

VANDERBILT AREA SCHOOL
REPORT ON FINANCIAL STATEMENTS
JUNE 30, 2021



Baird, Cotter & Bishop, P.C.
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VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2021

TABLE OF CONTENTS

| | <u>PAGES</u> |
|---|--------------|
| Independent Auditor's Report | i-iii |
| Management's Discussion and Analysis | iv-xi |
| Basic Financial Statements | |
| Government-Wide Financial Statements | |
| Statement of Net Position | 1-2 |
| Statement of Activities | 3 |
| Fund Financial Statements | |
| Balance Sheet - Governmental Funds | 4 |
| Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position | 5 |
| Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds | 6 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 7 |
| Fiduciary Funds | |
| Statement of Fiduciary Net Position | 8 |
| Statement of Changes in Fiduciary Net Position | 9 |
| Notes to Financial Statements | 10-39 |
| Required Supplementary Information | |
| Budgetary Comparison Schedule – General Fund | 40 |
| Schedule of Proportionate Share of the Net Pension Liability | 41 |
| Schedule of Pension Contributions | 42 |
| Schedule of Proportionate Share of the Net OPEB Liability | 43 |
| Schedule of OPEB Contributions | 44 |
| Notes to Required Supplementary Information | 45 |
| Combining Nonmajor Fund Financial Statements | |
| Combining Balance Sheet | 46 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balances | 47 |
| 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 <i>Government Auditing Standards</i> | 48-49 |
| Corrective Action Plan | 50 |



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August 9, 2021

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Vanderbilt Area School
Vanderbilt, 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 Vanderbilt Area School, Vanderbilt, Michigan as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the 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 Vanderbilt Area School, Vanderbilt, Michigan as of June 30, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 4 to the financial statements, Vanderbilt Area School implemented Governmental Accounting Standards Board Statement No. 84, Fiduciary Activities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as identified in the table of contents, on pages iv through xi and 40-45 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Vanderbilt Area School's basic financial statements. The Combining Nonmajor Fund Financial Statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2021, on our consideration of Vanderbilt Area School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Vanderbilt Area School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Vanderbilt Area School's internal control over financial reporting and compliance.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2021

This section of Vanderbilt Area School's ("the District") annual report presents our discussion and analysis of the District's financial performance during the year ended June 30, 2021. Please read it in conjunction with the District's financial statements, which immediately follow this section.

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

A. Government-Wide Financial Statements

The *Government-Wide Financial Statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the District's assets, deferred inflows and outflows of resources and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents the information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future periods.

Both of the government-wide statements distinguish functions of the District that are principally supported by state aid and property taxes (governmental activities) from other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). The governmental activities of the District include instruction, supporting services, community services, food service, facilities acquisition, construction and improvements, and interest on long-term debt.

B. Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Vanderbilt Area School, like other state and local governments, uses fund accounting to ensure compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories, governmental funds and fiduciary funds.

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

Some funds are required by state law and by bond covenants. The District may establish other funds to control and manage money for particular purposes.

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2021

The District maintains the following types of funds:

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Fiduciary Funds – Fiduciary funds are for assets that belong to others, such as certain student organizations where the District is the trustee or fiduciary. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

The District maintains one type of fiduciary fund. The Custodial fund reports resources held by the District in a custodial capacity for individuals, private organizations, and other governments.

Notes to Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2021

C. Summary of Net Position

The following schedule summarizes the net position at fiscal year ended June 30. The prior year has not been restated to include the new GASB No. 84 Standards–*Fiduciary Activities*:

| | <u>2021</u> | <u>2020</u> |
|---------------------------------------|--------------------|--------------------|
| Assets | | |
| Current Assets | \$ 1,017,843 | \$ 1,161,661 |
| Non Current Assets | | |
| Capital Assets | 6,067,484 | 5,586,746 |
| Less Accumulated Depreciation | <u>(3,157,744)</u> | <u>(3,005,995)</u> |
| Total Non Current Assets | <u>2,909,740</u> | <u>2,580,751</u> |
| Total Assets | <u>3,927,583</u> | <u>3,742,412</u> |
| Deferred Outflows of Resources | <u>572,760</u> | <u>642,266</u> |
| Liabilities | | |
| Current Liabilities | 636,442 | 750,095 |
| Non Current Liabilities | <u>2,447,435</u> | <u>2,709,297</u> |
| Total Liabilities | <u>3,083,877</u> | <u>3,459,392</u> |
| Deferred Inflows of Resources | <u>512,514</u> | <u>576,409</u> |
| Net Position | | |
| Net Investment in Capital Assets | 2,501,825 | 2,013,639 |
| Restricted for Specific Purposes | 225,800 | 508,313 |
| Unrestricted (Deficit) | <u>(1,823,673)</u> | <u>(2,173,075)</u> |
| Total Net Position | <u>\$ 903,952</u> | <u>\$ 348,877</u> |

D. Analysis of Financial Position

During the fiscal year ended June 30, 2021, the District's net position increased by \$546,066. A few of the more significant factors affecting net position during the year are discussed below:

1. Depreciation Expense

Districts are required to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net position.

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2021

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2021, \$151,749 was recorded for depreciation expense.

2. Capital Outlay Acquisitions

The District had capital asset acquisitions in the amount of \$487,708 for the year ended June 30, 2021.

The net effect the current year's depreciation is an increase in capital assets in the amount of \$335,959 for the year ended June 30, 2021.

3. Pension and Other Postemployment Benefits Expense

GASB 68 & 75 require the District to account for its payments to the Michigan Public School Employees' Retirement System in a manner that has a significant effect on the District's change in net position. Based on various factors, the District may report an increase or decrease in net position depending on whether the District's proportionate share of the net pension and OPEB liabilities and related deferred outflows and inflows of resources increases or decreases in any given year.

E. Results of Operations

The following schedule summarizes the results of operations, on a district-wide basis, for the fiscal year ended June 30. The prior year has not been restated to include the new GASB No. 84 Standards—*Fiduciary Activities*:

| | <u>2021</u> | <u>2020</u> |
|------------------------------------|------------------|------------------|
| General Revenues | | |
| Property Taxes | \$ 1,277,073 | \$ 1,311,970 |
| Investment Earnings | 1,246 | 663 |
| State Sources | 162,662 | 17,553 |
| Other | 8,743 | 19,185 |
| Total General Revenues | <u>1,449,724</u> | <u>1,349,371</u> |
| Program Revenues | | |
| Charges for Services | 6,559 | 21,364 |
| Operating Grants and Contributions | 713,010 | 473,962 |
| Capital Grants and Contributions | 14,527 | 0 |
| Total Program Revenues | <u>734,096</u> | <u>495,326</u> |
| Total Revenues | <u>2,183,820</u> | <u>1,844,697</u> |

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2021

| | 2021 | 2020 |
|--|------------|------------|
| Expenses | | |
| Instruction | 609,791 | 694,558 |
| Supporting Services | 692,723 | 599,250 |
| Community Services | 1,490 | 1,183 |
| Food Service | 84,050 | 99,498 |
| Facilities Acquisition, Construction, and Improvements | 74,386 | 54,797 |
| Interest on Long-Term Debt | 23,565 | 23,708 |
| Prior Period Adjustments | 0 | 23,830 |
| Unallocated Depreciation | 151,749 | 135,751 |
| | 1,637,754 | 1,632,575 |
| Total Expenses | | |
| Change in Net Position | \$ 546,066 | \$ 212,122 |

F. Financial Analysis of the District's Funds

The financial performance of the District as a whole is also reflected in its governmental funds. The following table shows the change in total fund balances of each of the District's governmental funds:

| | 2021 | (As Restated) 2020 | Increase (Decrease) |
|--|------------|-----------------------|------------------------|
| Major Funds | | | |
| General Fund | \$ 352,793 | \$ (39,146) | \$ 391,939 |
| 2020 School Building and Bus Capital Projects Fund | 5,527 | 353,629 | (348,102) |
| 2007 Debt Service Fund | 175,900 | 334,529 | (158,629) |
| Sinking Fund | 220,554 | 178,667 | 41,887 |
| 2020 Debt Service Fund | 52,249 | 0 | 52,249 |
| Nonmajor Funds | | | |
| Food Service Fund | 14,861 | 11,434 | 3,427 |
| Student Activities Fund | 11,866 | 9,009 | 2,857 |
| | \$ 833,750 | \$ 848,122 | \$ (14,372) |
| Total Governmental Funds | | | |

General Fund – In 2020-2021, the General Fund's fund balance increased by \$391,939 bringing the fund balance to \$352,793. In comparison to the prior year, revenues increased more significantly than expenditures which resulted in the increase to fund balance. A large portion of the increase in fund balance was the result of a financial reimbursement program grant from the state of \$100,000 as well as additional federal and state aid funding related to the pandemic. Of the fund balance, \$5,312 is nonspendable for prepaid expenditures and \$347,481 is unassigned.

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

MANAGEMENT’S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2021

2020 School Building and Bus Capital Projects Fund –The 2020 School Building and Bus Capital Projects Fund’s fund balance decreased by \$348,102. The decrease in fund balance can be attributed to spending a majority of the bond proceeds received in the 19-20 fiscal year on building improvements.

