



ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2020

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bessemer Area Schools, Gogebic County, Michigan (the "School District"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2020, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The fiduciary fund financial statement, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2020, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

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

Gabridge & Company, PLC
Grand Rapids, MI
October 15, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

Bessemer Area Schools
Management's Discussion and Analysis
June 30, 2020

This section of Bessemer Area Schools (the "School District"), Gogebic County, Michigan's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2020. It is to be read in conjunction with the School District's financial statements, which immediately follow. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and is intended to provide the financial results for the fiscal year ending June 30, 2020.

FINANCIAL HIGHLIGHTS

- For fiscal year ended 2020, the Board of Education adopted a final general fund budget with a projected decrease in fund balance of \$291,056. The actual results of operation in the general fund showed that expenditures were \$18,386 more than the final general fund budget and that revenues were \$199,087 more than the final general fund budget.
- At June 30, 2020 the total net position was a deficit of \$(5,366,509) which included a \$(7,163,588) deficit unrestricted net position balance.
- Total net position decreased \$658,159 from \$(4,708,350) in 2019 to \$(5,366,509) in 2020. Refer to the district-wide financial statements – change in net position for fiscal year ended June 30, 2020 and June 30, 2019 for explanations regarding the net position increase.
- At June 30, 2020, the total fund balance for the general fund was \$334,395, a decrease of \$110,354 from the prior year.

USING THE ANNUAL FINANCIAL REPORT

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

The first two basic statements are district-wide financial statements that provide both short-term and long-term information about the School District's overall financial status.

The remaining basic financial statements are fund financial statements that focus on individual parts of the School District, reporting the School District's operations in more detail than the district-wide statements. The governmental statements tell how general School District services were financed in the short-term as well as what remains for future spending. They are formatted to comply with the legal requirements of the Michigan Department of Education's Accounting Manual.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the School District's budget for the year.

Figure A-2 summarizes the major features of the School District's financial statements.

Scope	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
		The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
	Entire District (except fiduciary funds)		
Required financial statements	* Statement of Net Position * Statement of Activities	* Balance Sheet * Statement of Revenues, Expenditures, and Changes in Fund Balance	* Statement of Fiduciary Net Position * Statement of Changes in Fiduciary Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus.
Type of asset/liability information	All assets and liabilities, both financial and capital, both short-term and long-term.	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included.	All assets and liabilities, both short-term and long-term, BLS's funds do not currently contain capital assets, although they can.
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable.	All additions and deductions during the year, regardless of when cash is received or paid.

OVERVIEW OF THE FINANCIAL STATEMENTS

District-wide Financial Statements

The district-wide financial statements appear first in the financial report. These financial statements include the statement of net position and the statement of activities. They report information about the School District as a whole. The statements are prepared using the accrual basis of accounting which is the accounting basis used by most private sector businesses. The statement of net position includes all of the School District's assets, deferred outflows and inflows, and liabilities. All current year revenues and expenses are reported in the statement of activities. The two statements report the governmental activities of the School District that include all services performed by the School District, including but not limited to instruction, support services, food services, athletics, debt service and capital projects. These activities are funded mostly by state aid as determined by pupil counts, federal and state grants, and local property taxes.

The statement of net position shows the School District's assets, deferred outflows and inflows, and liabilities. The corresponding balance between the amounts calculates the net position or deficit of the School District. A deficit occurs when there are more liabilities and deferred inflows than there are assets and deferred outflows to pay those liabilities. This statement measures the financial strength of the School District; in general the greater the net position figure, the healthier the School District. This shows if the School District will be able to fund their current obligations and what they have available for future use.

The statement of activities shows the current year change in net position on a "revenue less expense" basis. It generally displays the operating results for a given year of the School District. Any excess of revenues over expenses results in a surplus for the year that in turn increases the net position (or reduces a deficit) available to fund future needs of the School District. Any deficiency of revenues over expenses results in a deficit for the year that in turn reduces the net position (or increases a deficit) of the School District.

Fund Financial Statements

The School District's fund financial statements presents detail of funds that are determined to be significant, called major funds. The funds that are separately stated as major funds are the general fund, food service fund, 2003 refunding bonds, and capital projects fund. Separate funds are often required to be set up and separately recorded due to state or federal statutes or other contractual agreements. The School District may also choose to set up separate funds to better control and track certain monies. All of the School District's services are reported as governmental fund types. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues, and expenditures. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fiduciary funds are funds that account for certain activities in which the School District acts as a trustee or in an agent capacity. The School District has an agency fund, which accounts for various student and other activity groups that raise funds for specific purposes. These activities are not

included in the district-wide financial statements as they represent resources that are not available for School District operations.

Governmental funds are accounted for by using an accounting method called modified accrual accounting (flow of current resources measurement focus). This method records revenues when all applicable eligibility requirements are met and resources are available to finance expenditures of the fiscal period. Expenditures are recorded when the related liability is incurred. The governmental fund financial statements show detail of operations for a given year according to this method of accounting. The individual fund statement helps determine what financial resources are available on a short-term basis to fund operations.

Since the district-wide financial statements and the fund financial statements use different methods of accounting to report the School District's financial condition, a reconciliation is included in the financial statements showing the differences between the two types of statements.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The table on the following page shows the June 30, 2020 and 2019 condensed statement of net position with a detailed analysis of the statement.

