%
Assets				
Current and other assets	$ 226,828	$ 261,249	$ 34,421	15.17%
Capital assets	220,798	205,797	(15,001)	-6.79%
Total assets	447,626	467,046	19,420	4.34%
Deferred outflows of resources	137,823	65,923	(71,900)	-52.17%
Liabilities				
Other liabilities	31,078	38,292	7,214	23.21%
Long-term liabilities	405,782	264,743	(141,039)	-34.76%
Total liabilities	436,860	303,035	(133,825)	-30.63%
Deferred inflows of resources	72,618	150,305	77,687	106.98%
Net position				
Net invested in capital assets	188,137	183,173	(4,964)	-2.64%
Unrestricted (deficit)	(112,166)	(103,544)	8,622	7.69%
Total net position	$ 75,971	$ 79,629	$ 3,658	4.81%

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by $79,629 at the close of 2022.

By far the largest portion of the District's net position reflects its investment in capital assets, which was $183,496, which was offset by the balance of the lease installment purchase for a new bus. The unrestricted net position had a deficit of $103,867. The deficit in District's net position includes a net pension liability and related deferred inflows and outflows of $272,571 and net OPEB liability and related deferrals of $3,658. The unrestricted net position balance, excluding the effects of these pronouncements enables the District to meet working capital cash flow requirements, as well as to provide for future uncertainties. The operating results of General Fund will have a significant impact on the changes in unrestricted net position from year to year.

Condensed Statement of Activities

	2021	2022	Variance	Percentage
Program revenue				
Charges for services	$ 3,500	$ 3,500	$ -	0.00%
Operating grants and contributions	29,476	26,621	(2,855)	-9.69%
Nonoperating revenue				
Property taxes	192,501	209,499	16,998	8.83%
State sources	32,388	23,185	(9,203)	-28.41%
Investment earnings	559	462	(97)	-17.35%
Total revenue	258,424	263,267	4,843	1.87%
Operating expense				
Instruction	116,751	161,113	44,362	38.00%
Support services	89,941	97,381	7,440	8.27%
Interest expense	1,633	1,115	(518)	-100.00%
Total operating expense	208,325	259,609	51,284	24.62%
Increase (decrease) in net position	50,099	3,658	(46,441)	-92.70%
Beginning net position	25,872	75,971	50,099	193.64%
Ending net position	$ 75,971	$ 79,629	$ 3,658	4.81%

The revenues increased by $4,843. The increase was primarily due to an increase in property taxes and a decrease in state aid. The expenses increased by $51,284 in all classifications. The main reason for the increase is pension expense ($34,794) and depreciation expense ($18,452) and OPEB expense credits. There were also increases in salary and fringes.

The District's General Fund

The fund level financial statements are reported on a modified accrual basis. Only those assets that are: "measurable" and "currently available" are reported. Liabilities are recognized when incurred.

	2021	2022	Amount Difference	Percentage Difference
Revenues				
Local sources	$ 192,501	$ 209,499	$ 16,998	9%
Earnings on investments	559	462	(97)	-17%
Other local sources	6,140	2,285	(3,855)	-63%
State sources	32,388	23,185	(9,203)	-28%
Federal sources	23,336	24,336	1,000	4%
Inter-district sources	3,500	3,500	-	0%
Total revenues	258,424	263,267	4,843	2%
Expenditures				
Instruction	141,792	143,480	1,688	1%
Support services:				
General administration	39,210	38,323	(887)	-2%
Operations and maintenance	15,077	14,710	(367)	-2%
Transportation	25,335	24,621	(714)	-3%
Debt service	11,993	11,993	-	0%
Capital outlay	-	3,451	3,451	100%
Total expenditures	233,407	236,578	3,171	1%
Excess (deficiency) of revenues over expenditures	25,017	26,689	1,672	7%
Beginning fund balance	172,366	197,383	25,017	15%
Ending fund balance	$ 197,383	$ 224,072	$ 26,689	14%

The revenues increased by $4,844. There was an increase in property taxes ($15,132) due to an increase in taxable value and millage rate and a reduction in State aid ($9,203) in 2022. The expenditures increased by $3,170, as compared to the prior year. There were slight increases/decreases in most departments and an increase in capital outlay of $3,451.

Budgetary Highlights

Prior to the beginning of any year, the District's budget is compiled based upon certain assumptions and facts available at that time. During the year, the District's Board of Education acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled.

The final amended budget and actual revenue for the General Fund was $268,071 and $263,267, respectively. The revenue budget was amended throughout the year, the largest amendment was in the State aid. The original expenditure budget was $241,558 and was amended throughout the year as needed. The final amended expenditure budget was $264,735 and the final actual expenditures were $236,578. The largest budget amendment was in the instruction function, which had an increase of $22,020.

Capital Asset Administration

The District's investment in capital assets at June 30, 2022, amounts to $205,797 (net of accumulated depreciation). During 2022, there was capital outlay of $3,451 (one laptop and four Chromebooks) and depreciation expense of $18,452. There was a net decrease of $15,001 in the District's net investments in capital assets for the current fiscal year. More details can be found in Note 4 in the notes to the financial statements.

Long-Term Obligations

The District has one installment purchase agreement for the purchase of a bus for $54,521 during 2020. The lease purchase was for a period of four years at five percent interest. During 2022, there was a principal payment of $10,878, leaving a balance due of $22,301 at June 30, 2022. More details can be found in Note 5 of the notes to the financial statements.

Economic Factors and Next Year's Budget

The District depends primarily on local non-principal residence property taxes to fund its operations. Based on information currently available, there will be a slight increase expected to occur in the nature of the funding for operations of the District in 2022/2023. The budget will also include a slight increase in salaries and wages and related fringe benefits.