2007 Debt Service Fund – The 2007 Debt Service Fund’s fund balance decreased by \$158,629 bringing the fund balance to \$175,900. The decrease in fund balance can be attributed to principal and interest obligations exceeding revenue generated by the tax levy. The 2007 Debt has one remaining principal payment of \$170,000 due May 1, 2022. The entire fund balance is restricted for debt service.

Sinking Fund –The Sinking Fund’s fund balance increased by \$41,887 bringing the fund balance to \$220,554. The increase in fund balance can be attributed to revenue generated by the tax levy and the issuance of 2021 building and site bonds being accounting for in the Sinking Fund exceeding building improvement expenditures. The entire fund balance is restricted for capital projects.

2020 Debt Service Fund - The 2020 Debt Service Fund’s fund balance increased by \$52,249 bringing the fund balance to \$52,549. The increase in fund balance can be attributed to revenue generated by the tax levy exceeding principal and interest obligations. The entire fund balance is restricted for debt service.

Food Service Fund – The Food Service Fund’s fund balance increased by \$3,427 bringing the fund balance to \$14,861. The change in fund balance was mainly the result of additional federal revenue caused by the pandemic. The entire fund balance is restricted for food service.

Student Activities Fund – The Student Activities Fund was created as a result of GASB Statement No. 84. The fund balance increased by \$2,857 which is mainly due to various clubs and organizations having lower costs due to the pandemic not allowing them to expend resources as they normally would have.

G. General Fund Budgetary Highlights

The Uniform Accounting and Budgeting Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the 2020-2021 fiscal year, the District amended the General Fund throughout the year, with the Board adopting the changes as summarized below. The following schedule shows a comparison of the original General Fund budget, the final amended General Fund budget, and actual totals from operations:

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2021

| | <u>ORIGINAL</u> <u>BUDGET</u> | <u>FINAL</u> <u>BUDGET</u> | <u>ACTUAL</u> |
|---------------------|----------------------------------|-------------------------------|---------------------|
| <u>REVENUES</u> | <u>\$ 1,263,825</u> | <u>\$ 1,707,630</u> | <u>\$ 1,711,318</u> |
| <u>EXPENDITURES</u> | | | |
| Instruction | \$ 725,675 | \$ 740,740 | \$ 699,986 |
| Supporting Services | 525,010 | 640,335 | 617,903 |
| Community Services | 0 | 2,050 | 1,490 |
| | <u>\$ 1,250,685</u> | <u>\$ 1,383,125</u> | <u>\$ 1,319,379</u> |

The changes from original budget and final budget resulted from funding amounts for various programs and associated expenditures becoming clearer throughout the year.

The final budget to actual revenue variance was minimal. The final budget to actual expenditure variance was also minimal and can be attributed to conservative spending as the District was trying to get out of having a deficit fund balance.

H. Capital Asset and Debt Administration

1. Capital Assets

By the end of the 2020-21 fiscal year, the District had invested \$2,909,740 net of depreciation, in a broad range of capital assets, including school buildings and facilities, vehicles, and various types of furniture and equipment. This represents a net increase of \$335,959 from the prior fiscal year. Depreciation expense for the year amounted to \$151,749 bringing the accumulation to \$3,157,744 as of June 30, 2021. The District's major capital asset additions in the current year included: improvements and upgrades to district buildings for a total cost of \$469,606. These capital assets additions were paid from resources located within the Sinking Fund and 2020 School Building and Bus Capital Projects Fund. The District also purchased new computer technology amounting to \$13,874 and a refrigerator for the cafeteria at a cost of \$4,228.

2. Long-Term Obligations

At June 30, 2021, the District had \$685,000 in bonds outstanding. This represents a net decrease of \$120,000 from the amount outstanding at the close of the prior fiscal year. Additionally, at June 30, 2021, the District reported its net share of the pension liability of \$1,878,462, net other postemployment benefit liability of \$302,813, and compensated absences of \$27,718.

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2021

I. Factors Bearing on the District's Future

At the time that these financial statements were prepared and audited, the District was aware of the following items that could significantly affect its financial health in the future:

- With this fiscal year's completion, the District no longer has a General Fund deficit. With the assistance of significant ESSER Federal funding that will partially be used to fund the ongoing renovations at the school, the District foresees the financial position remaining strong going forward and does not anticipate any situation causing the District to go back into deficit.
- Being an "Out-of-Formula" school district, the District is positively and negatively impacted by our local non-homestead taxes, as taxable values rise or fall.
- It is important that the District continues to monitor local tax tribunal cases. The District must continue to be proactive and aggressively defend any request for a reduction that lacks merit, as any reduction directly impacts the District financially.
- The District continues to work hard to keep operating expenditures down and to maintain revenue levels that are within their control.

J. Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact the Superintendent, Vanderbilt Area School, 947 Donovan Street, Vanderbilt, MI 49795.

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VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

STATEMENT OF NET POSITION

JUNE 30, 2021

ASSETS

CURRENT ASSETS

| | |
|-----------------------------------|------------------|
| Cash | \$ 455,517 |
| Restricted Cash | 282,015 |
| Due from Other Governmental Units | 274,999 |
| Prepaid Expenses | 5,312 |
| Total Current Assets | <u>1,017,843</u> |

NON CURRENT ASSETS

| | |
|-------------------------------|--------------------|
| Capital Assets | 6,067,484 |
| Less Accumulated Depreciation | <u>(3,157,744)</u> |
| Total Non Current Assets | <u>2,909,740</u> |

TOTAL ASSETS 3,927,583

DEFERRED OUTFLOWS OF RESOURCES

| | |
|---|----------------|
| Deferred Outflows of Resources Related to Pensions | 405,179 |
| Deferred Outflows of Resources Related to Other Postemployment Benefits | <u>167,581</u> |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | <u>572,760</u> |

LIABILITIES

CURRENT LIABILITIES

| | |
|--|----------------|
| Accounts Payable | 72,656 |
| Salaries and Benefits Payable | 106,707 |
| Accrued Interest Payable | 2,349 |
| Unearned Revenue | 4,730 |
| Current Portion of Non Current Liabilities | <u>450,000</u> |
| Total Current Liabilities | <u>636,442</u> |

NON CURRENT LIABILITIES

| | |
|---|------------------|
| Bonds Payable - Net | 688,442 |
| Compensated Absences | 27,718 |
| Net Pension Liability | 1,878,462 |
| Net Other Postemployment Benefit Liability | 302,813 |
| Less Current Portion of Non Current Liabilities | <u>(450,000)</u> |
| Total Non Current Liabilities | <u>2,447,435</u> |

TOTAL LIABILITIES 3,083,877

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

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

STATEMENT OF NET POSITION

JUNE 30, 2021

DEFERRED INFLOWS OF RESOURCES

| | |
|--|--------------------|
| Deferred Inflows of Resources Related to Pensions | 218,773 |
| Deferred Inflows of Resources Related to Other Postemployment Benefits | <u>293,741</u> |
| TOTAL DEFERRED INFLOWS OF RESOURCES | <u>512,514</u> |

NET POSITION

| | |
|----------------------------------|-----------------------|
| Net Investment in Capital Assets | 2,501,825 |
| Restricted for Debt Service | 225,800 |
| Unrestricted (Deficit) | <u>(1,823,673)</u> |
| TOTAL NET POSITION | <u>\$ 903,952</u> |

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

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021

| FUNCTIONS/PROGRAMS | PROGRAM REVENUES | | | | <u>GOVERNMENTAL ACTIVITIES</u> |
|--|-------------------------|--|--------------------------------------|--|------------------------------------|
| EXPENSES | CHARGES FOR SERVICES | OPERATING GRANTS & CONTRIBUTIONS | CAPITAL GRANTS & CONTRIBUTIONS | <u>NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION</u> | |
| <u>GOVERNMENTAL ACTIVITIES</u> | | | | | |
| Instruction | \$ 609,791 | \$ 0 | \$ 350,367 | \$ 0 | \$ (259,424) |
| Supporting Services | 692,723 | 5,690 | 271,818 | 14,527 | (400,688) |
| Community Services | 1,490 | 0 | 0 | 0 | (1,490) |
| Food Service | 84,050 | 869 | 90,825 | 0 | 7,644 |
| Facilities Acquisition, Construction, and Improvements | 74,386 | 0 | 0 | 0 | (74,386) |
| Interest on Long-Term Debt | 23,565 | 0 | 0 | 0 | (23,565) |
| Unallocated Depreciation | 151,749 | 0 | 0 | 0 | (151,749) |
| TOTAL GOVERNMENTAL ACTIVITIES | \$ 1,637,754 | \$ 6,559 | \$ 713,010 | \$ 14,527 | (903,658) |
| <u>GENERAL REVENUES</u> | | | | | |
| Property Taxes - General Purposes | | | | | 895,990 |
| Property Taxes - Debt Service | | | | | 306,922 |
| Property Taxes - Capital Projects | | | | | 74,161 |
| Investment Earnings | | | | | 1,246 |
| State Sources | | | | | 162,662 |
| Other | | | | | 8,743 |
| Total General Revenues | | | | | 1,449,724 |
| Change in Net Position | | | | | 546,066 |
| <u>NET POSITION</u> - Beginning of Year, As Restated | | | | | 357,886 |
| <u>NET POSITION</u> - End of Year | | | | | \$ 903,952 |