Bessemer Area Schools' Net Position

ASSETS	2020	2019
<i>Current Assets</i>		
Cash and Investments	\$ 1,158,030	\$ 1,584,169
Due from Other Governments	609,855	673,754
Inventories	15,666	13,976
<i>Total Current Assets</i>	1,783,551	2,271,899
<i>Noncurrent Assets</i>		
Capital Assets, net	2,454,342	1,877,851
<i>Total Assets</i>	4,237,893	4,149,750
DEFERRED OUTFLOWS OF RESOURCES		
Pension	2,398,032	2,054,664
OPEB	668,931	303,786
<i>Total Deferred Outflows of Resources</i>	3,066,963	2,358,450
LIABILITIES		
<i>Current Liabilities</i>		
Accounts Payable	64,978	88,829
Accrued Salaries and Related Liabilities	413,509	343,931
Accrued Interest Payable	14,114	4,047
Current Portion of Long-term Debt	156,000	100,000
Unearned Revenue	982	-
<i>Total Current Liabilities</i>	649,583	536,807
<i>Noncurrent Liabilities</i>		
Long-term Debt	1,470,950	1,263,959
Deferred Compensation	57,860	33,274
Compensated Absences	102,495	124,828
Net Pension Liability	7,631,024	6,480,685
Net OPEB Liability	1,705,035	1,710,885
<i>Total Liabilities</i>	11,616,947	10,150,438
DEFERRED INFLOWS OF RESOURCES		
Pension	383,709	672,061
OPEB	670,709	394,051
<i>Total Deferred Inflows of Resources</i>	1,054,418	1,066,112
NET POSITION		
Net Investment in Capital Assets	1,723,616	1,860,841
Restricted	73,463	47,126
Unrestricted	(7,163,588)	(6,616,317)
<i>Total Net Position</i>	\$ (5,366,509)	\$ (4,708,350)

Cash and investments decreased by \$426,139, largely in part due to capital asset purchases from prior year unspent bond proceeds of \$443,023. Capital assets increased by a net \$247,283,

comprising of capital additions of \$810,511, depreciation expense of \$225,271, and net disposals of \$8,749.

Long-term debt had a net increase during the year of \$262,991, comprising of debt service payoffs of \$104,497 (including premiums) plus the issuance of a \$367,488 lease purchase agreement.

The School District's net pension liability increased from \$6,480,685 to \$7,631,024 as of June 30, 2020. The increase is largely a result of the MPSERs plan, as a whole, experiencing a 10.2% increase in the state-wide net pension liability (due to changes in assumptions and a down investment market during the plan year), which was then passed on to the participating schools. Secondly, the School District's proportionate share of the total net pension liability increased by 6.9% because the census information showed that the School District's overall share of the pension liability grew at a rate faster than the other participating schools (within the MSPSERS cost sharing pension plan).

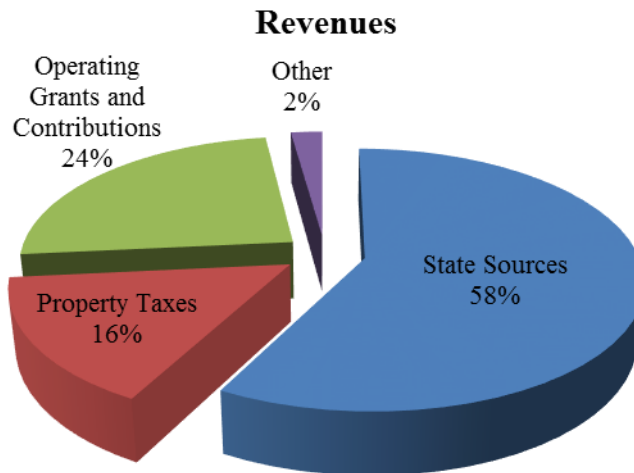
The results of operations for the School District as a whole are reported in the changes in net position table below:

Bessemer Area Schools' Changes In Net Position

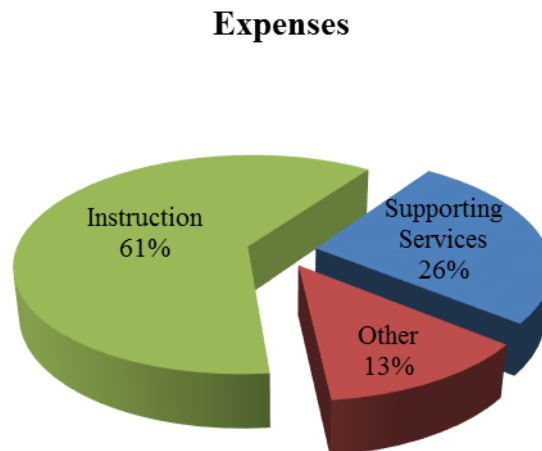
Revenues	2020	2019
Program Revenues		
Charges for Services	\$ 81,872	\$ 107,305
Operating Grants and Contributions	1,085,335	915,669
Capital Grants and Contributions	-	13,857
Total Program Revenues	1,167,207	1,036,831
General Revenues		
Property Taxes and Assessments	698,601	684,944
State Sources	2,574,291	2,644,107
Investment Earnings	15,875	2,131
Total General Revenues	3,288,767	3,331,182
Total Revenues	4,455,974	4,368,013
Expenses		
Instruction	3,138,982	2,687,823
Supporting Services	1,336,652	1,196,296
Food Services	211,128	184,655
Athletics	118,132	128,425
Interest and Fees on Long-term Debt	83,968	33,888
Depreciation (unallocated)	225,271	181,882
Total Expenses	5,114,133	4,412,969
Increase (Decrease) in Net Position	(658,159)	(44,956)
<i>Net Position at Beginning of Period</i>	(4,708,350)	(4,663,394)
<i>Net Position at End of Period</i>	\$ (5,366,509)	\$ (4,708,350)

The School District had an overall decrease in net position of \$658,159 for the year ended June 30, 2020. Overall, the School District's revenue increased by \$87,961 compared to the prior year. Expenses increased by \$701,164. \$452,377 of this increase was a result of additional pension expense during 2020 compared to 2019 as a result of the increase in the net pension liability, net of the changes in pension related deferrals (the increase in the net pension liability is described in the previous section). The majority of the additional pension expense was allocated to the instruction and supporting services functions. Additionally, interest and fees on long-term debt increased by \$50,080 during the year. This increase relates to \$47,513 of debt issuance costs paid by the School District during the year for the 2019 school building and site bonds. Finally, depreciation expense increased by \$43,389 during 2020 because four new buses were placed in service in September 2019, increasing the total costs to be depreciated over their useful lives.

The following chart details the major revenue sources for the governmental activities of the School District for the most recent fiscal year-end:



The following chart illustrates the major expenses for the governmental activities of the School District:



FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The general fund had an overall decrease in fund balance during the year of \$110,354 for an ending balance of \$334,395. Unassigned fund balance was \$60,332 as of June 30, 2020. The School District assigned \$60,000 for future capital lease payments and another \$200,000 to ensure that the School maintains available fund balance in its general fund greater than or equal to 5% of total general fund revenues. The general fund also had \$14,063 of nonspendable fund balance associated with inventory.