Contacting the District's Management

This financial report is intended to provide a general overview of the District's finances to those with an interest in the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact Ms. Miranda Kilpela Davis, P.O. Box 74, Copper Harbor, Michigan 49918.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2
STATEMENT OF NET POSITION
June 30, 2022

ASSETS	
Cash and investments	$ 256,597
Receivables	4,652
Capital assets being depreciated, net	205,797
Total assets	467,046
DEFERRED OUTFLOWS OF RESOURCES	
Deferred pension amounts	40,307
Deferred other postemployment benefit amounts	25,616
Total deferred outflows of resources	65,923
LIABILITIES	
Accounts payable and accrued liabilities	30,404
Due to other governments	6,773
Interest payable	1,115
Long-term debt:	
Long-term debt-due within one year	10,878
Long-term debt-due in more than one year	11,423
Net pension liability	227,499
Other postemployment benefits liability	14,943
Total liabilities	303,035
DEFERRED INFLOWS OF RESOURCES	
Deferred pension amounts	85,173
Deferred other postemployment benefit amounts	65,132
Total deferred inflows of resources	150,305
NET POSITION	
Net investment in capital assets	183,496
Unrestricted (deficit)	(103,867)
Total net position	$ 79,629

The Notes to Financial Statements are an integral part of this statement.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2022

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenues
Governmental activities				
Instruction	$ 161,113	$ -	$ 21,640	$ (139,473)
Supporting services	97,381	3,500	4,981	(88,900)
Interest expense	1,115	-	-	(1,115)
Total governmental activities	$ 259,609	$ 3,500	$ 26,621	$ (229,488)

General revenues:	
Property taxes	$ 209,499
State sources - unrestricted	23,185
Unrestricted investment earnings	462
Total general revenues	233,146
Change in net position	3,658
Net position beginning of year	75,971
Net position, end of year	$ 79,629

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2
BALANCE SHEET
June 30, 2022

		GOVERNMENTAL FUND TYPE
Assets		General Fund
Cash and investments	$	256,597
Receivables:		
Accounts receivable		48
Due from other governments		4,604
Total assets	$	261,249
Liabilities, Deferred Inflow of Resources and Fund Balance		
Liabilities		
Accounts payable	$	8,634
Accrued salaries and other liabilities		21,770
Due to other governments		6,773
Total liabilities		37,177
Fund balance		
Unrestricted fund balance		
Assigned for transportation		25,000
Unassigned		199,072
Total fund balance		224,072
Total liabilities, deferred inflow of resources and fund balance	$	261,249

The Notes to Financial Statements are an integral part of this statement.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2
RECONCILIATION OF THE BALANCE SHEET FUND
BALANCE TO THE STATEMENT OF NET POSITION
For the Year Ended June 30, 2022

Total governmental fund balance		$ 224,072
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the fund.		
Capital assets	$ 375,954	
Accumulated depreciation	(170,157)	205,797
Long-term liabilities are not due and payable in the current period and are not reported in the fund statement.		
Installment purchase agreement payable	(22,301)	
Note payable	(1,115)	(23,416)
Certain pension and other postemployment benefit-related amounts, such as the net pension liability, net other postemployment benefit liability and deferred amounts are not due and payable in the current period or do not represent current financial resources, and therefore are not reported in the funds.		
Net pension liability	(227,499)	
Net other postemployment benefit liability	(14,943)	
Deferred outflows related to net pension liability	40,307	
Deferred inflows related to net pension liability	(85,173)	
Deferred outflows related to net other postemployment benefit liability	25,616	
Deferred inflows related to net other postemployment benefit	(65,132)	(326,824)
Net position of governmental activities		$ 79,629

The Notes to Financial Statements are an integral part of this statement.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
For the Year Ended June 30, 2022

	General Fund
Revenues	
Local sources	$ 209,499
Earnings on investments and deposits	462
Other local sources	2,285
State sources	23,185
Federal sources	24,336
Inter-district sources	3,500
Total revenues	263,267
Expenditures	
Current	
Instruction	143,480
Support services	77,654
Capital outlay	3,451
Debt service	
Principal	10,360
Interest	1,633
Total expenditures	236,578
Revenues over (under) expenditures	26,689
Net change in fund balance	26,689
Fund balance--beginning	197,383
Fund balance--ending	$ 224,072

The Notes to Financial Statements are an integral part of this statement.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2022

Net Change in Fund Balance--Total Governmental Fund		$ 26,689
Amounts reported for governmental activities in the statement of		
Capital assets used in governmental activities are not financial resources and are not reported in the fund.		
Capital assets purchased	$ 3,451	
Depreciation expense	(18,452)	(15,001)
Repayment of installment purchase agreements is an expenditure in governmental funds, but reduces the long-term liabilities and accrued interest payable in the statement of net position		
Principal payment	10,360	
Change in interest payable	518	10,878
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Pension expense	(34,794)	
OPEB expense	15,886	(18,908)
Change in net position of governmental activities		$ 3,658

The Notes to Financial Statements are an integral part of this statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements of Grant Township School District No. 2 (the “District”), Keweenaw County, were prepared in accordance with accounting principles generally accepted in the United States of America for governmental units. The following is a summary of the more significant policies and should be viewed as an integral part of this report:

A - Reporting Entity

The District is governed by an elected five-member Board of Education. The District has determined that no entities should be consolidated into the basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relations with the District.

B - Financial Statement Presentation

Government-Wide Financial Statements. The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information of the activities of the District. There is only one fund reported in the government-wide financial statements. The General Fund accounts for all of the financial resources of the District. It is the District’s only fund.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Program expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Property taxes, intergovernmental payments and other items not included as program revenues are reported instead as general revenues. Internally dedicated resources are reported as general revenues rather than as program revenues.

The Statement of Net Position presents the District’s assets and deferred outflows of resources and liabilities and deferred inflows of resources with the difference being reported as either invested in capital assets or restricted net position.

Fund Financial Statements. Separate financial statements are provided for the General Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C - Measurement Focus and Basis of Accounting

Government-Wide Financial Statements. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Property taxes, intergovernmental revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. When an expense is incurred for purposes for which both restricted and unrestricted net position or fund balance are available, the District’s policy is to first apply restricted resources.