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

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2021

| | GENERAL FUND | 2020 SCHOOL BUILDING AND BUS CAPITAL PROJECTS FUND | 2007 DEBT SERVICE FUND | SINKING FUND | 2020 DEBT SERVICE FUND | NONMAJOR GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|--|-------------------|---|---------------------------------|-------------------|---------------------------------|-----------------------------------|--------------------------------|
| <u>ASSETS</u> | | | | | | | |
| Cash | \$ 193,591 | \$ 0 | \$ 175,900 | \$ 9,383 | \$ 52,249 | \$ 24,394 | \$ 455,517 |
| Restricted Cash | 0 | 7,018 | 0 | 274,997 | 0 | 0 | 282,015 |
| Due from Other Funds | 0 | 0 | 0 | 0 | 0 | 235 | 235 |
| Due from Other Governmental Units | 271,997 | 0 | 0 | 0 | 0 | 3,002 | 274,999 |
| Prepaid Expenditures | 5,312 | 0 | 0 | 0 | 0 | 0 | 5,312 |
| TOTAL ASSETS | \$ 470,900 | \$ 7,018 | \$ 175,900 | \$ 284,380 | \$ 52,249 | \$ 27,631 | \$ 1,018,078 |
| <u>LIABILITIES AND FUND BALANCES</u> | | | | | | | |
| <u>LIABILITIES</u> | | | | | | | |
| Accounts Payable | \$ 6,435 | \$ 1,491 | \$ 0 | \$ 63,826 | \$ 0 | \$ 904 | \$ 72,656 |
| Salaries and Benefits Payable | 106,707 | 0 | 0 | 0 | 0 | 0 | 106,707 |
| Unearned Revenue | 4,730 | 0 | 0 | 0 | 0 | 0 | 4,730 |
| Due to Other Funds | 235 | 0 | 0 | 0 | 0 | 0 | 235 |
| Total Liabilities | 118,107 | 1,491 | 0 | 63,826 | 0 | 904 | 184,328 |
| <u>FUND BALANCES</u> | | | | | | | |
| Nonspendable, Prepaid Expenditures | 5,312 | 0 | 0 | 0 | 0 | 0 | 5,312 |
| Restricted for Debt Service | 0 | 0 | 175,900 | 0 | 52,249 | 0 | 228,149 |
| Restricted for Capital Projects | 0 | 5,527 | 0 | 220,554 | 0 | 0 | 226,081 |
| Restricted for Food Service | 0 | 0 | 0 | 0 | 0 | 14,861 | 14,861 |
| Assigned for Student Activities | 0 | 0 | 0 | 0 | 0 | 11,866 | 11,866 |
| Unassigned | 347,481 | 0 | 0 | 0 | 0 | 0 | 347,481 |
| Total Fund Balances | 352,793 | 5,527 | 175,900 | 220,554 | 52,249 | 26,727 | 833,750 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 470,900 | \$ 7,018 | \$ 175,900 | \$ 284,380 | \$ 52,249 | \$ 27,631 | \$ 1,018,078 |

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

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION

JUNE 30, 2021

Total Governmental Fund Balances \$ 833,750

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.

| | | |
|-----------------------------------|--------------------|-----------|
| The cost of the capital assets is | \$ 6,067,484 | |
| Accumulated depreciation is | <u>(3,157,744)</u> | 2,909,740 |

Long-term liabilities are not due and payable in the current period and are not reported in the funds.

| | |
|--|-------------|
| Bonds Payable | (685,000) |
| Bond Premium | (3,442) |
| Compensated Absences | (27,718) |
| Net Pension Liability | (1,878,462) |
| Net Other Postemployment Benefit Liability | (302,813) |

Deferred outflows and inflows of resources related to pensions and other postemployment benefits are applicable to future periods and, therefore, are not reported in the funds.

| | |
|---|-----------|
| Deferred Outflows of Resources Related to Pensions | 405,179 |
| Deferred Outflows of Resources Related to Other Postemployment Benefits | 167,581 |
| Deferred Inflows of Resources Related to Pensions | (218,773) |
| Deferred Inflows of Resources Related to Other Postemployment Benefits | (293,741) |

Accrued interest on bonds is not included as a liability in government funds, it is recorded when paid. (2,349)

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 903,952

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

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2021

| | GENERAL FUND | 2020 SCHOOL BUILDING AND BUS CAPITAL PROJECTS FUND | 2007 DEBT SERVICE FUND | SINKING FUND | 2020 DEBT SERVICE FUND | NONMAJOR GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|---|-----------------|---|------------------------------|-----------------|------------------------------|-----------------------------------|--------------------------------|
| <u>REVENUES</u> | | | | | | | |
| Local Sources | \$ 940,932 | \$ 356 | \$ 29,715 | \$ 74,226 | \$ 277,570 | \$ 6,337 | \$ 1,329,136 |
| State Sources | 392,295 | 0 | 669 | 1,739 | 6,025 | 3,617 | 404,345 |
| Federal Sources | 376,672 | 0 | 0 | 0 | 0 | 87,208 | 463,880 |
| Other Transactions | 1,419 | 0 | 0 | 0 | 0 | 0 | 1,419 |
| Total Revenues | 1,711,318 | 356 | 30,384 | 75,965 | 283,595 | 97,162 | 2,198,780 |
| <u>EXPENDITURES</u> | | | | | | | |
| Instruction | 699,986 | 0 | 0 | 0 | 0 | 0 | 699,986 |
| Supporting Services | 617,903 | 500 | 0 | 6,975 | 0 | 2,600 | 627,978 |
| Community Services | 1,490 | 0 | 0 | 0 | 0 | 0 | 1,490 |
| Facilities Acquisition, Construction, and Improvements | 0 | 241,889 | 0 | 302,103 | 0 | 0 | 543,992 |
| Food Service | 0 | 0 | 0 | 0 | 0 | 88,278 | 88,278 |
| Debt Service | | | | | | | |
| Principal | 0 | 101,888 | 175,000 | 0 | 220,000 | 0 | 496,888 |
| Interest and Other Transactions | 0 | 4,181 | 14,013 | 0 | 11,346 | 0 | 29,540 |
| Total Expenditures | 1,319,379 | 348,458 | 189,013 | 309,078 | 231,346 | 90,878 | 2,488,152 |
| Excess (Deficiency) of Revenues Over Expenditures | 391,939 | (348,102) | (158,629) | (233,113) | 52,249 | 6,284 | (289,372) |
| <u>OTHER FINANCING SOURCES (USES)</u> | | | | | | | |
| Face Value of Debt | 0 | 0 | 0 | 275,000 | 0 | 0 | 275,000 |
| Net Change in Fund Balance | 391,939 | (348,102) | (158,629) | 41,887 | 52,249 | 6,284 | (14,372) |
| FUND BALANCE - Beginning of Year - (Deficit), As Restated | (39,146) | 353,629 | 334,529 | 178,667 | 0 | 20,443 | 848,122 |
| FUND BALANCE - End of Year | \$ 352,793 | \$ 5,527 | \$ 175,900 | \$ 220,554 | \$ 52,249 | \$ 26,727 | \$ 833,750 |

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

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2021

Net Change in Fund Balances Total Governmental Funds \$ (14,372)

Amounts reported for governmental activities are different because:

Governmental funds report capital outlay as expenditures. In the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.

| | |
|----------------------|-----------|
| Depreciation Expense | (151,749) |
| Capital Outlay | 487,708 |

Accrued interest on bonds is recorded in the Statement of Activities when incurred; it is not recorded in governmental funds until it is paid:

| | |
|--|---------|
| Accrued Interest Payable - Beginning of Year | 4,883 |
| Accrued Interest Payable - End of Year | (2,349) |

Governmental funds report District pension and other postemployment benefit contributions as expenditures. However, in the Statement of Activities, the cost of pension and other postemployment benefits earned net of employee contributions is reported as an expense.

| | |
|--|----------|
| Change in Pension Related Items | (49,475) |
| Change in Other Postemployment Benefit Related Items | 64,187 |

Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to Section 147 C pension contributions subsequent to the measurement date.

| | |
|---|----------|
| Change in State Aid Funding for Pension | (14,960) |
|---|----------|

Employees' compensated absences are reported on the accrual method in the Statement of Activities, but only recorded as an expenditure when financial resources are used in the governmental funds.

| | |
|--------------------------------|---------|
| Change in Compensated Absences | (3,136) |
|--------------------------------|---------|

The repayment of principal on long-term debt is an expenditure in the governmental funds, but not in the Statement of Activities (where it is a reduction of liabilities). The issuance of long-term debt provides current financial resources to governmental funds. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

| | |
|----------------------------------|-----------|
| Proceeds from Issuance of Bonds | (275,000) |
| Repayment of Principal | 496,888 |
| Amortization of Deferred Charges | 3,441 |
| | <hr/> |

| | |
|---|-------------------|
| CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES | <u>\$ 546,066</u> |
|---|-------------------|

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

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

JUNE 30, 2021

| | <u>CUSTODIAL FUND</u> |
|-------------------------------------|-------------------------------|
| <u>ASSETS</u> | |
| Cash | \$ 2,000 |
| <u>LIABILITIES</u> | |
| | <u>0</u> |
| <u>NET POSITION</u> | |
| Restricted for Student Scholarships | <u><u>\$ 2,000</u></u> |

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

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND

YEAR ENDED JUNE 30, 2021

| | <u>CUSTODIAL FUND</u> |
|--|---------------------------|
| <u>ADDITIONS</u> | |
| Student Scholarship Income | \$ 2,000 |
| <u>DEDUCTIONS</u> | |
| Payments Made for Student Scholarships | <u>4,000</u> |
| Change in Net Position | (2,000) |
| <u>NET POSITION</u> - Beginning of Year, As Restated | <u>4,000</u> |
| <u>NET POSITION</u> - End of Year | <u><u>\$ 2,000</u></u> |

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

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Vanderbilt Area School have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The School District (“the District”) is located in Otsego County with its administrative offices located in Vanderbilt, Michigan. The District operates under an elected 5-member board of education and provides services to its 82 students in elementary, middle school, high school, special education instruction, guidance, health, transportation, food service, and athletics. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

B. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report the information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable. The District does not have any business-type activities or component units.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

emphasis of fund financial statements is on major and nonmajor governmental funds, each displayed in a separate column. Major and nonmajor individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *2007 and 2020 debt service funds* are used to record tax, interest, and other revenue for the payment of the general long-term debt principal, interest, and other related costs.

