STEPHENSON AREA PUBLIC SCHOOLS

Annual Financial Report

June 30, 2025

KerberRose

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STEPHENSON AREA PUBLIC SCHOOLS

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INDEPENDENT AUDITORS' REPORT

KerberRose

Independent Auditors' Report

To the Board of Education
Stephenson Area Public Schools
Stephenson, Michigan

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Stephenson Area Public Schools (District), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In 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 for the District, as of June 30, 2025, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Change in Accounting Principle

For the year ended June 30, 2025, the District adopted new accounting guidance, GASB Statement No. 101, Compensated Absences. Our opinions are not modified with respect to this matter.

To the Board of Education
Stephenson Area Public Schools

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying combining balance sheet – nonmajor governmental funds and combining statement of revenues, expenditures and changes in fund balances – nonmajor governmental funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements.

The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining balance sheet – nonmajor governmental funds and the combining statement of revenues, expenditures and changes in fund balances – nonmajor governmental funds 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 September 17, 2025 on our consideration of Stephenson Area Public Schools 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 to describe the scope of testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

KerberRose SC

KerberRose S.C.
Certified Public Accountants
Green Bay, Wisconsin
September 17, 2025

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Stephenson Area Public Schools (District) annual financial report presents our discussion and analysis of the District's financial performance during the year ended June 30, 2025. It is to be read in conjunction with the District's financial statements, which immediately follow.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Stephenson Area Public Schools financially as a whole. The district-wide financial statements provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the District's operations in more detail than the district-wide financial statements by providing information about the District's most significant funds - the General Fund, Scholarship Fund, and Sinking Fund. The remaining statement of fiduciary net position and statement of changes in fiduciary net position present financial information about activities for which the District acts solely as an agent for the benefit of students.

Management's Discussion and Analysis (MD&A)
(Required Supplementary Information)

Basic Financial Statements

District-Wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

Required Supplementary Information

Budgetary Information for the General Fund

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

Schedule of Employer Pension Contributions

Schedule of Employer's Proportionate Share of the Net OPEB Liability

Schedule of Employer OPEB Contributions

Reporting the District as a Whole - District-Wide Financial Statements

One of the most important questions asked about the District is "As a whole, what is the District's financial condition as a result of the year's activities?" The statement of net position (deficit) and the statement of activities, which appear first in the District's financial statements, report information on the District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and deferred outflows of resources and liabilities and deferred inflows of resources, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the District's net position (deficit) - the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, as reported in the statement of net position (deficit) - as one way to measure the District's financial health or financial position (deficit). Over time, increases or decreases in the District's net position (deficit) - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the District's operating results. However, the District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the District. The statement of net position (deficit) and the statement of activities report the governmental activities for the District, which encompass all of the District's services, including instruction, support services, and community services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Reporting the District's Most Significant Funds - Fund Financial Statements

The District's fund financial statements provide detailed information - not for the District as a whole. The governmental funds of the District use the following accounting approach:

> Governmental funds - All of the District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position (deficit) and the statement of activities) and governmental funds in reconciliations.

The District as Trustee - Reporting the School District's Fiduciary Responsibilities

The District is the custodian, or fiduciary, for its student activity fund. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in this fund is used for their intended purposes.

Summary of Net Position (Deficit):

The following summarizes the net position (deficit) at fiscal years ended June 30, 2025 and 2024.

FINANCIAL ANALYSIS

The District as a Whole

Summary of Net Position (Deficit)

	2025	2024
ASSETS:		
Current Assets	$ 5,716,909	$ 5,817,618
Capital Assets – Net of Accumulated Depreciation	3,371,185	2,562,165
Total Assets	9,088,094	8,379,783
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred Outflows of Resources Related to Pension	1,601,971	2,479,636
Deferred Outflows of Resources Related to OPEB	475,032	642,802
Total Deferred Outflows of Resources	2,077,003	3,122,438
LIABILITIES:		
Current Liabilities	1,935,865	2,020,772
Non-Current Liabilities	5,406,758	8,056,507
Total Liabilities	7,342,623	10,077,279
DEFERRED INFLOWS OF RESOURCES:		
Deferred Inflows of Resources Related to Pension	2,443,076	1,408,194
Deferred Inflows of Resources Related to OPEB	1,355,688	1,289,240
Total Deferred Inflows of Resources	3,798,764	2,697,434
NET POSITION (DEFICIT):		
Investment in Capital Assets	2,440,518	2,415,733
Restricted	1,148,938	1,027,573
Unrestricted (Deficit)	(3,565,746)	(4,715,798)
Total Net Position (Deficit)	$ 23,710	$ (1,272,492)

The ending net position (deficit) for the district-wide financials is based on the results of the total fund balances, capital assets less depreciation and the pension liability for outflows and inflows.