D - Budgets and Budgetary Accounting

The governmental fund is under formal budgetary control. The budget is adopted at the function level and control is exercised at the function level by the District’s Board of Education. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for this fund. Budgeted revenues and expenditures, as presented in the financial statements, include any authorized amendments to the original budget as adopted. All annual appropriations lapse at year end. Encumbrance accounting is not utilized by the District.

E - Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. The District did not have any short-term investments at June 30, 2022. Investments are stated at fair value.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F – Receivables

Accounts receivable is primarily amounts due from other units of government. No allowance for uncollectible amounts was recorded.

G – Taxes Receivable

Property taxes are levied and becomes a lien as of December 1 on the taxable valuation of the property located within the District as of the preceding December 1st. Property taxes are payable without interest on or before February 14.

The 2021 taxable valuation was $41,252,991, on which the Districted levied 5.1558 mills on non-principal residences and commercial personal property. The taxes collected are recognized during the fiscal year 2022.

H – Unearned Revenue

Revenue that is received, but has not been earned, is recorded as unearned revenue in both the government-wide and fund financial statements.

I - Capital Assets

Capital assets, which include property and improvements, buses and other vehicles, and furniture and other equipment are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than $5,000 and computer and other electronic equipment with an initial cost of more than $500. Capital assets are stated at historical cost or estimated historical cost of purchase or construction. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized.

Depreciation

Depreciation is computed on the straight-line method over the following useful lives:

Assets	Years
Buildings and improvements	10 to 50 years
Buses and other vehicles	5 to 10 years
Furniture and other equipment	5 to 25 years

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J – 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 District reports deferred outflows of resources related to the net pension liability and net other postemployment benefit liability. A portion of these costs represents contributions to the plan subsequent to the plan measurement date.

K – Deferred Inflows of Resources

In addition to liabilities, the statement of net position and/or balance sheet 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 governmental funds also report unavailable revenues, which arise only under a modified accrual basis of accounting that are reported as deferred inflows of resources (State and Federal received past 60 days after year end). These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District's deferred inflows of resources are related to pension and other postemployment benefit liabilities in the government-wide financial statements.

L – Compensated Absences

The District generally provides for granting sick and personal leave with pay. There is no liability for unpaid accumulated sick or personal leave pay since the District does not have a policy to pay any amounts when employees separate from service from the District. A liability for these amounts, including related benefits, is reported in government funds only if they have matured, for example, as a result of resignations or retirements.

M - Pension

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPSERS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by MPSERS. 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. The pension net liability and related deferred inflows/outflows and pension expense are reported in the government-wide financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N - Other Postemployment Benefit (OPEB) Costs

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 (MPSERS) Plan and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. 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. The OPEB net liability and related deferred inflows/outflows and OPEB expense are reported in the government-wide financial statements.

O - Long-term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental statement of net position. In the fund financial statements, debt is recognized as other financial sources received with no liability recorded.

P - Fund Balance/Net Position

In the fund financial statements, governmental funds report the following components of fund balance:

Restricted Fund Balance:

- Nonspendable – Includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Items such as prepaid expenses are included in this component.
- Restricted – Constraints placed on the use of resources are either externally imposed by creditors or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Fund Balance:

- Committed – Amounts that can only be used for specific purposes pursuant to constrictions imposed by formal action of the District’s Board of Education. Commitments are made and can be rescinded only via resolution of the board
- Assigned – Amounts that are constrained by the District’s intent to be used for specific purposes but are neither restricted nor committed.
- Unassigned – any remaining fund balance not included in any of the other four categories.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide financial statement net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. The District may report three categories of net position as follows: (1) *investment of capital assets*, net of related debt; (2) *Restricted net position* is considered restricted if its use is constrained to a particular purpose. Restrictions are imposed by external organizations, such as federal and state laws. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets; (3) Unrestricted *net position* consists of all other net position that does not meet the definition of the above components and is available for general use by the District.

Q - Fund Balance Flow Assumption

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

R - Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

S – State Foundation Revenue

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

T - Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles (GAAP), requires management to make estimates and assumptions that affect the reported amounts of the following: assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

U - Adoption of New Accounting Pronouncement

During the current year, the District adopted GASB Statement No. 87, Leases. There has been no activity related to leases in the current year or in recent years.

NOTE 2--BUDGETARY LEGAL COMPLIANCE

Budgetary Procedures

Budgetary procedures are established pursuant to Public act 2 of 1968, as amended (MCL 141.421), which requires the Board of Education to approve a budget for the District. Pursuant to the Act, the District's chief administrative officer prepares and submits a proposed operating budget to the Board of Education for its review and consideration. The Board of Education conducts a public budget hearing and subsequently, adopts the operating budget. The budget is prepared on the modified accrual basis of accounting which is the same basis as the financial statements. The budget is reviewed and amended throughout the year.

NOTE 3--CASH DEPOSITS AND INVESTMENTS

Michigan Compiled Laws (MCL), Section 129.91 (Public Act 20 of 1943, as amended), authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government

in Michigan; and commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The District has designated three financial institutions for the deposit of its funds. The investment policy adopted by the District in accordance with Public Act 196 of 1997 has authorized investments permitted under Public Act 20 of 1943, as amended. The District's deposits and investment policies are in accordance with statutory authority.

NOTE 3--CASH DEPOSITS AND INVESTMENTS (Continued)

At June 30, 2022, the District's deposits (there were no investments other than long-term certificates of deposits) were reported in the basic financial statements in the following categories:

	Book Balance	Bank Balance
Bank Deposits (Checking and Savings Accounts)	$ 209,930	$ 212,130
Certificates of Deposits	46,630	46,630
Total	$ 256,560	$ 258,760

All of the bank deposits and certificates of deposits were covered under the federal depository insurance no remaining balance was uncollateralized. At the year-end (and during the year) the District did not have any investments other than a certificate of deposits.

Disclosures Relating to Credit Risk. Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Interest Rate Risk. Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The District will minimize interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operating, thereby avoiding the need to sell securities on the open market prior to maturities.

Concentration of Credit Risk-Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year-end, $0 of the bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized. As a result, the District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable level are used as depositories.