The *sinking fund* accounts for the acquisition of capital assets or construction of major capital projects, financed with property tax revenue.

The *2020 school building and bus capital projects fund* accounts for the acquisition of capital assets or the construction of major capital projects.

Other Non-Major Funds:

The *special revenue (Food Service and Student Activities) fund* accounts for revenue sources that are legally restricted and assigned to expenditures for specific purposes. The District accounts for its food service activities and student activities in a special revenue fund.

Additionally, the District reports Fiduciary Funds. Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements

The *custodial fund* consists of assets for the benefit of individuals and the District does not have administrative involvement with the assets or direct financial involvement with the assets. In addition, the assets are not derived from the District's provision of goods or services to those individuals. This fund is used to account for assets that the District holds for others in a custodial capacity (primarily student activities).

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term obligations and acquisitions under capital leases are reported as other financing sources.

Property taxes, state and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue resource (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, except for the recognition of certain liabilities to the beneficiaries of a fiduciary activity. Liabilities to beneficiaries are recognized when an event has occurred that compels the District to disburse fiduciary resources.

F. Budgetary Information

1. Budgetary Basis of Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds.

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the governmental funds. While all appropriations and encumbrances lapse at year-end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a) Prior to July 1, the business office submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.
- b) A public hearing is conducted during June to obtain taxpayer comments.
- c) Prior to June 30, the budget is legally adopted by the School Board resolution pursuant to the Uniform Budgeting and Accounting Act. The Act requires that the budget be amended prior to the end of the fiscal year, when necessary, to adjust appropriations if it appears that revenues and other financial sources will be less than anticipated, or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated.
- d) The superintendent is charged with general supervision of the budgets and shall hold the department heads responsible for performance of their responsibilities.
- e) For purposes of meeting emergency needs of the school district, transfer of appropriations may be made by the authorization of the superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.
- f) During the year the budgets are monitored and amendments to the budget resolution are made when it is deemed necessary.
- g) Budgeted amounts are as originally adopted in June 2020, or as amended by the School Board of Education throughout the year.

2. *Excess of Expenditures Over Appropriations*

General Fund

Instruction

- a) Added Needs expenditures of \$190,369 exceeded appropriations by \$46,179.

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

Supporting Services

- b) Instructional Staff expenditures of \$2,671 exceeded appropriations by \$571.
- c) General Administration expenditures of \$35,043 exceeded appropriations by \$753.
- d) Business expenditures of \$66,562 exceeded appropriations by \$1,232.
- e) Support Services - Other expenditures of \$23,901 exceeded appropriations by \$266.

Student Activities Fund

Support Services

Supporting Services expenditures of \$2,600 exceeded appropriations by \$2,600.

These overages were covered by available fund balance and greater than anticipated revenues.

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments. The District considers all highly liquid investments (including certificates of deposit) to be cash equivalents.

2. Investments

Investments are carried at amortized cost which approximates fair value. The District complies with State statutes regarding investment of funds.

The Board policy on investment of funds authorizes the School District to invest as follows:

- a) Bonds, bills, or notes of the United States, or obligations, the principal and interest of which are fully guaranteed by the United States.
- b) Certificates of deposit issued by any state or national bank organized and authorized to operate in this state.
- c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d) Securities issued or guaranteed by agencies or instrumentalities of the United States.
- e) United States government or federal agency obligation repurchase agreements.
- f) Bankers' acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation (FDIC).

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

- g) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- h) Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district.

3. *Inventory and Prepaid Items*

Inventory is valued at cost using the first-in-first-out method. Inventory consists of expendable supplies held for consumption, which are recorded as expenditures when consumed rather than when purchased.

Certain payments made to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

The nonspendable fund balance at the governmental fund level is equal to the amount of inventories and prepaid items at year-end to indicate the portion of the governmental fund balances that are nonspendable.

4. *Capital Assets*

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their acquisition value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Land is not depreciated and construction in progress is not depreciated until the underlying assets are placed in service upon completion of the project. At that time, the asset costs are reclassified out of construction in progress and into the appropriate depreciable category.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

| | |
|--|-------------|
| Buildings, Additions and Land Improvements | 10-50 years |
| Furniture and Equipment | 2-15 years |
| Buses and Vehicles | 7-15 years |

The District's capitalization policy is to capitalize individual amounts exceeding \$1,000 and aggregate purchases of similar items purchased at the same time, such as textbooks for a classroom.

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

5. *Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. They are pension and other postemployment benefits related items reported in the government-wide *Statement of Net Position*. A deferred outflow is recognized for pension and other postemployment benefit related items. These amounts are expenses in the plan year in which they apply. Details can be found in footnotes 3.E and 3.F.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. The 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 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. Details can be found in footnotes 3.E and 3.F.

6. *Defined Benefit Plans*

For purposes of measuring the net pension and other postemployment benefits liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and other postemployment benefits, and pensions and other postemployment benefits 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.

7. *Unearned Revenue*

Unearned revenue arises when resources are received by the District before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, revenue is recognized. The District has unearned revenue related to state grants received and unspent due to restrictions on how it can be spent.

8. *Long-Term Obligations*

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related obligation.

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. *Net Position Flow Assumption*

Sometimes the 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 financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

10. *Fund Balance Flow Assumption*

Sometimes the District 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 District’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.

11. *Fund Balance Policies*

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District’s highest level of decision-making authority. The governing board is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The governing board has authorized the superintendent or business manager to assign fund balance. The board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget. Unlike commitments,

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

12. Use of Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

13. Restricted Assets

Certain cash resources are classified as restricted assets on the balance sheet because their use is limited by applicable debt covenants and they are maintained in separate bank accounts.

H. Revenues and Expenditures/Expenses

1. State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2021 the foundation allowance was based on a one time “super blend” to determine pupil membership based on counts taken in October 2020, February 2020, October 2019 and February 2019. For fiscal year ended June 30, 2021, the per pupil foundation allowance was \$8,111 for Vanderbilt Area Schools.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2020 to August 2021. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as unearned revenue. Other categorical funding is recognized when the appropriation is received.

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

2. Federal Revenue

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

3. Program Revenues

Amounts reported as program revenue include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, state foundation aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenue but instead as *general revenues*.

4. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are billed as of July 1 and due by September 14. After this date, unpaid taxes are subject to penalties and interest.

For the year ended June 30, 2021, the District levied the following amounts per \$1,000 of taxable valuation:

| <u>Fund</u> | <u>Mills</u> |
|---|--------------|
| General Fund - Non-Principal Residence Exemption (PRE) | 17.6085 |
| General Fund - Commercial Personal Property | 5.6085 |
| Debt Fund - PRE, Non-PRE, Commercial Personal Property | 3.0000 |
| Sinking Fund - PRE, Non-PRE, Commercial Personal Property | 0.7252 |

5. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused sick pay, vacation time and other benefits. The amount allowable to be compensated for depends on the position and the longevity of the individual employee. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Violations of Legal or Contractual Provisions

Note 1.F.2, on the Excess of Expenditures Over Appropriations, describes budgetary violations that occurred for the year ended June 30, 2021.

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Deposits and Investments

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2021, \$24,997 of the District's bank balance of \$533,768 was exposed to custodial credit risk because it was uninsured and uncollateralized. The risk is spread amongst the District's funds. Although the District's investment policy does not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments or by controlling who holds the deposits.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSOs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk; therefore, it is not addressed in the investment policy.

Fair Market Value Disclosure - The District is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

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

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that reflect the assumptions market participants would use in pricing a security and are developed based on market data obtained from sources independent of the reporting entity. These may include quoted prices from similar activities, interest rates, prepayment speeds, credit risk, and others. Debt securities are valued in accordance with evaluated bid price supplied by the pricing service and generally categorized as Level 2 in the hierarchy. Securities that are categorized as Level 2 in the hierarchy include, but are not limited to, repurchase agreements, U.S. government agency securities, corporate securities, and commercial paper.