Analysis of Financial Position:

During the fiscal year ended June 30, 2025, the District's net deficit has increased. A few of the significant factors affecting net position (deficit) during the year are discussed below:

A. General Operations

The District's focus was to have and maintain a balanced budget and start to rebuild the net position.

Grant revenue/expenses were based on funds being distributed by the state per the approved consolidated application.

Expenses from general operations exceeded revenues for the fiscal year ended June 30, 2025.

B. Debt and Principal Payments

The District had no general and limited obligation long-term debt obligations as of June 30, 2025.

C. Capital Assets

The District's capital assets, net of accumulated depreciation increased during the fiscal year. This can be summarized as follows:

	Balance 7/1/24	Additions	Deletions	Balance 6/30/25
Construction in Progress	$ -	$ 88,200	-	$ 88,200
Capital Assets	9,568,535	151,767	28,841	9,691,461
Less: Accumulated Depreciation	(7,152,802)	(202,465)	(16,124)	(7,339,143)
Capital Assets, Net of Accumulated Depreciation	$ 2,415,733	$ 37,502	$ 12,717	$ 2,440,518

Results of Operations:

For the fiscal years ended June 30, 2025 and 2024, the district-wide results of operations are as follows:

	6/30/25	6/30/24
Revenues:		
Property Taxes Levied for General Operations	$ 2,573,167	$ 2,458,467
Property Taxes Levied for Sinking Fund	307,100	289,297
State of Michigan Unrestricted Foundation Aid	1,312,819	1,763,362
Other General Revenues	95,992	102,272
Total General Revenues	4,289,078	4,613,398
Operating Grants and Contributions:		
Instruction	1,618,634	1,452,104
Support Services	327,654	366,157
Food Service	322,134	309,469
Scholarships	88,723	65,474
Student Activities	75,836	76,486
Non-program Transactions	7,150,049	7,316,888
Total Operating Grants and Contributions	9,583,030	9,586,578
Charges for Service:		
Support Services	82,652	65,134
Food Service	11,863	12,497
Total Charges for Service	94,515	77,631
Total Revenues	13,966,623	14,277,607
Expenses:		
Instruction	2,406,499	3,118,117
Support Services	2,641,071	2,383,605
Food Services	385,421	359,833
Scholarships	66,500	65,800
Student Activities	86,274	97,441
Non-program Transactions	6,882,191	7,083,386
Depreciation – Unallocated	202,465	196,561
Total Expenses	12,670,421	13,304,743
Change in Net Position	1,296,202	972,864
Beginning Net Position	(1,272,492)	(2,245,356)
Ending Net Position	$ 23,710	$ (1,274,492)

The ending net position for the district-wide financials is based on the results of the total fund balances, capital assets less depreciation and the pension liability for outflows and inflows.

The State of Michigan aid, unrestricted, is determined with the following variables:

- State of Michigan State Aid Act per student foundation allowance
- Student Enrollment-Blended at 90 percent of current year's fall count and 10 percent of current year's winter count
- The District's non-homestead levy

Per Student, Foundation Allowance:

Annually, the State of Michigan establishes the per student foundation allowance. The Stephenson Area Public Schools foundation allowance was $9,608 per student for the 2024-2025 school year.

Student Enrollment:

The District's student enrollment for the 2024-2025 State Aid Membership was 410.08 student FTE. The District's enrollment decreased from the prior school year's student count. The following summarizes student enrollments in the past five years.

	Student FTE	FTE Change from Prior Year
2024-2025	410.08	(28)
2023-2024	438.71	(24)
2022-2023	462.98	(11)
2021-2022	474.69	(13)
2020-2021	488.12	(9)
2019-2020	497.35	(20)

The District's student enrollment for state aid purposes is a three-year average blended count.