Custodial Credit Risk. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law does not contain requirements that would limit the exposure to custodial credit risk for deposits. However, the asset diversification requirements included in the District's investment policy would limit, to some extent, exposure to custodial credit risk for deposits. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

NOTE 4--CAPITAL ASSETS

The following is a summary of the changes in the capital assets:

Primary government	Beginning Balance	Additions	Deductions	Ending Balance
Governmental activities				
Capital assets being depreciated				
Building and improvements	$ 255,008	$ -	$ -	$ 255,008
Vehicle	104,773	-	-	104,773
Equipment	12,722	3,451	-	16,173
Total capital assets	372,503	3,451	-	375,954
Accumulated depreciation				
Building and improvements	78,094	8,766	-	86,860
Vehicle	63,271	8,314	-	71,585
Equipment	10,340	1,372	-	11,712
Total accumulated depreciation	151,705	18,452	-	170,157
Total capital assets being depreciated--net	220,798	(15,001)	-	205,797
Total net capital assets	$ 220,798	$ 3,451	$ 18,452	$ 205,797

Depreciation expense was charge to the following activities:

Governmental activities	
Instruction	$ 1,372
Operations and maintenance	8,766
Transportation	8,314
Total depreciation expense	$ 18,452

NOTE 5—LONG-TERM DEBT

The District purchased a 2019 Blue Bird Bus on an installment purchase agreement. The total cost of the bus was $54,521 and will be paid off over four years with annual payments of $11,993 at an interest rate of five percent.

NOTE 5—LONG-TERM DEBT (Continued)

The long-term debt of the District, and the changes therein, may be summarized as follows:

	Beginning Balance	Additions	(Reductions)	Ending Balance	Due Within One Year
Governmental Activities					
Blue Bird Bus, for 4 years with annual payments of $11,993 at 5% interest	$ 32,661	$ -	$ (10,360)	$ 22,301	$ 10,878
Total Governmental Activities	$ 32,661	$ -	$ (10,360)	$ 22,301	$ 10,878

Annual debt service requirements to maturity for the above loans and contractual obligations are as follows:

Fiscal year ended	Governmental Activities Principal	Interest	Total
2023	$ 10,878	$ 1,115	$ 11,993
2024	11,423	570	11,993
Total	$ 22,301	$ 1,685	$ 23,986

NOTE 6--NET INVESTMENT IN CAPITAL ASSETS

The following summarizes the components of investment in capital assets, net of related debt reported in the Statement of Net Position at June 30, 2022:

Capital assets	
Depreciable, net	$205,797
Total net capital assets	205,797
Related debt	
Installment purchase payable	(22,301)
Total related debt	(22,301)
Net investments in capital assets	$183,496

NOTE 7--EMPLOYEES' RETIREMENT PLAN

Summary of Significant Accounting Policies

Pensions--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 (MPSERS) and additions to/deductions from MPSERS' fiduciary net position have been determined on the same basis as they are reported by MPSERS. 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.

General Information about the 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.

NOTE 7--EMPLOYEES' RETIREMENT PLAN (Continued)

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

Contributions

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2020 valuation will be amortized over an 18-year period beginning October 1, 2020 and ending September 30, 2038.

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

Benefit Structure	Member	Employer
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 District were $28,852 for the year ended September 30, 2021.

NOTE 7--EMPLOYEES' RETIREMENT PLAN (Continued)

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

At June 30, 2021, the District reported a liability of $227,499 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 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 districts proportion was .00096091 percent, which was an increase of .00003427 percent from its proportion measured as of September 30, 2020.

For the year ending June 30, 2022, the District recognized pension expense of $17,275. At June 30, 2022, the 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	$ 3,524	$ 1,340
Changes of assumptions	14,341	-
Net difference between projected and actual earnings on pension plan investments	-	73,140
Changes in proportion and differences between Employer contributions and proportionate share of contributions	9,064	10,693
Employer contributions subsequent to the measurement date	13,378	-
Total	$ 40,307	$ 85,173

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.

NOTE 7--EMPLOYEES' RETIREMENT PLAN (Continued)

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

Year	Amount
2022	$(11,180)
2023	(13,061)
2024	(15,238)
2025	(18,765)

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

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%
- Pension Plus Plan:		6.80%
- Pension Plus 2 Plan:		6.00%
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.

NOTE 7--EMPLOYEES' RETIREMENT PLAN (Continued)

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 for non-university employers]*
- *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 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	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 Polls	12.5%	6.1%
Short Term Investment Pools	2.0%	(1.3)%
Total	100.0%	

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

NOTE 7--EMPLOYEES' RETIREMENT PLAN (Continued)

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, hybrid plans 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.

Sensitivity of District's proportionate share of the net pension liability to changes in the discount rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.80% (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan), as well as what the 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 5.80%/5.80%/5%	Current Single Discount Rate Assumption 6.80%/6.80%/6%	1% Increase 7.80%/7.80%/7%
$ 325,262	$ 227,499	$ 146,447

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

NOTE 7--EMPLOYEES' RETIREMENT PLAN (Continued)

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

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

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

At year end, the District had accounts payable of $0 due to the MPSERS for the defined benefit pension plan.

NOTE 8--POST-EMPLOYMENT BENEFITS

Summary of Significant Accounting Policies

For purposes of measuring the net Other Post-Employment Benefits (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expenses, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (MPSERS) and additions to/deductions from the District's fiduciary net position have been determined on the same basis as they are reported by the MPSERS. 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.

Plan Description

The Michigan Public School Employees' Retirement System (System or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members—eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

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

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

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

NOTE 8--POST-EMPLOYMENT BENEFITS (Continued)

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.

NOTE 8--POST-EMPLOYMENT BENEFITS (Continued)

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, 2020 valuation will be amortized over an 18-year period beginning October 1, 2020 and ending September 30, 2038.