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

Level 3: Prices determined using significant unobservable inputs. 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 may be used. Unobservable inputs reflect the reporting entity's own assumptions about the factors market participants would use in pricing the security and would be based on the best information available under the circumstances.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There are two types of valuation techniques most commonly used and vary depending on the level of investment. These two techniques are the market approach and income approach. The market approach uses prices and other relevant information generated by the market transactions involving identical or similar assets and liabilities. The income approach discounts future amounts to a single current amount and the discount rate used in the process should reflect current market expectations about risks associated with those future cash flows.

The District does not have any investments subject to the fair value measurement.

The carrying amount of deposits and investments is as follows:

| | |
|---|------------|
| | Total |
| Deposits – including Fiduciary Funds of \$2,000 | \$ 739,532 |

The above amounts are reported in the financial statements as follows:

| | |
|---------------------------------|------------|
| | Total |
| Cash - Fiduciary Funds | \$ 2,000 |
| Cash - District-Wide | 455,517 |
| Restricted Cash - District-Wide | 282,015 |
| | \$ 739,532 |

B. Receivables

Receivables as of year-end for the government's individual major funds and nonmajor are as follows:

| | General | Nonmajor Funds | Total |
|-----------------------------------|------------|-------------------|------------|
| Receivables | | | |
| Due from Other Governmental Units | \$ 271,997 | \$ 3,002 | \$ 274,999 |

Amounts due from other governments include amounts due from federal, state, and local sources for various projects and programs.

Because of the District's favorable collection experience, no allowance for doubtful accounts has been recorded.

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

C. Capital Assets

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

| | Balance July 1, 2020 | Additions | Deletions | Balance June 30, 2021 |
|---|-------------------------|------------|-----------|--------------------------|
| Assets Not Being Depreciated | | | | |
| Land | \$ 11,500 | \$ 0 | \$ 0 | \$ 11,500 |
| Other Capital Assets: | | | | |
| Buildings, Additions, & Land Improvements | 4,581,717 | 447,087 | 0 | 5,028,804 |
| Furniture and Equipment | 866,344 | 40,621 | 6,970 | 899,995 |
| Buses and Vehicles | 127,185 | 0 | 0 | 127,185 |
| Subtotal | 5,575,246 | 487,708 | 6,970 | 6,055,984 |
| Less Accumulated Depreciation for: | | | | |
| Buildings, Additions & Land Improvements | 2,208,199 | 98,843 | 0 | 2,307,042 |
| Furniture and Equipment | 770,766 | 25,039 | 0 | 795,805 |
| Buses and Vehicles | 27,030 | 27,867 | 0 | 54,897 |
| Accumulated Depreciation | 3,005,995 | 151,749 | 0 | 3,157,744 |
| Net Capital Assets Being Depreciated | 2,569,251 | 335,959 | 6,970 | 2,898,240 |
| Net Capital Assets | \$ 2,580,751 | \$ 335,959 | \$ 6,970 | \$ 2,909,740 |

Depreciation for the fiscal year ended June 30, 2021, amounted to \$151,749. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

D. Retirement and Post-Employment Benefits

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. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at www.michigan.gov/mpsers-cafr.

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.

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

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

Director, with whom the general oversight of the System resides. The State of Michigan Investments Board serves as the investment fiduciary and custodian of the System.

Benefit Provided - Overall

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the plans offered by MPSERS is as follows:

| <u>Plan Name</u> | <u>Plan Type</u> | <u>Plan Status</u> |
|------------------------------|-------------------------|---------------------------|
| Basic | Defined Benefit | Closed |
| Member Investment Plan (MIP) | Defined Benefit | Closed |
| Pension Plus | Hybrid | Closed |
| Pension Plus 2 | Hybrid | Open |
| Defined Contribution | Defined Contribution | Open |

Benefits Provided - Pension

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. Retirement benefits for DB plan members are determined by final average compensation and years of service. 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.

Prior to pension reform of 2010 there were two plans commonly referred to as Basic and the Member Investment Plan (MIP). Basic plan member's contributions range from 0% to 4%. On January 1, 1987, the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later, including Pension Plus plan members, contribute at various graduated permanently fixed contribution rates from 3.0% to 7.0%.

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employees' Retirement System (MPSERS) who became a member of MPSERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

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 pension. Any changes to a member's pension 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 the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

An amount determined by the member's election of Option 1, 2, 3, or 4 described below.

Option 1 – Members voluntarily elected to increase their contributions to the pension fund as noted below and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they terminate public school employment.

- Basic plan members: 4% contribution
- Member Investment Plan (MIP)-Fixed, MIP-Graded, and MIP-Plus members: a flat 7% contribution

Option 2 – Members voluntarily elected to increase their contribution to the pension fund as stated in Option 1 and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they reach 30 years of service. If and when they reach 30 years of service, their contribution rates will return to the previous level in place as of the day before their transition date (0% for Basic plan members, 3.9% for MIP-Fixed, up to 4.3% for MIP-Graded, or up to 6.4% for MIP-Plus). The pension formula for any service thereafter would include a 1.25% pension factor.

Option 3 – Members voluntarily elected not to increase their contribution to the pension fund and maintain their current level of contribution to the pension fund. The pension formula for their years of service as of the day before their transition date will include a 1.5% pension factor. The pension formula for any service thereafter will include a 1.25% pension factor.

Option 4 – Members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the Defined Contribution plan for future service as of their transition date. As a DC participant they receive a 4% employer contribution to the tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS to a 457 account. They vest in employer contributions and related earnings in their 401(k) account based on the following schedule: 50% at 2 years, 75% at 3 years, and 100% at 4 years of service. They are 100% vested in any personal contributions and related earnings in their 457 accounts. Upon retirement, if they meet age and service requirements (including their total years of service), they would also receive a pension (calculated based on years of service and final average compensation as of the day before their transition date and a 1.5% pension factor).

Members who did not make an election before the deadline defaulted to Option 3 as described above. Deferred or nonvested public school employees on September 3, 2012, who return to public school

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

employment on or after September 4, 2012, will be considered as if they had elected Option 3 above. Returning members who made the retirement plan election will retain whichever option they chose.

Employees who first work on or after September 4, 2012 choose between two retirement plans: the Pension Plus Plan and a Defined Contribution Plan that provides a 50% employer match up to 3% of salary on employee contributions.

Final Average Compensation (FAC) – Average of highest 60 consecutive months for Basic Plan members and Pension Plus members (36 months for MIP members). FAC is calculated as of the last day worked unless the member elected option 4, in which case the FAC is calculated at the transition date.

Pension Reform of 2017

On July 13, 2017, the Governor signed Public Act 92 of 2017 into law. The legislation closed the hybrid plan (Pension Plus) to newly hired employees as of February 1, 2018 and creates a new optional revised hybrid plan with similar plan benefit calculations but containing a 50/50 cost share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the new hybrid plan is 6%. Further, the law provides that, under certain conditions, the new hybrid plan would close to new employees if the actuarial funded ratio falls below 85% for two consecutive years. The law includes other provisions to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

Benefits Provided – Other postemployment benefit (OPEB)

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 health care 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.

Retiree Healthcare Reform of 2012

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

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

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 will be deposited into their 401(k) accounts.

Regular Retirement (no reduction factor for age)

Eligibility – A basic plan member may retire at age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, age 46 with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60th birthday and has credited service in each of the last 5 years. For Pension Plus Plan (PPP) members, age 60 with 10 years of credited service.

Annual Amount – The annual pension is paid monthly for the lifetime of a retiree. The calculation of a member's pension is determined by their pension election under PA 300 of 2012.

Member Contributions

Depending on the plan selected, member contributions range from 0% to 7% for pension and 0% to 3% for other postemployment benefits. Plan members electing the defined contribution plan are not required to make additional contributions.

Employer Contributions

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of pension benefits and OPEB. 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 normal cost is the annual cost assigned under the actuarial funding method, to the current and subsequent plan years. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis.

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

Pension and OPEB contributions made in the fiscal year ending September 30, 2020, were determined as of the September 30, 2017, actuarial valuations. The pension and OPEB benefits, the unfunded (overfunded) actuarial accrued liability as of September 30, 2017, valuation will be amortized over a 19-year period beginning October 1, 2019, and ending September 30, 2038.

School districts' contributions are determined based on employee elections. There are several different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by the ORS. The range of rates is as follows:

| | <u>Pension</u> | <u>Other Postemployment Benefit</u> |
|--------------------------------------|-----------------|---|
| October 1, 2019 - September 30, 2020 | 13.39% - 19.59% | 7.57% - 8.09% |
| October 1, 2020 - September 30, 2021 | 13.39% - 19.78% | 7.57% - 8.45% |

The District's pension contributions for the year ended June 30, 2021, were equal to the required contribution total. Pension contributions were approximately \$174,900, with \$170,100 specifically for the Defined Benefit Plan.

The District's OPEB contributions for the year ended June 30, 2021, were equal to the required contribution total. OPEB benefits were approximately \$43,500, with \$40,300 specifically for the Defined Benefit Plan.

These amounts, for both pension and OPEB, include contributions funded from state revenue Section 147c restricted to fund MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (100% for pension and 0% for OPEB).