The food service fund, a major fund, increased by \$21,800 for an ending fund balance of \$50,446.

The 2003 refunding bonds fund, a major fund, increased its fund balance by \$4,537 during the year leading to an ending fund balance of \$23,017.

The capital projects fund, a major fund, decreased its fund balance by \$451,040. Capital outlay expenditures of \$785,868, net of lease purchase agreement proceeds of \$367,488, were the primary cause for the decrease in fund balance.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year the School District revised its budget to attempt to match changes in the school funding environment and current needs of students and faculty. State law requires that budgets be amended during the year so actual expenditures do not exceed appropriations. The initial budget for the year ended June 30, 2020, was adopted by the Board of Education on June 26, 2019, with the final amendments made on June 22, 2020.

The changes between the original and final budgets were relatively minor for the year with the most significant increase relating to guidance services related to COVID-19. The School District had the following expenditures in excess of the amounts appropriated during the year ended June 30, 2020:

Fund/Function	Final Budget	Actual	Variance
General Fund			
Elementary	1,177,492	\$ 1,192,495	(15,003)
Special Education	389,756	391,310	(1,554)
Title I	92,927	92,928	(1)
Title IIA	17,485	17,486	(1)
Technology	76,482	79,494	(3,012)
Executive Administration	222,789	224,478	(1,689)
Elementary Office	99,099	103,145	(4,046)
Secondary Office	190,384	191,722	(1,338)
Operation and Maintenance	422,776	424,964	(2,188)
Pupil Transportation	96,290	96,906	(616)
Athletics	110,558	110,658	(100)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2020, the School District had \$2,454,342 invested in capital assets. This included a net increase during the past fiscal year of \$576,491, consisting of capital asset additions of \$810,511, depreciation expense of \$225,271, and net disposals of assets of \$8,749,

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

Long-term Debt

The School District had \$1,626,950 of long-term debt as of June 30, 2020, including \$156,000 due in the next fiscal year. The School District also had \$57,860 of deferred compensation outstanding and \$102,495 of compensated absences outstanding. The state allows districts to issue general obligation debt up to 15% of the assessed value of all taxable property within the School District's boundaries. The School District is under this limit by a considerable amount.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The School District's budget for the 2021 fiscal year project total revenues of \$3,805,112 and total expenditures of \$3,942,349, for a total budgeted decrease in fund balance of \$137,237. With projected declines in revenues, the School District continues to work to balance its expenditures while provide excellent education to the District it serves.

The School District may be affected by the recent and ongoing outbreak of the Coronavirus (COVID-19) which was declared a pandemic by the World Health Organization in March 2020. COVID-19 has caused significant government and business disruptions through mandated and voluntary closings and stay at home orders. Management is in the process of determining if this outbreak will have a significant financial impact on the School District's financial statements.

REQUESTS FOR INFORMATION

If you have any questions about this report or need additional information, contact the Business Manager's office at:

Bessemer Area Schools
301 E. Sellar Street
Bessemer, Michigan 49911
(906) 667-0802

BASIC FINANCIAL STATEMENTS

Bessemer Area Schools
Statement of Net Position
June 30, 2020

ASSETS

Current Assets

Cash and Investments	\$ 1,158,030
Due from Other Governments	609,855
Inventories	15,666
Total Current Assets	1,783,551

Noncurrent Assets

Capital Assets not being Depreciated	212,677
Capital Assets being Depreciated, Net	2,241,665
Total Assets	4,237,893

DEFERRED OUTFLOWS OF RESOURCES

Pension	2,398,032
OPEB	668,931
Total Deferred Outflows of Resources	3,066,963

LIABILITIES

Current Liabilities

Accounts Payable	64,978
Accrued Salaries and Related Liabilities	413,509
Unearned Revenue	982
Accrued Interest Payable	14,114
Current Portion of Long-term Debt	156,000
Total Current Liabilities	649,583

Noncurrent Liabilities

Long-term Debt	1,470,950
Deferred Compensation	57,860
Compensated Absences	102,495
Net Pension Liability	7,631,024
Net OPEB Liability	1,705,035
Total Liabilities	11,616,947

DEFERRED INFLOWS OF RESOURCES

Pension	383,709
OPEB	670,709
Total Deferred Inflows of Resources	1,054,418

NET POSITION

Net Investment in Capital Assets	1,723,616
<i>Restricted for:</i>	
Debt Service	23,017
Food Service	50,446
<i>Unrestricted (Deficit)</i>	<i>(7,163,588)</i>
Total Net Position (Deficit)	\$ (5,366,509)

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

**Bessemer Area Schools
Statement of Activities
For the Year Ended June 30, 2020**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Instruction	\$ 3,138,982	\$ --	\$ 704,360	\$ --	\$ (2,434,622)
Athletics	118,132	32,812	--	--	(85,320)
Food Services	211,128	3,297	222,078	--	14,247
Supporting Services	1,336,652	45,763	158,897	--	(1,131,992)
Interest on Long-term Debt	36,455	--	--	--	(36,455)
Depreciation (unallocated)	225,271	--	--	--	(225,271)
Bond Issuance Costs	47,513	--	--	--	(47,513)
Total	\$ 5,114,133	\$ 81,872	\$ 1,085,335	\$ --	\$ (3,946,926)

General Purpose Revenues:

Property Taxes	698,601
State Sources	2,574,291
Investment Income	15,875
Total General Revenues	3,288,767
Change in Net Position	(658,159)
<i>Net Position at Beginning of Period (Deficit)</i>	<i>(4,708,350)</i>
Net Position at End of Period (Deficit)	\$ (5,366,509)