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

Benefit Structure	Member	Employer
Premium Subsidy	3.00%	8.43%
Personal Healthcare Fund (PHF)	0.0%	7.57%

Required contributions to the OPEB plan from District were $7,267 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 District reported a liability of $14,943 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 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 District's proportion was .00097898 percent, was a decrease of .00004412 percent from its proportion measured as of October 1, 2020.

For the year ending June 30, 2022, the District recognized OPEB expense of ($10,260). At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

NOTE 8--POST-EMPLOYMENT BENEFITS (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	$ -	$ 42,654
Changes of assumptions	12,492	1,869
Net difference between projected and actual earnings on OPEB plan investments	-	11,263
Changes in proportion and differences between Employer contributions and proportionate share of contributions	6,691	9,346
Employer contributions subsequent to the measurement date	6,433	-
Total	$ 25,616	$ 65,132

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:

Year	Amount
2022	$(13,192)
2023	(11,623)
2024	(9,371)
2025	(7,707)
2026	(3,581)
Thereafter	(475)

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.

NOTE 8--POST-EMPLOYMENT BENEFITS (Continued)

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%
Projected Salary Increases:	2.75 – 11.55%, including wage inflation at 2.75%
Healthcare Cost Trend Rate:	Pre-65 7.75% Year 1 graded to 3.5% Year 15; 3.0% Year 120
	Post-65 5.25% Year 1 graded to 3.5% Year 15; 3.0% Year 120
Mortality: Retirees:	RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Active Members:	RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Other Assumptions:	
Opt Out Assumptions	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 for non-university employers]*
- *Recognition period for assets in years is 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.*

NOTE 8--POST-EMPLOYMENT BENEFITS (Continued)

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	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 Polls	12.5%	6.1%
Short Term Investment Pools	2.0%	(1.3)%
Total	100.0%	

*Long-term rates of return are net of administrative excess 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 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.

NOTE 8--POST-EMPLOYMENT BENEFITS (Continued)

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the discount rate

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

1% Decrease 5.95%	Current Discount Rate 6.95%	1% Increase 7.95%
$27,767	$14,943	$4,060

Sensitivity of the District's proportionate share of the net OPEB liability to Healthcare Cost Trend Rate

The following presents the District's proportionate share of the net OPEB liability calculated using the discount assumed trend rates, as well as what the 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
$3,637	$14,943	$27,663

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.

Payables to the OPEB Plan

At June 30, 2022, there was $0 payable to the OPEB Plan.

NOTE 9--CONTINGENT LIABILITIES

The 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; medical benefits provided to employees and natural disasters. The District has purchased commercial insurance for general liability, property and casualty, auto and workers compensation. As of June 30, 2022, there were no claims that exceeded insurance coverage. The District did not have any significant reduction in insurance coverage from previous years. Settled claims for the District have not exceeded the amount of insurance coverage in any of the past 3 years.

NOTE 10—ECONOMIC DEPENDENCY

The Grant Township School District No. 2 receives a substantial amount of its revenues from property taxes. A significant reduction in the level of this support, if this were to occur, could have an effect on the Grant Township School District No. 2's ability to continue its activities.

NOTE 11—UPCOMING PRONONCEMENT

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

REQUIRED SUPPLEMENTARY INFOMRATION

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF REVENUES--BUDGET AND ACTUAL
For the Year Ended June 30, 2022

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Local sources:				
Property taxes	$ 215,000	$ 212,553	$ 209,290	$ (3,263)
Penalties and interest on delinquent taxes	-	209	209	-
Total local sources	215,000	212,762	209,499	(3,263)
Earnings on investments and deposits				
Interest earned	250	469	462	(7)
Other local sources				
Donations	300	2,070	2,070	-
Private sources	-	215	215	-
Total other local sources	300	2,285	2,285	-
State Grants				
State aid	10,000	27,415	23,185	(4,230)
Total State grants	10,000	27,415	23,185	(4,230)
Federal grants				
REAP grant	21,640	21,640	21,640	-
Coronavirus relief funds	-	-	2,696	2,696
Total federal grants	21,640	21,640	24,336	2,696
Inter-district sources				
Transportation	3,500	3,500	3,500	-
Total inter-district sources	3,500	3,500	3,500	-
Total operating revenues	250,690	268,071	263,267	(4,804)
Expenditures				
Instruction	138,110	160,130	143,480	16,650
Support services				
General administration	39,655	38,945	38,323	622
Operations and maintenance	15,100	18,107	14,710	3,397
Transportation	36,700	31,860	24,621	7,239
Total support services	91,455	88,912	77,654	11,258

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF REVENUES--BUDGET AND ACTUAL
For the Year Ended June 30, 2022

(Continued)

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Debt service				
Principal	10,360	10,360	10,360	-
Interest expense	1,633	1,633	1,633	-
Total debt service	11,993	11,993	11,993	-
Capital outlay	-	3,700	3,451	249
Total expenditures	241,558	264,735	236,578	28,157
Excess (dificiency) of revenues over expenditures	9,132	3,336	26,689	23,353
Net change in fund balance	9,132	3,336	26,689	23,353
Fund balance, beginning of year	176,203	197,383	197,383	-
Fund balance, end of year	$ 185,335	$ 200,719	$ 224,072	$ 23,353

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2
REQUIRED SUPPLEMENTAL INFORMATION
Pension Required Supplementary Information
MPSERS Cost-Sharing Multiple-Employer Plan

Schedule of the District's Proportionate Share of Net Pension Liability

	Year Ended September 30,					
	2021	2020	2019	2018	2017	2016
District's proportionate share of the net pension liability	0.00096091%	0.00092664%	0.000919400%	0.001025900%	0.00107500%	0.00115000%
District's proportion of the net pension liability	$ 227,499	$ 225,763	$ 304,468	$ 308,404	$ 278,627	$ 286,908
District's covered payroll	$ 90,217	$ 92,099	$ 79,718	$ 85,506	$ 84,730	$ 105,199
District's proportionate share of the net pension liability as a percentage of its covered payroll	252.17%	245.13%	381.93%	360.68%	328.84%	272.73%
Plan fiduciary net position as a percentage of the total pension liability	52.26%	59.72%	60.31%	64.21%	64.21%	63.27%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented

Schedule of District's Pension Contributions

	Year Ended June 30,					
	2022	2021	2020	2019	2018	2017
Statutorily required contributions	$ 17,557	$ 23,146	$ 35,362	$ 27,935	$ 25,219	$ 23,289
Contributions in relation to statutorily required contributions	17,557	23,146	35,362	27,935	25,219	23,289
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
District's covered-employee payroll	87,034	88,844	93,688	77,713	89,444	74,673
Contributions as a percentage of covered-employee payroll	20.17%	26.05%	37.74%	35.95%	28.20%	31.19%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Notes to Required Supplementary Information

Changes of benefit terms: There were no changes of benefits terms in FY 2021.