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

Pension Liabilities

At June 30, 2021, the District reported a liability of \$1,878,462 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2019, and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2020 and 2019, the District's proportion was 0.00546842% and 0.00546676%.

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

MPERS (Plan) Non-University Net Pension Liability

| | <u>September 30, 2020</u> | <u>September 30, 2019</u> |
|---|---------------------------|---------------------------|
| Total Pension Liability | \$ 85,290,583,799 | \$ 83,442,507,212 |
| Plan Fiduciary Net Position | <u>50,939,496,006</u> | <u>50,325,869,388</u> |
| Net Pension Liability | <u>\$ 34,351,087,793</u> | <u>\$ 33,116,637,824</u> |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability | 59.72% | 60.31% |
| Net Pension Liability as a Percentage of Covered Payroll | 387.25% | 378.65% |

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

For the year ended June 30, 2021, the District recognized total pension expense of \$219,567.

At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual experience | \$ 28,701 | \$ 4,009 |
| Changes of assumptions | 208,152 | 0 |
| Net difference between projected and actual earnings on pension plan investments | 7,892 | 0 |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 358 | 141,808 |
| District section 147c revenue related to pension contributions subsequent to the measurement date | 0 | 72,956 |
| District contributions subsequent to the measurement date | <u>160,076</u> | <u>0</u> |
| Total | <u>\$ 405,179</u> | <u>\$ 218,773</u> |

\$160,076 reported as deferred outflows of resources and \$72,956 reported as deferred inflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a net reduction of the net pension liability in the subsequent fiscal year. Other

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

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

| <u>Year Ended September 30,</u> | <u>Amount</u> |
|---------------------------------|---------------|
| 2021 | \$ 39,570 |
| 2022 | 25,645 |
| 2023 | 21,443 |
| 2024 | 12,628 |
| | \$ 99,286 |

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

OPEB Liabilities

At June 30, 2021, the District reported a liability of \$302,813 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2019, and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2020 and 2019, the District's proportion was 0.00565237% and 0.00524163%.

MPSERS (Plan) Non-University Employers Net OPEB Liability

| | <u>September 30, 2020</u> | <u>September 30, 2019</u> |
|--|---------------------------|---------------------------|
| Total OPEB Liability | \$ 13,206,903,534 | \$ 13,925,860,688 |
| Plan Fiduciary Net Position | 7,849,636,555 | 6,748,112,668 |
| OPEB Liability | \$ 5,357,266,979 | \$ 7,177,748,020 |
| Plan Fiduciary Net Position as a Percentage of Total OPEB Liability | 59.44% | 48.46% |
| OPEB Liability as a Percentage of Covered Payroll | 60.39% | 82.07% |

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

For the year ended June 30, 2021, the District recognized a total negative OPEB expense of \$23,926.

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

At June 30, 2021, the 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 expected and actual experience | \$ 0 | \$ 225,624 |
| Changes of assumptions | 99,843 | 0 |
| Net difference between projected and actual earnings on OPEB plan investments | 2,527 | 0 |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 29,007 | 68,117 |
| District contributions subsequent to the measurement date | 36,204 | 0 |
| Total | \$ 167,581 | \$ 293,741 |

\$36,204 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year. Other amounts reported as deferred outflows of resources (+) and deferred inflows of resources (-) related to OPEB will be recognized in OPEB expense as follows:

| Year Ended September 30, | Amount |
|---------------------------------|---------------------|
| 2021 | \$ (49,531) |
| 2022 | (46,022) |
| 2023 | (35,838) |
| 2024 | (20,880) |
| 2025 | (10,093) |
| | \$ (162,364) |

G. Actuarial Assumptions

Investment rate of return for Pension – 6.80% a year, compounded annually net of investment and administrative expenses for the MIP, Basic, and Pension Plus groups and 6.00% a year, compounded annually net of investment and administrative expenses for the Pension Plus 2 Plan.

Investment rate of return for OPEB – 6.95% a year, compounded annually net of investment and administrative expenses.

Salary increases - The rate of pay increase used for individual members is 2.75%-11.55%, including inflation at 2.75%.

Inflation – 3.0%

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

Mortality assumptions –

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

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

Experience study - The annual actuarial valuation report of the System used for these statements is dated September 30, 2019. Assumption changes as a result of an experience study for the periods 2012 through 2017 have been adopted by the System for use in the determination of the total pension and OPEB liability beginning with the September 30, 2018, Comprehensive Annual Financial Report.

The long-term expected rate of return on pension and other postemployment benefit plan investments - The pension rate was 6.80% (MIP, Basic, and Pension Plus Plan) and 6.00% for Pension Plus 2 Plan, and the other postemployment benefit rate was 6.95%, net of investment and administrative expenses was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension and 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.

Cost of Living Pension Adjustments – 3.0% annual non-compounded for MIP members.

Healthcare cost trend rate for other postemployment benefit – 7.0% for year one and graded to 3.5% to year fifteen.

Additional assumptions for other postemployment benefit only – Applies to individuals hired before September 4, 2012:

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 coverage 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.

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

The target asset allocation at September 30, 2020, and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| <u>Investment Category</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return *</u> |
|------------------------------------|--------------------------|---|
| Domestic Equity Pools | 25.00% | 5.60% |
| Private Equity Pools | 16.00% | 9.30% |
| International Equity | 15.00% | 7.40% |
| Fixed Income Pools | 10.50% | 0.50% |
| Real Estate & Infrastructure Pools | 10.00% | 4.90% |
| Absolute Return Pools | 9.00% | 3.20% |
| Real Return/Oppportunistic Pools | 12.50% | 6.60% |
| Short-Term Investment Pools | 2.00% | -0.10% |
| | <u>100%</u> | |

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

Rate of return

For fiscal year ended September 30, 2020, the annual money-weighted rate of return on pension and OPEB plan investments, net of pension and OPEB plan investment expense, was 5.37% and 5.24% respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Pension Discount Rate

A discount rate of 6.80% was used to measure the total pension liability (6.00% for the Pension Plus 2 Plan). This discount rate was based on the long-term expected rate of return on pension plan investments of 6.80% (6.00% 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 contributions from school districts 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.

OPEB Discount Rate

The 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 school districts 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 project to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

The following presents the Reporting Unit's proportionate share of the net pension liability, calculated using the discount rate of 6.80% (6.00% for the Pension Plus 2 Plan), as well as what the Reporting Unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

| Pension | | | | |
|--------------------|----------------------|--------------------|--|--|
| 1% Decrease | Discount Rate | 1% Increase | | |
| \$ 2,431,350 | \$ 1,878,462 | \$ 1,420,241 | | |

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

The following presents the Reporting Unit's proportionate share of the net OPEB liability calculated using the discount rate of 6.95%, as well as what the Reporting Unit'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 than the current rate:

| OPEB | | | | |
|--------------------|----------------------|--------------------|--|--|
| 1% Decrease | Discount Rate | 1% Increase | | |
| \$ 388,997 | \$ 302,813 | \$ 230,252 | | |

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the Reporting Unit's proportionate share of the net other postemployment benefit liability calculated using the healthcare cost trend rate of 7.5% (decreasing to 3.50%), as well as what the Reporting Unit's proportionate share of the net other postemployment benefit liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

| OPEB | | | | |
|--------------------------------|--------------------|--------------------|--|--|
| Current Healthcare Cost | | | | |
| 1% Decrease | Trend Rates | 1% Increase | | |
| \$ 227,474 | \$ 302,813 | \$ 388,501 | | |

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

H. Pension and OPEB Plan Fiduciary Net Position

Detailed information about the pension and OPEB plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2020 Comprehensive Annual Financial Report.

I. Payables to the Pension Plan

As of June 30, 2021, the District is current on all required pension and OPEB plan payments. As of June 30, 2021, the District reported payables in the amount of \$32,930 to the pension and OPEB plan. These amounts represent current payments for June wages paid in July, accruals for summer pay primarily for teachers and also the contributions due and funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL).

J. Risk Management

Vanderbilt Area School is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees.

The District participates in distinct pools of educational institutions within the State of Michigan for various risks of loss, including general liability, property and casualty, employee health and accident insurance, and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

K. Lease Information

Operating Leases. The District is committed under various noncancelable leases for office equipment. The leases are operating leases with no contingent lease payments. The equipment may be purchased at the end of the lease for fair market value. For the year ended June 30, 2021, rental expenditures were \$10,845. Future minimum lease payments are as follows:

| <u>YEAR ENDED JUNE 30,</u> | <u>AMOUNT</u> |
|----------------------------|------------------|
| 2022 | \$ 6,267 |
| 2023 | 6,267 |
| 2024 | 6,267 |
| 2025 | 1,567 |
| | <u>\$ 20,368</u> |

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

L. Short-Term Obligation

On June 10, 2020, the District issued a State Tax Anticipation Note in the amount of \$150,000. The note matured on December 1, 2020, with interest at 3.15%. The District pledged its operating tax revenue for payment of this liability at maturity. In an event of a default on the note, the IRS may impose a penalty interest rate and at the IRS's discretion, accelerate the repayment terms. The purpose of the note was to provide cash flow needs for the anticipation of the collection of operating taxes for the fiscal year beginning July 1, 2020. Interest expense for the year was \$1,496.