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

**Bessemer Area Schools
Balance Sheet
Governmental Funds
June 30, 2020**

		<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
	<u>General</u>	<u>Food Service</u>	<u>2003 Refunding Bonds</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and Investments	\$ --	\$ 238,789	\$ 23,017	\$ 896,224	\$ 1,158,030
Due from Other Governments	609,855	--	--	--	609,855
Inventories	14,063	1,603	--	--	15,666
Due from Other Funds	189,946	--	--	--	189,946
Total Assets	<u>\$ 813,864</u>	<u>\$ 240,392</u>	<u>\$ 23,017</u>	<u>\$ 896,224</u>	<u>\$ 1,973,497</u>
LIABILITIES					
Accounts Payable	\$ 64,978	\$ --	\$ --	\$ --	\$ 64,978
Accrued Salaries and Related Liabilities	413,509	--	--	--	413,509
Unearned Revenue	982	--	--	--	982
Due to Other Funds	--	189,946	--	--	189,946
Total Liabilities	<u>479,469</u>	<u>189,946</u>	<u>--</u>	<u>--</u>	<u>669,415</u>
FUND BALANCE					
Nonspendable	14,063	1,603	--	--	15,666
Restricted	--	48,843	23,017	896,224	968,084
Assigned	260,000	--	--	--	260,000
Unassigned	60,332	--	--	--	60,332
Total Fund Balance	<u>334,395</u>	<u>50,446</u>	<u>23,017</u>	<u>896,224</u>	<u>1,304,082</u>
Total Liabilities and Fund Balance	<u>\$ 813,864</u>	<u>\$ 240,392</u>	<u>\$ 23,017</u>	<u>\$ 896,224</u>	<u>\$ 1,973,497</u>

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

Bessemer Area Schools
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2020

Total Fund Balance - Governmental Funds	\$ 1,304,082
General government capital assets of \$11,269,347, net of accumulated depreciation of \$8,815,005, are not financial resources and, accordingly, are not reported in the funds.	2,454,342
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. This amount represents the sum of bonds payable and bond premium.	(1,626,950)
The net pension liability and its related deferrals are not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the funds.	(5,616,701)
Accrued interest is not due and payable in the current period and, therefore, is not reported in the funds.	(14,114)
The net OPEB liability and its related deferrals are not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the funds.	(1,706,813)
Compensated absences and deferred compensation are not due and payable in the current period and, therefore, are not reported in the funds.	(160,355)
Total Net Position - Governmental Activities	\$ <u>(5,366,509)</u>

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

Bessemer Area Schools
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2020

		<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
	<u>General</u>	<u>Food Service</u>	<u>2003 Refunding Bonds</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues					
Property Taxes	\$ 563,801	\$ --	\$ 134,800	\$ --	\$ 698,601
Food Services	--	3,297	--	--	3,297
Athletics	32,812	--	--	--	32,812
State Sources	3,273,214	7,148	--	--	3,280,362
Federal Sources	146,334	214,930	--	--	361,264
Investment Income	400	--	622	14,853	15,875
Other	63,763	--	--	--	63,763
Total Revenues	<u>4,080,324</u>	<u>225,375</u>	<u>135,422</u>	<u>14,853</u>	<u>4,455,974</u>
Expenditures					
Instruction	2,826,328	--	--	--	2,826,328
Supporting Services	1,253,692	--	--	--	1,253,692
Food Services	--	203,575	--	--	203,575
Athletics	110,658	--	--	--	110,658
Capital Outlay	--	--	--	785,868	785,868
Debt Service - Principal	--	--	100,000	--	100,000
Debt Service - Interest	--	--	30,885	--	30,885
Debt Service - Bond Issuance Costs	--	--	--	47,513	47,513
Total Expenditures	<u>4,190,678</u>	<u>203,575</u>	<u>130,885</u>	<u>833,381</u>	<u>5,358,519</u>
Excess of Revenues Over (Under) Expenditures	<u>(110,354)</u>	<u>21,800</u>	<u>4,537</u>	<u>(818,528)</u>	<u>(902,545)</u>
Other Financing Sources (Uses)					
Lease Purchase Agreement	--	--	--	367,488	367,488
Net Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>--</u>	<u>367,488</u>	<u>367,488</u>
Net Change in Fund Balance	<u>(110,354)</u>	<u>21,800</u>	<u>4,537</u>	<u>(451,040)</u>	<u>(535,057)</u>
Fund Balance at Beginning of Period	444,749	28,646	18,480	1,347,264	1,839,139
Fund Balance at End of Period	<u>\$ 334,395</u>	<u>\$ 50,446</u>	<u>\$ 23,017</u>	<u>\$ 896,224</u>	<u>\$ 1,304,082</u>

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

Bessemer Area Schools
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the Year Ended June 30, 2020

Total Net Change in Fund Balances - Governmental Funds	\$ (535,057)
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds, the interest expenditure is reported when due.	(10,067)
Repayment of long-term debt principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities in the statement of net position.	104,497
Some expenses, such as changes in compensated absences and deferred compensation, reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(2,253)
The statement of net position reports the net pension liability and pension related deferrals related to the net pension liability as pension expense. However, the expenditures recorded on the governmental funds equals actual pension contributions.	(518,619)
Proceeds from debt issuance are reported as revenue in the fund statements, but reported as liabilities in the statement of net position.	(367,488)
The funds report capital outlays as expenditures, however, in the statement of activities, the costs of those assets are allocated over their useful lives as depreciation expense. This is the amount by which capital outlay expenditures of \$810,511 exceeds depreciation expense of \$225,271 and net disposals of assets of \$8,749.	576,491
The statement of net position reports the net OPEB liability and OPEB related deferrals related to the net OPEB liability as OPEB expense. However, the expenditures recorded on the governmental funds equals actual OPEB contributions.	94,337
Changes in Net Position - Governmental Activities	\$ <u>(658,159)</u>

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

Bessemer Area Schools
Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
June 30, 2020

	<u>Activity Fund</u>
ASSETS	
Cash and Investments	\$ 92,198
<i>Total Assets</i>	<u>92,198</u>
LIABILITIES	
Due to Student Groups	92,198
<i>Total Liabilities</i>	<u>\$ 92,198</u>

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

NOTES TO THE FINANCIAL STATEMENTS

Bessemer Area Schools

Notes to the Financial Statements

Note A - Summary of Significant Accounting Policies

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

Reporting Entity

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

Basis of Presentation

District-wide Financial Statements

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

Fund-based Financial Statements

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

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

Bessemer Area Schools

Notes to the Financial Statements

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

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

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

In addition, the School District reports an ***agency fund*** that is used to account for assets held by the School District in its capacity as a receiving and paying agent for student body activity groups.