Changes of benefit assumptions: There were no changes of benefit assumptions in FY 2021.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2
REQUIRED SUPPLEMENTAL INFORMATION
Other Post Employment Benefit Required Supplementary Information
MPSERS Cost-Sharing Multiple-Employer Plan

Schedule of the District's Proportionate Share of Net OPEB Pension Liability

	Year Ended September 30,				
	2021	2020	2019	2018	2017
District's proportionate share of the net pension liability	0.00097898%	0.001023%	0.00090596%	0.00099871%	0.0010950%
District's proportion of the net OPEB liability	$ 14,943	$ 54,810	$ 65,028	$ 79,387	$ 96,963
District's covered payroll	$ 90,217	$ 92,099	$ 79,718	$ 85,506	$ 84,730
District's proportionate share of the net pension liability as a percentage of its covered payroll	16.56%	59.51%	81.57%	92.84%	114.44%
Plan fiduciary net position as a percentage of the total pension liability	87.33%	59.44%	48.46%	42.95%	36.39%

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Schedule of District's OPEB Contributions

	Year Ended June 30,				
	2022	2021	2020	2019	2018
Statutorily required contributions	$ 7,564	$ 9,097	$ 9,097	$ 6,483	$ 8,525
Contributions in relation to statutorily required contributions	7,564	9,097	9,097	6,483	8,525
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
District's covered-employee payroll	87,034	88,844	93,688	77,713	89,444
Contributions as a percentage of covered-employee payroll	8.69%	10.24%	9.71%	8.34%	9.53%

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Notes to Required Supplementary Information

Changes of benefit terms: There were no changes of benefits terms in FY 2021.
Changes of benefit assumptions: There were no changes of benefit assumptions in FY 2021.

OTHER REPORTS

Susan D. Sanford, CPA PLLC
3303 Silver Lake Road, Traverse City, MI 49684

Phone: (231) 357-5092
Email: susan.sanford@cpa.com

Member of:
-American Association of Certified Public Accountants

-Certified Fraud Examiners Association

-Michigan Association of Certified Public Accountants

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Education
Grant Township School District No. 2
Copper Harbor, Michigan 49918

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, and major fund Grant Township School District No. 2, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Grant Township School District No. 2's basic financial statements, and have issued my report thereon dated October 31, 2022.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Grant Township School District No. 2's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Grant Township School District No. 2's internal control. Accordingly, I do not express an opinion on the effectiveness of Grant Township School District No. 2'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 Grant Township School District No. 2'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.

My 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 were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses that I consider to be significant deficiencies, listed as finding 2022-001.

To the Board of Education
Grant Township School District No. 2
Copper Harbor, Michigan 49918
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Grant Township School District No. 2's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed one instance of noncompliance, described in the accompanying Schedule of Findings and Responses, listed as finding 2022-002 that is required to be reported under *Government Auditing Standards.*

Grant Township School District No. 2's Response to Findings

The Grant Township School District No. 2's response to the findings identified in my audit is described in the accompanying Schedule of Findings and Responses. The Grant Township School District No. 2's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the of an audit performed in accordance with *Government Auditing Standards* in considering Grant Township School District No. 2's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Susan D. Sanford CPA PLLC

Susan D Sanford, CPA PLLC
Traverse City, Michigan

October 31, 2022

Finding 2022-001 **Lack of Appropriate Segregation of Accounting Duties (Repeat comment)**

Finding Type: Significant Deficiency in Internal Control over Accounting Duties

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

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

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

Effect: As a result of this condition, the District is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented or detected by management in a timely manner.

Recommendation: There are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties. Recognizing this fact, we encourage the District to continue to mitigate this risk by requiring as much independent review, reconciliation, and approval of accounting function by qualified members of management as possible.

View of Responsible Officials:

We acknowledge the risk associated with internal control and issues with the segregation of the duties listed above. We have compensating controls in place where possible and will continue to monitor and mitigate risks periodically. While the governing board is always looking for ways to introduce more checks and balances to all of the accounting functions, limited staffing will always make total separation of duties a challenge.

Finding 2022-002 **Availability of information on website in accordance with Section 18(2) of the State School Aid Act**
(repeat comment with update)

Finding Type: **Statutory Compliance**

Criteria: Section 18(2) of the State School Aid Act requires the following:

2) A district or intermediate district shall adopt an annual budget in a manner that complies with the uniform budgeting and accounting act, 1968 PA 2, MCL 141.421 to 141.440a. Within 15 days after a district board adopts its annual operating budget for the following school fiscal year, or after a district board adopts a subsequent revision to that budget, the district shall make all of the following available through a link on its website homepage, or may make the information available through a link on its intermediate district's website homepage, in a form and manner prescribed by the department:

a) The annual operating budget and subsequent budget revisions.

b) Using data that have already been collected and submitted to the department, a summary of district expenditures for the most recent fiscal year for which they are available, expressed in the following 2 visual displays:

i) A chart of personnel expenditures, broken into the following subcategories: (A) Salaries and wages. (B) Employee benefit costs, including, but not limited to, medical, dental, vision, life, disability, and long-term care benefits. (C) Retirement benefit costs. (D) All other personnel costs.