Property Taxes levied for General Operations (General Fund Non-Homestead Taxes)

The District levies 18.0000 mills of property taxes for operations (general fund) on non-homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is re-adjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Stephenson Area Public Schools reviews the budget periodically during the school year. The June 2025 budget amendment was the final budget for the fiscal year.

General Fund Revenue Budget vs. Actual

Fiscal Year	Revenues and Other Financing Sources Final Budget	Revenues and Other Financing Sources Final Actual
2023 – 2024	$ 13,794,782	$ 13,517,522
2024 – 2025	13,203,319	13,159,152

The final revenue budget reflects the following changes from the original budget:

- The final budget was adjusted to actual state aid based on blended count.
- Title grant revenue/expenses were based on funds being distributed by the state per the approved consolidated application. Carryover budgets were based on remaining balances after deducting actual expenses.

General Fund Expenditures Budget vs. Actual

Fiscal Year	Expenditures and Other Financing Uses Final Budget	Expenditures and Other Financing Uses Final Actual
2023 – 2024	$ 13,535,787	$ 12,999,311
2024 – 2025	13,339,212	13,260,286

The final expenditure budget reflects the following changes from the original budget:

- Title grant revenue/expenses were based on funds being distributed by the state per the approved consolidated application.
- State Aid and Federal restricted revenue were adjusted according to the actual year-to-date expenditures. The revenue remaining balance will be carried over into the new fiscal year.

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Economic Factors and Next Year's Budgets and Rates

The board and administration consider many factors when setting the District's 2025-2026 fiscal year budgets. The 2025-2026 budget was adopted in June 2025.

Since the District's revenue is dependent on state categorical funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts.

Health care costs continue to weigh heavily upon school districts in Michigan. The District has taken steps to slow the growth of health care costs by selecting adequate and competitive health care plans with deductibles and increased prescription and office co-pays.

The overall financial position of the District on June 30, 2025 remains sound; however, the District will have to continue to evaluate the use of fund equity in balancing the budget. In the future, the fund balances of the general fund may be reduced because of decreased State and Federal appropriations.

Contacting the District's Financial Management

The financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about the report or need additional information, contact the Superintendent's Office, Stephenson Area Public Schools, W526 Division Street, Stephenson, Michigan, 49887 or call (906) 753-2221.

BASIC FINANCIAL STATEMENTS

STEPHENSON AREA PUBLIC SCHOOLS
District-Wide Statement of Net Position
As of June 30, 2025

	Governmental Activities
ASSETS	
Current Assets	
Cash and Investments	$ 3,545,435
Accounts Receivable	323,791
Due from Other Governments	1,845,045
Inventories	2,638
Total Current Assets	5,716,909
Noncurrent Assets	
Other Post-Employment Benefit Asset	930,667
Construction in Progress	88,200
Capital Assets	9,691,461
Less: Accumulated Depreciation	7,339,143
Total Noncurrent Assets	3,371,185
TOTAL ASSETS	9,088,094
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows of Resources Related to Pension	1,601,971
Deferred Outflows of Resources Related to Other Post-Employment Benefits	475,032
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,077,003
LIABILITIES	
Current Liabilities	
Accounts Payable	1,360,346
Accrued Payroll	439,125
Unearned Revenues	101,244
Current Portion of Long-Term Obligations	35,150
Total Current Liabilities	1,935,865
Noncurrent Liabilities	
Net Pension Liability - MPSERS	5,383,855
Noncurrent Portion of Long-Term Obligations	22,903
Total Noncurrent Liabilities	5,406,758
TOTAL LIABILITIES	7,342,623
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows of Resources Related to Pension	2,443,076
Deferred Inflows of Resources Related to Other Post-Employment Benefits	1,355,688
TOTAL DEFERRED INFLOWS OF RESOURCES	3,798,764
NET POSITION (DEFICIT)	
Investment in Capital Assets	2,440,518
Restricted	1,148,938
Unrestricted (Deficit)	(3,565,746)
TOTAL NET POSITION	$ 23,710