The following is a summary of the short-term obligation transactions for the District for the year ended June 30, 2021:

| | |
|--|--------------------|
| Short-Term Obligation at July 1, 2020 | \$ 150,000 |
| New Obligation Issued | 0 |
| Obligation Retired and Paid | <u>(150,000)</u> |
| Short-Term Obligation at June 30, 2021 | <u><u>\$ 0</u></u> |

M. Long-Term Obligations

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

| | ACCUMULATED UNPAID COMPENSATED ABSENCES | NET PENSION LIABILITY | NET OPEB LIABILITY | NOTES FROM DIRECT BORROWINGS AND DIRECT PLACEMENTS | GENERAL OBLIGATION BONDS | TOTAL |
|---|--|-----------------------------|--------------------------|--|--------------------------------|----------------------------|
| Obligation Payable at Beginning of Year | \$ 24,582 | \$ 1,810,407 | \$ 376,231 | \$ 108,858 | \$ 805,000 | \$ 3,125,078 |
| Increase in Obligation | 5,702 | 218,334 | 23,926 | 0 | 275,000 | 522,962 |
| Obligation Retired | <u>(2,566)</u> | <u>(150,279)</u> | <u>(97,344)</u> | <u>(108,858)</u> | <u>(395,000)</u> | <u>(754,047)</u> |
| Obligation Payable at End of Year | 27,718 | 1,878,462 | 302,813 | 0 | 685,000 | 2,893,993 |
| Less Current Portion | <u>Unknown</u> | <u>Unknown</u> | <u>Unknown</u> | <u>0</u> | <u>450,000</u> | <u>450,000</u> |
| Net Long-Term Obligation | <u><u>\$ 27,718</u></u> | <u><u>\$ 1,878,462</u></u> | <u><u>\$ 302,813</u></u> | <u><u>\$ 0</u></u> | <u><u>\$ 235,000</u></u> | <u><u>\$ 2,443,993</u></u> |

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

General Obligation Bonds

| | |
|--|------------|
| \$2,500,000 2007 Refunding Bonds due in one installment of \$170,000 on May 1, 2022; Interest at 4.125%. | \$ 170,000 |
| \$460,000 2020 School Building and Bus Bonds due in one installment of \$240,000 on May 1, 2022; Interest at 2.950% | 240,000 |
| \$275,000 2021 School Building and Site Bonds due in annual installments of \$40,000 to \$50,000 through May 1, 2027; Interest at 2.050% | 275,000 |

Other Long-Term Obligations

| | |
|--|--------------|
| Accumulated Unpaid Compensated Absences and Retirement Contracts | 27,718 |
| Net Pension Liability | 1,878,462 |
| Net Other Postemployment Liability | 302,813 |
| | \$ 2,893,993 |

The annual requirements to amortize all general long-term obligations outstanding except compensated absences, net pension liability, and net other postemployment benefit liability as of June 30, 2021, are as follows:

| <u>YEAR ENDING</u> <u>JUNE 30,</u> | <u>GENERAL OBLIGATION</u> <u>BONDS</u> | | |
|---------------------------------------|---|-----------------|--------------|
| | <u>PRINCIPAL</u> | <u>INTEREST</u> | <u>TOTAL</u> |
| 2022 | \$ 450,000 | \$ 18,822 | \$ 468,822 |
| 2023 | 45,000 | 4,818 | 49,818 |
| 2024 | 45,000 | 3,895 | 48,895 |
| 2025 | 45,000 | 2,972 | 47,972 |
| 2026 | 50,000 | 2,050 | 52,050 |
| 2027 | 50,000 | 1,025 | 51,025 |
| | \$ 685,000 | \$ 33,582 | \$ 718,582 |

The annual requirements to amortize the compensated absences, the pension liability, and the net other postemployment benefit liability are uncertain and, therefore, not above because it is unknown when the repayments will be made. Compensated absences will be paid by the fund in which the employee worked, including the general fund and other governmental funds.

N. Interfund Receivables and Payables and Transfers

Interfund Receivables and Payables as shown in the individual fund financial statements at June 30, 2021, were:

| Receivable Fund | Payable Fund | Amount |
|-------------------|--------------|--------|
| Food Service Fund | General Fund | \$ 235 |

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All interfund balances outstanding at June 30, 2021, are expected to be repaid within one year.

There were no individual fund transfers at June 30, 2021.

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

O. Other Information

1. Commitments and Contingencies

Under the terms of various federal and state grants and regulatory requirements, periodic audits are required, and certain cost may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the District.

Commitments – The District has committed to \$569,132 worth of projects in relation to the 2020 School Building and Bus bonds and the new 2021 School Building and Site bonds which are being accounted for in the Sinking Fund.

P. Statement No. 77 – Tax Abatement Disclosures

The District receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions granted by Corwith Township. Industrial facility exemptions are intended to promote construction of new industrial facilities or to rehabilitate historical facilities.

For the fiscal year ended June 30, 2021, (tax year 2020) the District's property tax revenues were reduced by \$5,284 under these programs.

There are no significant abatements made by the District.

Q. Capital Projects Fund

The 2020 School Building and Bus Capital Projects Fund and Sinking Fund include capital project activities funded with bonds issued after June 30, 2020, and June 29, 2021, respectively. For these funds, the School District has complied with the applicable provisions of §1351a of the Revised School Code.

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

Beginning with the year of bond issuance, the school district has reported the annual construction activity in the 2020 School Building and Bus Capital Projects Fund. The project for which the 2020 School Building and Bus Capital Projects Fund were issued was considered complete on June 30, 2021, and the cumulative expenditures recognized for the construction period were \$580,022.

R. Sinking Fund Tax Levy

In 2016, the taxpayers approved a sinking fund tax levy. The District is authorized to levy .7500 mills, less any reductions for three years beginning with the 2018 tax roll. The transactions for the sinking fund are accounted for in a capital projects fund. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

NOTE 4 – NEW ACCOUNTING STANDARD

For the year ended June 30, 2021, the District implemented the following new pronouncement: GASB Statement No. 84, Fiduciary Activities.

Summary:

Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, was issued by the GASB in January 2017 and is effective for the District’s 2021 year-end. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Districts with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

The restatement of the beginning of the year fund balances and net position is as follows:

| | Fund Balances | |
|--|----------------------------|-----------------------------|
| | Student Activities Fund | Total Governmental Funds |
| Fund balances as of July 1, 2020, as previously stated | \$ 0 | \$ 839,113 |
| Adoption of GASB Statement 84 | 9,009 | 9,009 |
| Fund balance as of July 1, 2020, as restated | \$ 9,009 | \$ 848,122 |

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

| | Governmental Activities | Custodial Funds |
|--|----------------------------|--------------------|
| Net position as of July 1, 2020, as previously stated | \$ 348,877 | \$ 0 |
| Adoption of GASB Statement 84 | | |
| Activities previously reported as fiduciary liabilities become fiduciary net position | 0 | 13,009 |
| Activities previously reported as fiduciary become governmental | 9,009 | (9,009) |
| Net position as of July 1, 2020, as restated | \$ 357,886 | \$ 4,000 |

NOTE 5 – UPCOMING ACCOUNTING PRONOUNCEMENTS

The District is currently evaluating the impact these standards will have on the financial statements when adopted.

Governmental Account Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017 and will be effective for the District’s 2022 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.

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

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED JUNE 30, 2021

| | <u>ORIGINAL BUDGET</u> | <u>FINAL BUDGET</u> | <u>ACTUAL</u> |
|--|----------------------------|-------------------------|-------------------|
| <u>REVENUES</u> | | | |
| Local Sources | \$ 964,060 | \$ 950,265 | \$ 940,932 |
| State Sources | 99,600 | 389,470 | 392,295 |
| Federal Sources | 199,185 | 366,475 | 376,672 |
| Other Transactions | 980 | 1,420 | 1,419 |
| Total Revenues | <u>1,263,825</u> | <u>1,707,630</u> | <u>1,711,318</u> |
| <u>EXPENDITURES</u> | | | |
| Instruction | | | |
| Basic Programs | 607,575 | 596,550 | 509,617 |
| Added Needs | 118,100 | 144,190 | 190,369 |
| Supporting Services | | | |
| Pupil Support | 36,735 | 67,370 | 64,736 |
| Instructional Staff | 2,000 | 2,100 | 2,671 |
| General Administration | 52,480 | 34,290 | 35,043 |
| School Administration | 124,980 | 149,880 | 149,295 |
| Business | 55,135 | 65,330 | 66,562 |
| Operation and Maintenance | 181,505 | 234,920 | 221,379 |
| Pupil Transportation Services | 38,310 | 33,810 | 32,269 |
| Support Services - Central | 10,600 | 29,000 | 22,047 |
| Support Services - Other | 23,265 | 23,635 | 23,901 |
| Community Services | | | |
| Community Activities | 0 | 2,050 | 1,490 |
| Total Expenditures | <u>1,250,685</u> | <u>1,383,125</u> | <u>1,319,379</u> |
| Excess (Deficiency) of Revenues Over Expenditures | 13,140 | 324,505 | 391,939 |
| <u>FUND BALANCE</u> - Beginning of Year - (Deficit) | <u>(39,146)</u> | <u>(39,146)</u> | <u>(39,146)</u> |
| <u>FUND BALANCE</u> - End of Year - (Deficit) | <u>\$ (26,006)</u> | <u>\$ 285,359</u> | <u>\$ 352,793</u> |