Basis of Accounting

District-wide Financial Statements

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

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

Fund-based Financial Statements

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

Bessemer Area Schools

Notes to the Financial Statements

Property Taxes

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

State Foundation Revenue

The State of Michigan follows a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information regarding average pupil membership supplied by the districts. The funds received in July and August of 2020 are State appropriations for the year ended June 30, 2020, and, as such, are recorded as accounts receivable.

State Categorical Revenue

The School District receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

Federal Revenue

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

Cash and Cash Equivalents

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

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

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

Bessemer Area Schools

Notes to the Financial Statements

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

Investments

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

Interfund Balances

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

Inventories

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

Capital Assets

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

Bessemer Area Schools

Notes to the Financial Statements

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

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

	<u>Years</u>
Buildings and Improvements	20 - 50
Furniture, Fixtures, and Equipment	5 - 20
School Buses and Vehicles	8

Pension

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

Postemployment Benefits Other Than Pensions

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

Deferred Outflows of Resources

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

Bessemer Area Schools

Notes to the Financial Statements

Deferred Inflows of Resources

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

Net Position Flow Assumption

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

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

Fund Balance Flow Assumptions

Sometimes the School will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the School's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Compensated Absences

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

Bessemer Area Schools

Notes to the Financial Statements

Long-term Obligations

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

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

Fund Equity

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

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

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

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

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

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

Designations of fund balance represent tentative management plans that are subject to change. It is the School District's policy to first use restricted resources when both restricted and unrestricted net position or fund balances are available. For purposes of fund balance classification,

Bessemer Area Schools

Notes to the Financial Statements

expenditures are to be spent from restricted fund balance first (when appropriate), followed in order by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

Use of Estimates

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

Subsequent Events and Commitments

Subsequent events have been evaluated through October 15, 2020. The School District will be affected by the recent and ongoing outbreak of the Coronavirus (COVID-19) which was declared a pandemic by the World Health Organization in March 2020. COVID-19 has caused significant government and business disruptions through mandated and voluntary closings and stay at home orders. The Administration and Board of Education is in the process of determining the significance that the outbreak will have on the School District's upcoming budget.

The Board of Education, on June 17, 2020, approved a window replacement bid in the amount of \$610,035 to be purchased with the 2019 school building and site bonds.

Note B - Stewardship, Compliance and Accountability

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

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

Public Act 621 of 1978 Disclosures - Public Act 621 of 1978 requires local units of government to prepare and to monitor their fiscal year budgets in accordance there with. The Act provides that a school district must amend its budget if it becomes apparent that the school district's actual

Bessemer Area Schools

Notes to the Financial Statements

revenues will deviate from those budgeted, or if the school district's expenditures will exceed the amounts appropriated.

The School District had the following expenditures in excess of the amount appropriated during the year ended June 30, 2020:

<u>Fund/Function</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Elementary	1,177,492	\$ 1,192,495	(15,003)
Special Education	389,756	391,310	(1,554)
Title I	92,927	92,928	(1)
Title IIA	17,485	17,486	(1)
Technology	76,482	79,494	(3,012)
Executive Administration	222,789	224,478	(1,689)
Elementary Office	99,099	103,145	(4,046)
Secondary Office	190,384	191,722	(1,338)
Operation and Maintenance	422,776	424,964	(2,188)
Pupil Transportation	96,290	96,906	(616)
Athletics	110,558	110,658	(100)
Food Service Fund			
Food Services	187,393	203,575	(16,182)

Net Position Deficit

The School District had a deficit unrestricted net position of \$7,163,588 and total net position has a deficit balance of \$5,366,509.

Note C - Cash and Investments

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

Statement of Net Position	
Cash and Investments	\$ 1,158,030
Statement of Fiduciary Assets and Liabilities	
Cash and Investments	92,198
Total Cash and Investments	<u>\$ 1,250,228</u>

Bessemer Area Schools

Notes to the Financial Statements

Cash and Investments	
Checking and Savings Accounts	\$ 363,113
Pooled Investments	887,115
Total Cash and Investments	<u>\$ 1,250,228</u>

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits might not be returned. State law does not require and the School District does not have a policy for deposit custodial credit risk. As of year-end, none of the School District's bank balance of \$426,603 was exposed to custodial credit risk. Due to the dollar amounts of cash deposits and the limits of FDIC insurance, the School District believes it is impractical to insure all bank deposits. As a result, the School District evaluates each financial institution with which it deposits School District funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. In order to minimize this risk, School District policy limits the types of investments and pre-qualifies financial institutions. As of June 30, 2020, none of the School District's investments were exposed to risk since the securities are held in the School District's name by the counterparty. The School District had \$887,115 held in the Michigan Liquid Asset Fund Plus Cash Management Class as of June 30, 2020.

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

Credit risk ratings, where applicable, are summarized as follows:

<u>Rating Agency</u>	<u>Rating</u>	<u>FMV</u>
Standard & Poor's	AAAm	<u>\$ 887,115</u>

Interest Rate Risk. Interest rate risk is the risk that the market rate of securities in the portfolio will fall due to changes in market interest rates. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The School District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The School District's only investment of \$887,155 had no maturity date.

Bessemer Area Schools

Notes to the Financial Statements

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

Fair Value Measurements

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

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

- Level 1: Quoted prices in active markets for identical securities.
- Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.
- Level 3: Prices determined using significant unobservable inputs. Unobservable inputs may be used in situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period). Unobservable inputs reflect the organization's own assumptions about the factors market participants would use in pricing an investment, and would be based on the best information available.

As of June 30, 2020, the fair value measure of the MILAF+ Cash Management Class was Level 2 and in the amount of \$887,115.