See Accompanying Notes

STEPHENSON AREA PUBLIC SCHOOLS

District-Wide Statement of Activities
For the Year Ended June 30, 2025

	Expenses	Program Revenues: Charges for Services	Program Revenues: Grants and Operating Contributions	Net (Expenses) Revenues and Changes in Net Deficit: Total Governmental Activities
GOVERNMENTAL ACTIVITIES				
Instruction	$ 2,406,499	$ -	$ 1,618,634	$ (787,865)
Support Services	2,641,071	82,652	327,654	(2,230,765)
Food Services	385,421	11,863	322,134	(51,424)
Scholarships	66,500	-	88,723	22,223
Student Activities	86,274	-	75,836	(10,438)
Non-program Transactions	6,882,191	-	7,150,049	267,858
Depreciation - Unallocated	202,465	-	-	(202,465)
TOTAL GOVERNMENTAL ACTIVITIES	$ 12,670,421	$ 94,515	$ 9,583,030	(2,992,876)
GENERAL REVENUE:				
Property Taxes:				
General Operations				2,573,167
Sinking Fund				307,100
State of Michigan Aid, Unrestricted				1,312,819
Interest and Investment Earnings				94,177
Miscellaneous				1,815
Total General Revenues				4,289,078
CHANGE IN NET POSITION (DEFICIT)				1,296,202
NET DEFICIT - BEGINNING OF YEAR				(1,272,492)
NET POSITION - END OF YEAR				$ 23,710

See Accompanying Notes

STEPHENSON AREA PUBLIC SCHOOLS

Balance Sheet

Governmental Funds

As of June 30, 2025

	General Fund	Capital Projects Fund Sinking Fund	Special Revenue Fund Scholarship Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Investments	$ 2,406,446	$ 390,175	$ 570,355	$ 178,459	$ 3,545,435
Accounts Receivable	317,966	5,825	-	-	323,791
Due from Other Governments	1,842,754	-	-	2,291	1,845,045
Inventories	-	-	-	2,638	2,638
TOTAL ASSETS	$ 4,567,166	$ 396,000	$ 570,355	$ 183,388	$ 5,716,909
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts Payable	$ 1,359,541	$ -	$ -	$ 805	$ 1,360,346
Accrued Payroll	439,125	-	-	-	439,125
Unearned Revenues	101,244	-	-	-	101,244
Total Liabilities	1,899,910	-	-	805	1,900,715
FUND BALANCES					
Nonspendable:					
Inventories	-	-	-	2,638	2,638
Restricted for:					
Capital Projects	-	396,000	-	-	396,000
Food Service	-	-	-	40,778	40,778
Student Activities	-	-	-	139,167	139,167
Sholarships	-	-	570,355	-	570,355
Unassigned	2,667,256	-	-	-	2,667,256
Total Fund Balances	2,667,256	396,000	570,355	182,583	3,816,194
TOTAL LIABILITIES AND FUND BALANCES	$ 4,567,166	$ 396,000	$ 570,355	$ 183,388	$ 5,716,909

STEPHENSON AREA PUBLIC SCHOOLS

Reconciliation of Balance Sheet - Governmental Funds to the District-Wide Statement of Net Position
As of June 30, 2025

Total Fund Balances - Governmental Funds		$ 3,816,194
Total net position reported for governmental activities in the statement of net position is different from the amount reported above as total governmental funds fund balance because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund statements. Amounts reported for governmental activities in the statement of net position:		
Capital Assets	$ 9,779,661	
Accumulated Depreciation	(7,339,143)	2,440,518
The District's proportionate share of the Michigan Public School Employees Retirement Plan is not an available financial resource; therefore, it is not reported in the fund financial statements.		
Deferred Outflows of Resources Related to Pension	1,601,971	
Deferred Inflows of Resources Related to Pension	(2,443,076)	(841,105)
Post-employment benefits asset is not usable in the current period therefore not reported in the fund financial statements.		930,667
The District's proportionate share of the Michigan Public School Employees Other Post-Employment Benefit Plan is not an available financial resource; therefore, it is not reported in the fund financial statements.		
Deferred Outflows of Resources Related to Other Post-Employment Benefits	475,032	
Deferred Inflows of Resources Related to Other Post-Employment Benefits	(1,355,688)	(880,656)
Certain liabilities are not due in the current period and therefore not reported in the governmental fund statements. Long-term and other liabilities reported in the statement of net position (deficit) that are not reported in the governmental balance sheets:		
Net Pension Liability - MPSERS	(5,383,855)	
Compensated Absences	(58,053)	(5,441,908)
Total Net Position - Governmental Activities		$ 23,710