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 9/30 OF EACH PLAN YEAR)
JUNE 30, 2021

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|------|------|------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| District's proportion of net pension liability (%) | | | | 0.00547% | 0.00547% | 0.00615% | 0.00660% | 0.0068711% | 0.0063700% | 0.006780% |
| District's proportionate share of net pension liability | | | | \$ 1,878,462 | \$ 1,810,407 | \$ 1,849,871 | \$ 1,709,755 | \$ 1,714,278 | \$ 1,557,286 | \$ 1,494,199 |
| District's covered payroll | | | | 502,011 | 460,215 | 501,026 | 525,783 | 600,361 | 476,933 | 420,716 |
| District's proportionate share of net pension liability as a percentage of its covered payroll | | | | 374.19% | 393.38% | 369.22% | 325.18% | 285.54% | 326.52% | 355.16% |
| Plan fiduciary net position as a percentage of total pension liability | | | | 59.72% | 60.31% | 62.36% | 64.21% | 63.27% | 63.17% | 66.20% |

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 6/30 OF EACH FISCAL YEAR)
JUNE 30, 2021

| | 2024 | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|------|------|------|------------|------------|------------|------------|------------|------------|------------|
| Statutorily required contributions | | | | \$ 170,092 | \$ 148,768 | \$ 148,691 | \$ 155,838 | \$ 155,093 | \$ 122,997 | \$ 105,354 |
| Contributions in relation to statutorily required contributions * | | | | 170,092 | 148,768 | 148,691 | 155,838 | 155,093 | 122,997 | 105,354 |
| Contribution deficiency (excess) | | | | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Covered payroll | | | | \$ 511,594 | \$ 490,004 | \$ 464,431 | \$ 506,091 | \$ 551,752 | \$ 476,933 | \$ 420,716 |
| Contributions as a percentage of covered payroll | | | | 33.25% | 30.36% | 32.02% | 30.79% | 28.11% | 25.79% | 25.04% |

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

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET OTHER POSTEMPLOYMENT BENEFIT LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 9/30 OF EACH PLAN YEAR)
JUNE 30, 2021

| | 2026 | 2025 | 2024 | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 |
|---|------|------|------|------|------|------|------------|------------|------------|------------|
| District's proportion of net OPEB liability (%) | | | | | | | 0.00565% | 0.00524% | 0.00588% | 0.00660% |
| District's proportionate share of net OPEB liability | | | | | | | \$ 302,813 | \$ 376,231 | \$ 467,522 | \$ 584,446 |
| District's covered payroll | | | | | | | 502,011 | 460,215 | 501,026 | 525,783 |
| District's proportionate share of net OPEB liability as a percentage of its covered payroll | | | | | | | 60.32% | 81.75% | 93.31% | 111.16% |
| Plan fiduciary net position as a percentage of total OPEB liability | | | | | | | 59.44% | 48.46% | 42.95% | 36.39% |

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OTHER POSTEMPLOYMENT BENEFIT CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 6/30 OF EACH FISCAL YEAR)
JUNE 30, 2021

| | 2027 | 2026 | 2025 | 2024 | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|------|------|------|------|------|------|------------|------------|------------|------------|
| Statutorily required contributions | | | | | | | \$ 40,262 | \$ 37,474 | \$ 35,711 | \$ 36,870 |
| Contributions in relation to statutorily required contributions * | | | | | | | 40,262 | 37,474 | 35,711 | 36,870 |
| Contribution deficiency (excess) | | | | | | | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Covered payroll | | | | | | | \$ 511,594 | \$ 490,004 | \$ 464,431 | \$ 506,091 |
| Contributions as a percentage of covered payroll | | | | | | | 7.87% | 7.65% | 7.69% | 7.29% |

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

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR YEAR ENDED JUNE 30, 2021

Pension Information

Changes of Benefit Terms - There were no changes of benefit terms for the plan year ended September 30, 2020.

Changes of Assumptions – There were no changes of assumptions for the plan year ended September 30, 2020.

OPEB Information

Changes of Benefit Terms - There were no changes of benefit terms for the plan year ended September 30, 2020.

Changes of Assumptions – The assumption changes for the plan year ending September 30, 2020 were:

Healthcare Cost Trend Rate decreased to 7.00% Year 1 graded to 3.50% Year 15 from 7.50% Year 1 graded to 3.50% Year 12.

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2021

| | SPECIAL REVENUE FUNDS | | TOTAL |
|--|-----------------------|------------|--------------|
| | FOOD | STUDENT | NONMAJOR |
| | SERVICE | ACTIVITIES | GOVERNMENTAL |
| | FUND | FUND | FUNDS |
| | | | |
| <u>ASSETS</u> | | | |
| Cash | \$ 12,528 | \$ 11,866 | \$ 24,394 |
| Due from Other Funds | 235 | 0 | 235 |
| Due from Other Governments | 3,002 | 0 | 3,002 |
| | | | |
| TOTAL ASSETS | \$ 15,765 | \$ 11,866 | \$ 27,631 |
| | | | |
| <u>LIABILITIES AND FUND BALANCES</u> | | | |
| <u>LIABILITIES</u> | | | |
| Accounts Payable | \$ 904 | \$ 0 | \$ 904 |
| | | | |
| <u>FUND BALANCES</u> | | | |
| Restricted for Food Service | 14,861 | 0 | 14,861 |
| Assigned for Student Activities | 0 | 11,866 | 11,866 |
| Total Fund Balances | 14,861 | 11,866 | 26,727 |
| | | | |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 15,765 | \$ 11,866 | \$ 27,631 |

VANDERBILT AREA SCHOOL
VANDERBILT, MICHIGAN

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2021

| | <u>SPECIAL REVENUE FUNDS</u> | | TOTAL NONMAJOR GOVERNMENTAL FUNDS |
|---|------------------------------|-------------------------------|--|
| | FOOD SERVICE FUND | STUDENT ACTIVITIES FUND | |
| <u>REVENUES</u> | | | |
| Local Sources | \$ 880 | \$ 5,457 | \$ 6,337 |
| State Sources | 3,617 | 0 | 3,617 |
| Federal Sources | 87,208 | 0 | 87,208 |
| | <hr/> | | |
| Total Revenues | 91,705 | 5,457 | 97,162 |
| | <hr/> | | |
| <u>EXPENDITURES</u> | | | |
| Supporting Services | 0 | 2,600 | 2,600 |
| Food Service Activities | 88,278 | 0 | 88,278 |
| | <hr/> | | |
| Total Expenditures | 88,278 | 2,600 | 90,878 |
| | <hr/> | | |
| Excess (Deficiency) of Revenues Over Expenditures | 3,427 | 2,857 | 6,284 |
| | <hr/> | | |
| <u>FUND BALANCE</u> - Beginning of Year - As Restated | 11,434 | 9,009 | 20,443 |
| | <hr/> | | |
| <u>FUND BALANCE</u> - End of Year | \$ 14,861 | \$ 11,866 | \$ 26,727 |
| | <hr/> <hr/> | | |



CERTIFIED PUBLIC ACCOUNTANTS
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August 9, 2021

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

To the Board of Education
Vanderbilt Area School
Vanderbilt, 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 Vanderbilt Area School, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Vanderbilt Area School's basic financial statements and have issued our report thereon dated August 9, 2021.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Vanderbilt Area 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described below.

2021-001 – *Unfavorable Budget Variance*

Criteria: Michigan Public Act 621 of 1978, as amended, provides that the District adopt formal budgets for all applicable funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures. The Act also prohibits the District from appropriating more funds for expenditure than is available through current revenue sources and any accrued surplus or deficit from previous years.

Condition: The District adopted budget items that were exceeded by actual expenditures by a material amount.

Cause: The condition was caused by the District officials not monitoring the adopted budget against actual expenditures.

Effect: The District was not in compliance with the budgeting act.

Recommendation: The District should continue to monitor expenditures against adopted budgets to make appropriate amendments as needed.

View of Responsible Officials: The District should continue to monitor expenditures against adopted budgets to make appropriate amendments as needed.

VANDERBILT AREA SCHOOL'S RESPONSE TO FINDINGS

Vanderbilt Area School's response to the findings identified in our audit is described in a separate letter. Vanderbilt Area 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.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.



Vanderbilt Area School

The mission of the Vanderbilt Area School is to graduate respectful, responsible, lifelong learners empowered to meet future challenges.

CORRECTIVE ACTION PLAN

JUNE 30, 2021

Finding 2021-001: Material Noncompliance Financial Statement Finding

Condition: The District had adopted budget items that were exceeded by actual expenditures by a material amount.

Corrective Steps Taken: None

Corrective Steps to be Taken: The District will continue to monitor the budget throughout the year and make the proper amendments when necessary.

Monitoring: The District will more closely monitor the budget to actual expenditures to ensure this doesn't happen in the future.

Reasons Corrective Action Plan Not Necessary: None.

Name of Responsible Person for Further Information: Lee Sandy, Interim Superintendent

Questioned Costs Related to this Finding: None.



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