(ii) A chart of all district expenditures, broken into the following subcategories: (A) Instruction. (B) Support services. (C) Business and administration. (D) Operations and maintenance

c) Links to all of the following:

i) The current collective bargaining agreement for each bargaining unit.

ii) Each health care benefits plan, including, but not limited to, medical, dental, vision, disability, long-term care, or any other type of benefits that would constitute health care services, offered to any bargaining unit or employee in the district.

iii) The audit report of the audit conducted under subsection (4) for the most recent fiscal year for which it is available.

iv) The bids required under section 5 of the public employees health benefit act, 2007 PA 106, MCL 124.75.

v) The district's written policy governing procurement of supplies, materials, and equipment.

vi) The district's written policy establishing specific categories of reimbursable expenses, as described in section 1254(2) of the revised school code, MCL 380.1254.

vii) Either the district's accounts payable check register for the most recent school fiscal year or a statement of the total amount of expenses incurred by board members or employees of the district that were reimbursed by the district for the most recent school year.

e) The annual amount spent on dues paid to associations.

h) Identification of all credit cards maintained by the district as district credit cards, the identity of all individuals authorized to use each of those credit cards, the credit limit on each credit card, and the dollar limit, if any, for each individual's authorized use of the credit card.

i) Costs incurred for each instance of out-of-state travel by the school administrator of the district that is fully or partially paid for by the district and the details of each of those instances of out-of-state travel, including at least identification of each individual on the trip, destination, and purpose.

Condition: The District lacks a sufficient number of administrative/accounting personnel in order to fully comply the above requirements.

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

Effect: As a result of this condition, the District is exposed to a withholding of up to 10% of the total state school aid due.

Recommendation: I recommend that the District discuss with their tech on how to download and link the information requested. The District has posted the budget information on the web and has submitted the audits for posting on the web as well. I recommend that the Board adopt written policies on procurement of supplies, material and equipment as well as a policy on reimbursable expenses and travel and the remainder of the Section 18(2) requirements.

View of Responsible Officials:

We have recently submitted a backup of our new web site files to our new hosting provider. The Board is currently working on a written policy on reimbursable expenses and travel. We have set a target date of November 15, 2022 for completion of the Section 18(2) requirements.

Finding 2021-001 **Lack of Appropriate Segregation of Accounting Duties (Repeat comment)**

Finding Type: Significant Deficiency in Internal Control over Accounting Duties

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

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

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

Effect: As a result of this condition, the District is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented or detected by management in a timely manner.

Recommendation: There are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties. Recognizing this fact, we encourage the District to continue to mitigate this risk by requiring as much independent review, reconciliation, and approval of accounting function by qualified members of management as possible.

View of Responsible Officials:

We acknowledge the risk associated with internal control and issues with the segregation of the duties listed above. We have compensating controls in place where possible and will continue to monitor and mitigate risks periodically. While the governing board is always looking for ways to introduce more checks and balances to all of the accounting functions, limited staffing will always make total separation of duties a challenge.

Finding 2021-002 **Availability of information on website in accordance with Section 18(2) of the State School Aid Act**
(repeat comment with update)

Finding Type: **Statutory Compliance**

Criteria: Section 18(2) of the State School Aid Act requires the following:

2) A district or intermediate district shall adopt an annual budget in a manner that complies with the uniform budgeting and accounting act, 1968 PA 2, MCL 141.421 to 141.440a. Within 15 days after a district board adopts its annual operating budget for the following school fiscal year, or after a district board adopts a subsequent revision to that budget, the district shall make all of the following available through a link on its website homepage, or may make the information available through a link on its intermediate district's website homepage, in a form and manner prescribed by the department:

a) The annual operating budget and subsequent budget revisions.

b) Using data that have already been collected and submitted to the department, a summary of district expenditures for the most recent fiscal year for which they are available, expressed in the following 2 visual displays:

i) A chart of personnel expenditures, broken into the following subcategories: (A) Salaries and wages. (B) Employee benefit costs, including, but not limited to, medical, dental, vision, life, disability, and long-term care benefits. (C) Retirement benefit costs. (D) All other personnel costs.

(ii) A chart of all district expenditures, broken into the following subcategories: (A) Instruction. (B) Support services. (C) Business and administration. (D) Operations and maintenance.

c) Links to all of the following:

i) The current collective bargaining agreement for each bargaining unit.

ii) Each health care benefits plan, including, but not limited to, medical, dental, vision, disability, long-term care, or any other type of benefits that would constitute health care services, offered to any bargaining unit or employee in the district.

iii) The audit report of the audit conducted under subsection (4) for the most recent fiscal year for which it is available.

iv) The bids required under section 5 of the public employees health benefit act, 2007 PA 106, MCL 124.75.

v) The district's written policy governing procurement of supplies, materials, and equipment.

vi) The district's written policy establishing specific categories of reimbursable expenses, as described in section 1254(2) of the revised school code, MCL 380.1254.

vii) Either the district's accounts payable check register for the most recent school fiscal year or a statement of the total amount of expenses incurred by board members or employees of the district that were reimbursed by the district for the most recent school year.

e) The annual amount spent on dues paid to associations.

h) Identification of all credit cards maintained by the district as district credit cards, the identity of all individuals authorized to use each of those credit cards, the credit limit on each credit card, and the dollar limit, if any, for each individual's authorized use of the credit card.

i) Costs incurred for each instance of out-of-state travel by the school administrator of the district that is fully or partially paid for by the district and the details of each of those instances of out-of-state travel, including at least identification of each individual on the trip, destination, and purpose.

Condition: The District lacks a sufficient number of administrative/accounting personnel in order to fully comply the above requirements.

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

Effect: As a result of this condition, the District is exposed to a withholding of up to 10% of the total state school aid due.

Recommendation: I recommend that the District discuss with their tech on how to download and link the information requested. The District has posted the budget information on the web and has submitted the audits for posting on the web as well. I recommend that the Board adopt written policies on procurement of supplies, material and equipment as well as a policy on reimbursable expenses and travel and the remainder of the Section 18(2) requirements.