STEPHENSON AREA PUBLIC SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2025

	General Fund	Capital Projects Fund Sinking Fund	Special Revenue Fund Scholarship Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Local Sources	$ 2,754,389	$ 307,100	$ -	$ 89,514	$ 3,151,003
State Sources	10,002,605	-	-	99,424	10,102,029
Federal Sources	266,587	-	-	222,710	489,297
Other Sources	135,571	-	88,723	-	224,294
Total Revenues	13,159,152	307,100	88,723	411,648	13,966,623
EXPENDITURES					
Instruction:					
Basic Programs	2,689,200	-	-	-	2,689,200
Added Needs	1,061,685	-	-	-	1,061,685
Support Services:					
Pupil Support Services	191,015	-	-	-	191,015
Board of Education	96,906	-	-	-	96,906
Executive Administration	350,148	-	-	-	350,148
School Administration	409,491	-	-	-	409,491
Business Services	103,898	-	-	-	103,898
Operation and Maintenance	715,648	156,316	66,500	-	938,464
Pupil Transportation	363,153	-	-	-	363,153
Information Management Services	118,244	-	-	-	118,244
Athletics	278,707	-	-	-	278,707
Food Services	-	-	-	380,013	380,013
Student Activities	-	-	-	86,274	86,274
Non-Program Transactions					
Payments to Other Public Schools	6,882,191	-	-	-	6,882,191
Total Expenditures	13,260,286	156,316	66,500	466,287	13,949,389
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(101,134)	150,784	22,223	(54,639)	17,234
OTHER FINANCING SOURCES (USE)					
Sale of Capital Assets	515	-	-	-	515
NET CHANGES IN FUND BALANCES	(100,619)	150,784	22,223	(54,639)	17,749
FUND BALANCES - BEGINNING OF YEAR	2,767,875	245,216	548,132	237,222	3,798,445
FUND BALANCES - END OF YEAR	$ 2,667,256	$ 396,000	$ 570,355	$ 182,583	$ 3,816,194

See Accompanying Notes

STEPHENSON AREA PUBLIC SCHOOLS

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds to the District-Wide Statement of Activities
For the Year Ended June 30, 2025

Net Change in Fund Balances - Total Governmental Funds		$ 17,749
Amounts reported for governmental activities in the statement of activities are different because:		
The acquisition of capital assets is reported in the governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated lives as annual depreciation expense in the statement of activities.		
Capital outlay reported in governmental fund statements	$ 239,967	
Depreciation expense reported in the statement of activities	(202,465)	37,502
The District disposed of outdated assets resulting in a reduction of capital assets and recapture of prior year depreciation expense reported on the statement of net position as a net loss and has no effect of the governmental funds balance sheet.		
The value of capital assets disposed of during the year	(28,841)	
The amount of depreciation accumulated on disposed assets	16,124	(12,717)
Change in amounts related to the pension plan that affect the statement of activities but does not affect the fund financial statements.		738,862
Change in amounts related to the other post-employment benefit plan that affect the statement of activities but does not affect the fund financial statements.		550,017
Vested employee benefits are reported in the governmental funds when amounts are paid. The statement of activities reports the value of benefits earned during the year.		
Compensated absences paid in current year	1,725	
Compensated absences earned in current year	(36,936)	
Amounts paid are less than amounts earned by		(35,211)
Change in Net Deficit - Governmental Activities		$ 1,296,202

See Accompanying Notes

STEPHENSON AREA PUBLIC SCHOOLS

Statement of Fiduciary Net Position
Fiduciary Fund
As of June 30, 2025

	Student Activities
ASSETS	
Cash	$ 16,214
NET POSITION	
Restricted for "Class of" Student Activities	$ 16,214

See Accompanying Notes

STEPHENSON AREA PUBLIC SCHOOLS
Statement of Change in Fiduciary Net Position
Fiduciary Fund
For the Year Ended June 30, 2025

	Student Activities
ADDITIONS	
Donations	$ 8,577
DEDUCTIONS	
Student Activities	5,657
CHANGE IN NET POSITION	2,920
NET POSITION - BEGINNING	13,294
NET POSITION - ENDING	$ 16,214

See Accompanying Notes

Note 1 - Summary of Significant Accounting Policies

This summary of significant accounting policies of the Stephenson Area Public Schools (District) is presented to assist in understanding the District's financial statements. The financial statements and notes are representations of the District's management who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) and have been consistently applied in the preparation of the financial statements.