Bessemer Area Schools

Notes to the Financial Statements

Note D - Long-term Liabilities

Long-term liability balances and activity for the year ended June 30, 2020 were as follows:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Direct Placement					
2019 School Building and Site Bonds	\$ 1,310,000	\$ -	\$ (100,000)	\$ 1,210,000	\$ 100,000
Bond Premium	53,959	-	(4,497)	49,462	-
Total Direct Placement Debt	<u>1,363,959</u>	<u>-</u>	<u>(104,497)</u>	<u>1,259,462</u>	<u>100,000</u>
Other Long-term Liabilities					
2019 Lease-purchase Agreement	-	367,488	-	367,488	56,000
Deferred Compensation	33,274	45,310	(20,724)	57,860	-
Compensated Absences	124,828	-	(22,333)	102,495	-
Total Long-term Liabilities	<u>\$ 1,522,061</u>	<u>\$ 412,798</u>	<u>\$ (147,554)</u>	<u>\$ 1,787,305</u>	<u>\$ 156,000</u>

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

2019 School Building and Site Bonds

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

2019 Lease Purchase Agreement

On August 28, 2019 the School District issued a \$367,488 lease purchase agreement to lease four 2020 buses. Principal and interest payments are due annually on September 15 through 2023. Principal ranges from \$56,000 to \$199,488 with interest accruing at 3.0%. The titles of the buses revert to the School District with the final installment. The cost of the four buses was \$367,488 with a net book value of \$329,208 as of June 30, 2020.

Bessemer Area Schools

Notes to the Financial Statements

The aggregate amounts of long-term debt principal and interest maturities (excluding deferred compensation and compensated absences) for the five years ending June 30, 2024, and in five-year increments after until maturity are as follows:

	Principal	Interest	Total
2021	\$ 156,000	\$ 44,078	\$ 200,078
2022	156,000	40,610	196,610
2023	161,000	37,094	198,094
2024	304,488	33,429	337,917
2025	110,000	24,000	134,000
2026-2030	570,000	70,050	640,050
2031	120,000	3,600	123,600
Totals:	<u>\$ 1,577,488</u>	<u>\$ 252,861</u>	<u>\$ 1,830,349</u>

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

Following is a summary of compensated absences due at June 30, 2020:

Teachers Union and School Administrators	\$ 90,720
AFCME Union	11,775
	<u>\$ 102,495</u>

Deferred Compensation - Deferred compensation consists of early retirement incentives that the School District negotiated with several teachers. Future payments for hospitalization for retired teachers to age 65 total \$57,860.

Bessemer Area Schools

Notes to the Financial Statements

Note E - Capital Assets

Capital assets balances and activity for the year ended June 30, 2020 were as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital Assets Not Being Depreciated				
Construction in Process	\$ -	\$ 212,677	\$ -	\$ 212,677
Capital Assets being Depreciated				
Buildings and Improvements	9,793,428	136,378	-	9,929,806
Equipment	354,855	84,075	-	438,930
Furniture and Fixtures	171,307	9,893	-	181,200
School Buses and Vehicles	343,521	367,488	(204,275)	506,734
<i>Subtotal</i>	<u>10,663,111</u>	<u>597,834</u>	<u>(204,275)</u>	<u>11,056,670</u>
Less Accumulated Depreciation				
Buildings and Improvements	8,077,285	157,816	-	8,235,101
Equipment	333,459	6,244	-	339,703
Furniture and Fixtures	144,939	2,400	-	147,339
School Buses and Vehicles	229,577	58,811	(195,526)	92,862
<i>Subtotal</i>	<u>8,785,260</u>	<u>225,271</u>	<u>(195,526)</u>	<u>8,815,005</u>
Capital Assets, Net	<u>\$ 1,877,851</u>	<u>\$ 585,240</u>	<u>\$ (8,749)</u>	<u>\$ 2,454,342</u>

Depreciation expense for the fiscal year amounted to \$225,271. The School District determined that it was impractical to allocate depreciation expense to the various activities as the capital assets serve multiple functions.

Note F - Pension Plan

Plan Description

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

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

Bessemer Area Schools

Notes to the Financial Statements

Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

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

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

Contributions

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2018 valuation will be amortized over a 20-year period beginning October 1, 2018 and ending September 30, 2038.

Bessemer Area Schools

Notes to the Financial Statements

The schedule below summarizes pension contribution rates in effect for fiscal year ended September 30, 2019.

Benefit Structure	Member	Non-Universities
Basic	0.0 - 4.0%	18.25%
Member Investment Plan	3.0 - 7.0%	18.25%
Pension Plus	3.0 - 6.4%	16.46%
Pension Plus 2	6.2%	19.59%
Defined Contribution	0.0%	13.39%

Required contributions to the pension plan from the School District were \$612,143 for the year ended September 30, 2019.

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

At June 30, 2020, the School District reported a liability of \$7,631,024 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2018. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2019, the School District's proportion was 0.02304 percent, which was a increase of 0.00149 percent from its proportion measured as of September 30, 2018.

For the year ending June 30, 2020, the School District recognized pension expense of \$1,149,411.

Bessemer Area Schools

Notes to the Financial Statements

At June 30, 2020, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ 34,205	\$ 31,821
Changes of assumptions	1,494,160	-
Net difference between projected and actual earnings on pension plan investments	-	244,561
Changes in proportion and differences between Employer contributions and proportionate share of contributions	291,409	107,327
Employer contributions subsequent to the measurement date	578,258	-
Total	\$ 2,398,032	\$ 383,709

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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Plan Year Ended September 30	Amount:
2020	\$ 516,876
2021	451,833
2022	327,430
2023	139,926

Actuarial Assumptions

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

Bessemer Area Schools

Notes to the Financial Statements

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2018
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:	P-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Notes:

- Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2017 valuation. The total pension liability as of September 30, 2019, is based on the results of an actuarial valuation date of September 30, 2018, 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: 4.4977 for non-university employers
- Recognition period for assets in years: 5.0000
- Full actuarial assumptions are available in the 2019 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

Bessemer Area Schools

Notes to the Financial Statements

(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, 2019, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.5%
Private Equity Pools	18.0	8.6
International Equity Pools	16.0	7.3
Fixed Income Pools	10.5	1.2
Real Estate and Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.4
Short-term Investment Pools	2.0	0.8
Total	100.0%	

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

Rate of Return

For the fiscal year ended September 30, 2019, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 5.14%. 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 6.80% was used to measure the total pension liability (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 6.80% (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Bessemer Area Schools

Notes to the Financial Statements

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

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

Pension		
1% Decrease (Non-Hybrid/Hybrid)	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)	1% Increase (Non-Hybrid/Hybrid)
5.80% / 5.80% / 5.0%	6.80% / 6.80% / 6.0%	7.80% / 7.80% / 7.0%
\$9,920,819	\$7,631,024	\$5,732,705

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

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

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

Note G - Postemployment Benefits Other Than Pensions (OPEB)

Plan Description

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

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

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

Bessemer Area Schools

Notes to the Financial Statements

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

Benefits Provided

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

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

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

Contributions

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

Bessemer Area Schools

Notes to the Financial Statements

Employer OPEB contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2018 valuation will be amortized over a 20-year period beginning October 1, 2018 and ending September 30, 2038.