View of Responsible Officials:

We will provide our tech with the necessary information to post on the website. The Board is currently working on a written policy on reimbursable expenses and travel. We have set a target date of December 31, 2020 for completion of the Section 18(2) requirements.

Susan D. Sanford, CPA PLLC
3303 Silver Lake Road, Traverse City, MI 49684
Fax: (231) 421-1307 Cell: (231) 357-5092
Email: susan.sanford@cpa.com

Member of:
-American Association of Certified Public Accountants
-Certified Fraud Examiners Association
-Michigan Association of Certified Public Accountants

INDEPENDENT AUDITORS' COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

October 31, 2022

To the Board of Education
Grant Township School District #2
Copper Harbor, Michigan 49918

I have audited the accompanying financial statements of the governmental activity and the major fund of Grant Township School District No. 2 (the "District"), as of and for the year ended June 30, 2022. Professional standards require that I provide you with information about my responsibilities under generally accepted auditing standards and Government Auditing Standards, as well as certain information related to the planned scope and timing of my audit. I have communicated such information in my letter to you dated August 8, 2022. Professional standards also require that I communicate to you the following information related to my audit.

<u>My Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards</u>

As communicated in my engagement letter dated August 8, 2022, my responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. My audit of the financial statements does not relieve you or management of your responsibilities. My responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of my audit, I considered the internal control of the District. Such considerations were solely for the purpose of determining my audit procedures and not to provide any assurance concerning such internal control. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed tests of District's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of my tests was not to provide an opinion on compliance with such provisions.

I am responsible for communicating significant matters related to the audit that are, in my professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, I am not required to design procedures specifically to identify such matters.

My audit of the District's financial statements has also been conducted in accordance with *Government Auditing Standards,* issued by the Comptroller General of the United States. Under *Government Auditing Standards*, I am obligated to communicate certain matters that come to my attention related to my audit to those responsible for the governance of the District, including compliance with certain provisions of laws, regulations, contracts, grant agreements, certain instances of error or fraud, illegal acts applicable to government agencies, and significant deficiencies in internal control that I identify during my audit. I have issued a separate letter dated October 31, 2022 regarding my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

Planned Scope and Timing of the Audit

I performed the audit according to the planned scope and timing previously communicated to you in my meeting about planning matters on August 8, 2022.

Qualitative Aspects of the District's Significant Accounting Practices

Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. The District has adopted the following Governmental Accounting Standards Board Statements effective July 1, 2021:

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

I noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Significant Accounting Estimates

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

The most sensitive estimates affecting the District's financial statements were:

- The useful lives of its capital assets. Useful lives are estimated based on the expected length of time during which the asset is able to deliver a given level of service.
- Net pension liability, and related deferred outflows of resources and deferred inflows estimate is based on an actuarial report.
- Net (OPEB) liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.

I evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. The most sensitive disclosures affecting the financial statements were: net pension and OPEB liabilities and other related amounts which are dependent on assumptions and estimates made by the plan. These estimates are based on historical trends and industry standards, but are not within the control of management. The disclosure of the pension and OPEB in Notes 7 and 8 to the financial statements describe the actuarial assumptions used to determine the net pension and OPEB liabilities and related deferred inflows and outflows.

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

A significant risk is an identified and assessed risk of material misstatement that, in the auditor's professional judgment, requires special audit consideration. Within my audit, I focused on the following areas.

- Management override of controls
- Improper revenue recognition
- Implementation of new accounting standards

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing and completing my audit.

Corrected and Uncorrected Misstatements

Professional standards require me 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. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

I have requested certain representations from management that are included in the management representation letter dated October 31, 2022.

To the Board of Education
Grant Township School District No. 2
Copper Harbor, Michigan 49918

October 31, 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, my professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my 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 my professional relationship and my responses were not a condition to my retention.

Other Reports

Other information that is required to be reported to you is included in the: Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. Please read all information included in that report to ensure you are aware of relevant information.

Other Matters

I applied certain limited procedures to management's discussion and analysis, which is required supplementary information (RSI) that supplements the basic financial statements. My procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

This information is intended solely for the use of the governing body and management of the Grant Township School District No. 2 and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Susan D Sanford, CPA PLLC

Susan D Sanford, CPA PLLC
Certified Public Accountant

Grant Township School Dist. 2
346 Gratiot St.
PO Box 74
Copper Harbor, MI 49918
(906)289-4447

CORRECTIVE ACTION PLAN

For the year ended June 30, 2022

Finding 2022-001 Lack of Appropriate Segregation of Accounting Duties (Repeat comment)

Finding Type: Significant Deficiency in Internal Controls

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

Steps already taken: We have hired an outside bookkeeper to compile the financial statements and process various payroll and accounting entries.

Plans for monitoring: The District Treasurer monitors and reconciles accounts with the bookkeeper's records and the District records. The District also prepares the draft financial statements.

Reasons for not fully complying with recommendation: We have evaluated the cost vs. benefit of hiring additional personnel to fully segregate accounting duties. We have concluded that the cost exceeds the benefit, and have implemented mitigating controls to compensate for the internal control weaknesses.

Name of responsible official: Christine Musiel, Treasurer

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2021

Finding 2022-002 Availability of information on website required under Section 18(2) of the State School Act (Repeat comment with update)

Finding Type: Statutory Compliance

Condition: The District is not fully in compliance with Section 18(2) of the State School Aid Act.

Steps already taken: We have created an entirely new website to which the following have been posted: 2022/2023 budget (amendments will be posted as they happen); required COVID-19 Learning Plans; student handbook; financial audits dating back to 2011; Education Report; charts for both personnel expenditures and all district expenditures; all healthcare benefit plans.

Steps that will be taken: We have recently submitted a backup of our new website's files to our new hosting provider. The Board is currently working on a written policy for reimbursable expenses and travel, and a policy for procurement of supplies, material and equipment. We have set a target date of November 15, 2022 for completion of the Section 18(2) requirements.

Plans for monitoring: Once launched, we will continue to upload documents to our website to bring it into compliance.

Name of responsible official: Christine Musiel, Treasurer