The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the District are discussed below.

Nature of Operations

The District, governed by a seven-member elected school board, operates grades Kindergarten through 12 and is comprised of ten taxing districts.

The accompanying financial statements present the activities of the District. The District is not a component unit of another reporting entity nor does it have any component units.

The financial reporting entity consists of (a) organizations for which the stand-alone government is financially accountable and (b) the stand-alone government that is controlled by a separately elected governing body that is legally separate and is fiscally independent. All of the accounts of the District comprise the stand-alone government.

District-Wide Statements

The district-wide financial statements (i.e., the statement of net position (deficit) and the statement of activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) operating grants and contributions. Taxes and other items not properly included as program revenues are reported instead as general revenues.

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Financial Statements

Separate financial statements are provided for governmental funds and fiduciary fund even though the latter is excluded from the district-wide financial statements. The major individual governmental funds are reported as a separate column in the fund financial statements.

Fund financial statements of the reporting entity are organized into individual funds each of which are considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues, and expenditures.

Funds are organized as major funds or nonmajor funds within the governmental statements. An emphasis is placed on major funds within the governmental categories. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

a. Total assets, liabilities, revenues, or expenditures of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type and

b. The same element that met the 10 percent criterion in (a) is at least 5 percent of the corresponding element total for all funds combined.

c. In addition, any other governmental fund that the District believes is particularly important to financial statement users may be reported as a major fund.

Governmental Funds

Governmental funds are identified as general, special revenue, or capital projects based upon the following guidelines.

General Fund

The general fund is the primary operating fund of the District and is always classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Project Funds

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Fiduciary Fund

Custodial Fund

Custodial funds are used to account for assets held by the District as a custodian for student class organizations for each graduation year.

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Financial Statements (Continued)

Major Funds

The District reports the following major governmental funds:

General Fund - The general fund is the operating fund of the District. It is used to account for all financial resources of the District except those required to be accounted for in other funds.

Sinking Fund - This fund records capital project activities funded with Sinking Fund millage. For this fund, the District has complied with the applicable provisions of Section 1212 of the Revised School Code.

Scholarships Fund - This fund accounts for the activities associated with the District's scholarship programs.

Nonmajor Funds

Food Service - This fund accounts for the activities associated with the District's school breakfast and lunch programs.

Student Activities - This fund accounts for the revenues and expenditures related to various student activities within the District's control.

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 (current assets less current liabilities) or economic resources (all assets and liabilities). The basis of accounting indicates the timing of transactions or events for recognition in the financial report.

The district-wide and fiduciary fund 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 at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized as soon as they are both measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District may fund certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Therefore, when program expenses are incurred, both restricted and unrestricted resources may be available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

Note 1 - Summary of Significant Accounting Policies (Continued)

Cash

The District's cash is considered to be cash on hand, demand deposits, and time deposits with financial institutions and is carried at cost. Cash balances for individual funds are pooled unless required to be maintained in segregated accounts.

State statutes authorize the District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The District is allowed to invest in U.S. Treasury or Agency obligations, U.S. Government repurchases agreements, bankers' acceptances, commercial paper rated prime at the time of purchases which mature not more than 270 days after the date of purchases, mutual funds and investment pools that are composed of authorized investment vehicles. The District's deposits are in accordance with statutory authority.

Donations to the District of securities or other property are considered trust funds and are invested as the donor specifies. In the absence of any specific directions, the District may invest the donated items in accordance with laws applicable to trust investments.

Investments

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. An explanation of the categories are further explained in Note 2.

Accounts Receivable

Accounts receivable in the governmental funds are recorded at gross amounts with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that the amount of such allowance would not be material.

Property Taxes

Property taxes are assessed as of December 31, and attach as an enforceable lien on property on July 1 and December 1 of the following year. These taxes are due on September 14 and February 14, respectively, with the final collection date of February 28 before they are added to the delinquent tax rolls.