The schedule below summarizes OPEB contribution rates in effect for fiscal year ended September 30, 2019.

Benefit Structure	Member	Non-Universities
Premium Subsidy	3.00%	7.93%
Personal Healthcare Fund (PHF)	0.00%	7.57%

Required contributions to the OPEB plan from the School District were \$163,100 for the year ended September 30, 2019.

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

At June 30, 2020, the School District reported a liability of \$1,705,035 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2018. The School District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2019, the School District's proportion was 0.02375 percent, which was an increase of 0.00223 percent from its proportion measured as of October 1, 2018.

Bessemer Area Schools

Notes to the Financial Statements

For the year ending June 30, 2020, the School District recognized OPEB expense of \$74,721. At June 30, 2020, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ -	\$ 625,625
Changes of assumptions	369,446	-
Net difference between projected and actual earnings on pension plan investments	-	29,651
Changes in proportion and differences between Employer contributions and proportionate share of contributions	164,007	15,433
Employer contributions subsequent to the measurement date	135,478	-
Total	\$ 668,931	\$ 670,709

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, 2021.

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

Plan Year Ended September 30	Amount:
2020	\$ (48,267)
2021	(48,267)
2020	(33,533)
2023	(9,765)
2024	2,576

Actuarial Assumptions

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

Bessemer Area Schools

Notes to the Financial Statements

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2018
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:	7.5% Year 1 graded to 3.5% Year 12
Mortality:	
Retirees:	RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Active Members:	P-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Other Assumptions:	
Opt-Out Assumption	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan.
Survivor Coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death
Coverage Election at Retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

Notes:

- Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual OPEB valuations beginning with the September 30, 2017 valuation. The total OPEB liability as of September 30, 2019, is based on the results of an actuarial valuation date of September 30, 2018, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 5.7101 for non-university employers.
- Recognition period for assets in years: 5.0000
- Full actuarial assumptions are available in the 2019 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Bessemer Area Schools

Notes to the Financial Statements

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, 2019, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.5%
Private Equity Pools	18.0	8.6
International Equity Pools	16.0	7.3
Fixed Income Pools	10.5	1.2
Real Estate and Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.4
Short-term Investment Pools	2.0	0.8
Total	100.0%	

Rate of Return

For the fiscal year ended September 30, 2019, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 5.37%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 6.95% 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.

Bessemer Area Schools

Notes to the Financial Statements

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

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

Other Postemployment Benefits		
1% Decrease	Current Discount Rate	1% Increase
5.95%	6.95%	7.95%
\$2,091,481	\$1,705,035	\$1,380,527

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

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

Other Postemployment Benefits		
1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
\$1,366,769	\$1,705,035	\$2,091,435

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2019 MPSERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

Note H - Risk Management

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

Bessemer Area Schools

Notes to the Financial Statements

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

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

Management estimates that the amount of actual or potential claims against the School District as of June 30, 2020 will not materially affect the financial condition of the School District. Therefore, the financial statements contain no provision for estimated claims. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

Note I – Fund Balances – Governmental Funds

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

The following schedule summarizes the School District's components of fund balance as of June 30, 2020:

	General	Food Service	Capital Projects	2003 Refunding Bonds	Total
Nonspendable:					
Inventories	\$ 14,063	\$ 1,603	\$ -	\$ -	\$ 15,666
Restricted for:					
Debt Service	-	-	-	23,017	23,017
Capital Projects	-	-	896,224	-	896,224
Food Service	-	48,843	-	-	48,843
Total Restricted	-	48,843	896,224	23,017	968,084
Assigned for:					
Bus Lease	60,000	-	-	-	60,000
5% Revenue Reserve	200,000	-	-	-	200,000
Total Assigned	260,000	-	-	-	260,000
Unassigned	61,775	-	-	-	61,775
Total Fund Balances - Governmental Funds	\$ 335,838	\$ 50,446	\$ 896,224	\$ 23,017	\$ 1,305,525

Bessemer Area Schools

Notes to the Financial Statements

Note J - Upcoming Accounting Pronouncements

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017 and will be effective for the District's 2021 year end. The objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

REQUIRED SUPPLEMENTARY INFORMATION

Bessemer Area Schools
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended June 30, 2020