On or before June 30, the County Treasurer makes full settlement to the District for any remaining real property tax balance. The County assumes all responsibility for delinquent real property taxes. Taxes are recorded as revenue in the year levied. Taxes receivable are recorded for property taxes collected within 60 days of year end, if any. Uncollected delinquent personal property taxes are written off after three years.

Note 1 - Summary of Significant Accounting Policies (Continued)

Interfund Transactions

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the noncurrent portion of interfund loans).

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures. Reimbursements are when one fund incurs a cost, charges the appropriate benefitting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

Capital Assets

Capital assets are reported at actual or estimated historical cost, based on appraisals conducted by an independent third-party professional appraisal firm. Donated assets are reported at estimated acquisition value at the time received.

Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the district-wide statements are as follows: land improvements, buildings and improvements, vehicles and equipment are capitalized using a capitalization threshold of $5,000. All depreciable capital assets are depreciated on a straight-line basis with estimated useful lives for land improvements, buildings and building improvements of 20-50 years, buses and other vehicles 5-10 years, and furniture and equipment of 5-20 years. Depreciation is used to allocate the actual or estimated historical cost of all capital assets over their estimated useful lives.

Inventories

Inventories are recorded at cost, which approximates market, using the first-in, first-out method. Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual items are consumed rather than when purchased.

Unearned Revenues

The District reports unearned revenues on its statement of net position (deficit) and balance sheet. Unearned revenues arise when resources are received before the District has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when revenue recognition criteria is met, or when the District has a legal claim to the resources, the liability for unearned revenues is removed from the statement of net position (deficit) and balance sheet and revenue is recognized.

Compensated Absences

The District adopted GASB Statement No. 101 for the year ended June 30, 2025, which requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means.

The liability for compensated absences reported in the district-wide financial statements consists of earned but unused accumulated sick leave benefits. In the fund financial statements, a liability for these amounts is reported in the governmental funds as it comes due for payment. The liability has been calculated using the vesting method, meaning that only balances that would be eligible for payment at employment separation are accrued and reported.

Note 1 - Summary of Significant Accounting Policies (Continued)

Leases

The District follows GASB Statement No. 87 which requires recognition of certain lease assets and liabilities for leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying assets. 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.

Subscription-Based Information Technology Agreements

The District follows GASB Statement No. 96, which required recognition in the financial statements of certain subscription-based information technology agreements (SBITAS). A SBITA is any contract conveying control of the right to use another party's information technology software. This statement required the District to report right-to-use subscription asset and corresponding subscription liability for any SBITAs. There were no material SBITAs that were required to be recorded for the year ended June 30, 2025.

Pensions

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPSERS), and additions to/deductions from MPSERS fiduciary net position has been determined on the same basis as reported by MPSERS. MPSERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the plan benefit terms. Related plan investments are reported at fair value.

Postemployment Benefits Other Than Pensions

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

Note 1 - Summary of Significant Accounting Policies (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of net position (deficit) 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 (deficit) that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense) until then. The District reports deferred outflows of resources related to pension benefits and deferred outflows of resources related to other post-employment benefits in the statement of net position (deficit). A detailed list of these items can be found in notes 6 and 7.

In addition to liabilities, the statement of net position (deficit) will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position (deficit) that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until then. The District reports deferred inflows of resources related to pension benefits and deferred inflows of resources related to other post-employment benefits in the statement of net position (deficit). A detailed list of these items can be found in notes 7 and 8.

Claims and Judgments

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with available expendable financial resources are recorded during the year as expenditures in the appropriate governmental fund types. If they are not liquidated with available expendable financial resources, a liability is recorded in the district-wide statement of net position (deficit). The related expenditure is recognized when the liability is liquidated. There were no significant claims or judgments at year end.

Fund Equity Designations

District-Wide Statements

Equity is classified as net position and displayed in three components:

- Investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation.
- Restricted component of net position - Consists of resources with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.
- Unrestricted component of net position - Net amount that does not meet the definition of “restricted” or “investment in capital assets.”

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity Designations (Continued)

Fund Financial Statements

Fund balance is classified as either 1) nonspendable, 2) restricted, 3) committed, 4) assigned, or 5) unassigned:

Nonspendable fund balance represents amounts that cannot be spent due to form (such as inventories and prepaid amounts), or amounts that must be maintained intact legally or contractually (such as the principal of a permanent fund).