	Budgeted Amounts			Variance Favorable (Unfavorable) Final to Actual
	Original	Final	Actual	
Revenues				
Property Taxes	\$ 550,288	\$ 563,799	\$ 563,801	\$ 2
Athletics	32,936	32,812	32,812	0
State Sources	3,330,273	3,071,959	3,273,214	201,255
Federal Sources	146,252	146,334	146,334	0
Investment Income	750	341	400	59
Other	38,897	64,163	63,763	(400)
Total Revenues	4,099,396	3,879,408	4,080,324	200,916
Expenditures				
Instruction				
Elementary	1,154,086	1,177,492	1,192,495	(15,003)
Secondary	941,741	930,174	912,169	18,005
Special Education	415,339	389,756	391,310	(1,554)
Title I	92,927	92,927	92,928	(1)
At Risk	179,287	179,145	179,142	3
Small Rural Grant	25,922	25,922	25,922	0
Title IIA	17,403	17,485	17,486	(1)
Title IV	10,000	10,000	9,999	1
Early Literacy	4,877	4,877	4,877	0
Total Instruction	2,841,582	2,827,778	2,826,328	1,450
Supporting Services				
Guidance Services	43,641	43,755	43,224	531
Health Services	272	230	230	0
Technology	88,886	76,482	79,494	(3,012)
Board of Education	89,127	81,378	80,242	1,136
Executive Administration	228,063	222,789	224,478	(1,689)
Elementary Office	100,850	99,099	103,145	(4,046)
Secondary Office	192,634	190,384	191,722	(1,338)
Fiscal Services	10,978	8,844	8,784	60
Other Business Services	3,500	503	503	0
Operation and Maintenance	430,681	422,776	424,964	(2,188)
Pupil Transportation	98,020	96,290	96,906	(616)
Total Supporting Services	1,286,652	1,242,530	1,253,692	(11,162)
Athletics	123,293	110,558	110,658	(100)
Total Expenditures	4,251,527	4,180,866	4,190,678	(9,812)
Excess (Deficiency) of Revenues Over Expenditures	(152,131)	(301,458)	(110,354)	191,104
Net Change in Fund Balance	(152,131)	(301,458)	(110,354)	191,104
Fund Balance at Beginning of Period	444,749	444,749	444,749	--
Fund Balance at End of Period	\$ 292,618	\$ 143,291	\$ 334,395	\$ 191,104

Bessemer Area Schools
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Food Service
For the Year Ended June 30, 2020

	Budgeted Amounts			Variance Favorable (Unfavorable) Final to Actual
	Original	Final	Actual	
Revenues				
Food Services	\$ 5,600	\$ 3,296	\$ 3,297	\$ 1
State Sources	4,995	7,412	7,148	(264)
Federal Sources	191,366	202,534	214,930	12,396
Total Revenues	201,961	213,242	225,375	12,133
Expenditures				
Food Services	184,451	187,393	203,575	(16,182)
Total Expenditures	184,451	187,393	203,575	(16,182)
Excess (Deficiency) of Revenues Over Expenditures	17,510	25,849	21,800	(4,049)
Net Change in Fund Balance	17,510	25,849	21,800	(4,049)
Fund Balance at Beginning of Period	28,646	28,646	28,646	--
Fund Balance at End of Period	\$ 46,156	\$ 54,495	\$ 50,446	\$ (4,049)

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

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

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Statutorily Required Contributions	\$ 612,143	\$ 587,025	\$ 506,577	\$ 437,065	\$ 429,061
Contributions in Relation to Statutorily Required Contributions	<u>612,143</u>	<u>587,025</u>	<u>506,577</u>	<u>437,065</u>	<u>429,061</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's Covered Payroll	\$ 2,134,402	\$ 2,060,511	\$ 1,817,383	\$ 1,795,779	\$ 1,797,173
Contributions as a Percentage of Covered Payroll	28.68%	28.49%	27.87%	24.34%	23.87%

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

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

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

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

Combining and Individual Fund Statements and Schedules

Bessemer Area Schools
Statement of Changes in Fiduciary Assets and Liabilities
Fiduciary Fund
For the Year Ended June 30, 2020

	<u>Balance at July 1, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2020</u>
Asset - Cash and Investments	\$ 93,494	\$ 67,751	\$ 69,047	\$ 92,198
Liability - Due to Student Groups	\$ 93,494	\$ 67,751	\$ 69,047	\$ 92,198

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

October 15, 2020

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bessemer Area Public Schools (the "School District"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated October 15, 2020.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses, that we consider to be a significant deficiency. (2020-1)

Compliance and Other Matters

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

The School's Response to Findings

The School's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose, and is intended solely for the use of management, the Board of Education, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Best regards,

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

Gabridge & Company, PLC
Grand Rapids, MI
October 15, 2020

Bessemer Area Public Schools

Schedule of Findings and Responses

Significant Deficiency

2020-1 - Segregation of Incompatible Duties

Criteria:	Management is responsible for establishing and maintaining internal controls in order to safeguard the assets of the School District. A key element of internal control is the segregation of incompatible duties within the accounting function.
Condition/Finding:	The School District has accounting functions which are performed by the same individual and are not subject to a documented independent review and approval. These areas include cash reconciliation, payroll, accounts receivable, and accounts payable transactions.
Cause:	This condition is a result of the limited size of the School District's accounting staff.
Effect:	As a result of this condition, the School District is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented or detected and corrected by management on a timely basis.
Recommendation:	While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.
View of Responsible Officials:	As a result of limited staffing, we cannot accomplish the desired segregation of duties. Management will provide increased oversight and review of operations to help deter inappropriate actions and potential fraud, as well consider enhanced cash receipting procedures for activities with decentralized cash receipts.



Bessemer Area School District



Mr. Daniel Niemi, Superintendent
Mr. Mark Switzer - Dean of Instruction/Counselor
Mrs. Christine Bergquist - Business Manager/
Transportation Supervisor

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

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

Segregation of Incompatible Duties:

Due to limited resources, the School District is unable to segregate duties in the Business Office. The District has implemented the following mitigating controls:

1. All cash received from students, staff or parents will be receipted by either the Secretary at the Jr./Sr. High School or the Administrative Assistant at the Washington Elementary School before it is given to the Business Manager to be deposited.
2. All accounts payable checks, monthly financial statements and bank reconciliations are presented to the Board of Education for review and approval.
3. The Finance Committee receives a budget financial statement every month.
4. All invoices will be approved by an administrator prior to issuance of payment by the Business Manager. In addition, the Superintendent will review the Transactions Report, which includes all receipts, journal entries and checks, monthly.
5. The Superintendent will review each payroll.
6. The Superintendent will review the Trial Balance and Bank Statements/Reconciliation and initial after each review.

October 15, 2020

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

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

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note A to the financial statements. There were no new accounting policies adopted during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- Estimates have been used to calculate the net pension liability and the net other postemployment benefit liability.
- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the amounts to be recognized for compensated absences.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 15, 2020.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to management's discussion and analysis, the budgetary comparison schedule, and the pension and OPEB schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of

inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

Restriction on Use

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

Very truly yours,

A handwritten signature in dark ink that reads "Gabridge & Company". The script is cursive and fluid, with a long, sweeping underline that extends to the right.

Gabridge & Company, PLC
Grand Rapids, MI