Restricted fund balance represents amounts constrained for a specific purpose by external parties, constitutional provision or enabling legislation.

Committed fund balance represents amounts constrained for a specific purpose by a government using its highest level of decision-making authority. It would require action by the same group to remove or change the constraints placed on the resources. The action to constrain resources must occur prior to year-end; however, the amount can be determined in the subsequent period. The School Board is the decision-making authority that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance.

Assigned fund balance in the general fund represents amounts constrained by the School Board for a specific intended purpose. The District has not delegated that authority to others. Assigned fund balance in all other governmental funds represents any positive remaining amount after classifying nonspendable, restricted or committed fund balance.

Unassigned fund balance represents amounts not classified as nonspendable, restricted, committed or assigned. The general fund is the only fund that would report a positive amount in the unassigned fund balance.

The District, unless otherwise required by law or agreements, spends funds in the following order: restricted first, then committed, then assigned, and lastly unassigned.

In the General Fund, the District has adopted a minimum fund balance policy. The District strives to maintain an unassigned fund balance to be used for unanticipated emergencies of approximately 15% of the actual GAAP basis current year expenditures.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results may differ from those estimates.

Note 2 - Cash and Investments

The District is required to invest its funds in accordance with Michigan School Code Section 380.1223. Allowable investments are as follows:

- Bonds, bills or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the state. In a primary or fourth-class school district, the bonds, bills, or notes shall be payable, at the option of the holder, upon not more than 90 days' notice, or if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- Certificates of deposit issued by a financial institution or share certificates of a state or federal credit union that is a financial institution.
- Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- Securities issued or guaranteed by agencies or instrumentalities of the United States government.
- United States government or federal agency obligation repurchase agreements.
- Bankers' acceptances issued by a bank that is a member of the federal deposit insurance corporation.
- Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- Investment pools, as authorized by the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118, composed entirely of instruments that are legal for direct investment by a school district.

The District has no formal investment policy. Donated stock may be held in any fund, in accordance with the wishes of the donor.

At June 30, 2025 the bank balance of cash was $3,048,416. The District maintains its cash accounts at two financial institutions. Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to the District.

Deposits in each bank are insured by the FDIC up to $250,000 for the combined amounts of all time and savings accounts (including NOW accounts) and up to $250,000 for the combined amount of all interest and non-interest bearing demand deposit accounts.

The following represents a summary of deposits as of June 30, 2025:

Fully Insured Deposits	$	2,844,594
Uninsured		203,822
Total	$	3,048,416

The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit at June 30, 2025. The District has an account at one of its institutions that obtains FDIC insurance through making deposits at other institutions.

Note 2 - Cash and Investments (Continued)

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value.

- Level 1 - Valuation for assets are from quoted prices in active markets. These valuations are obtained from readily available pricing sources for market transactions involving identical assets.
- Level 2 - Valuation for assets are from less active markets. These valuations are obtained from third party pricing services for identical or similar assets.
- Level 3 - Measurements that are least observable are estimated from related market data, determined from sources with little or no market activity for comparable contracts, or are positions with longer durations. These valuations incorporate certain assumptions and projections in determining fair value assigned to such assets.

As of June 30, 2025, the District had the following investments:

	Fair Value	Level 1
Money Market	$ 334,763	$ 334,763
Mutual Funds	6,847	6,847
Equity Securities	260,359	260,359
	$ 601,969	$ 601,969

Custodial Credit Risk - Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the District may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District minimizes custodial credit risk by limiting investments to the types of securities allowed by law.

Credit Risk - State law limits investments as detailed above. The District's investment policy does not further limit its investment choices. As of June 30, 2025, the District's investments were not rated.

Interest Rate Risk - The District minimizes 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 funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Concentration of Credit Risk - The District's investment policy places no restrictions on the amount or percentage that may be invested in any one type of security.

Foreign Currency Risk - The District is not authorized to invest in investments which have this type of risk.

Note 3 - Capital Assets

Capital asset balances and activity for the year ended June 30, 2025 were as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:				
Capital Assets not being Depreciated:				
Construction in Progress	$ -	$ 88,200	$ -	$ 88,200
Capital Assets Being Depreciated:				
Land Improvements	$ 100,975	$ -	$ -	$ 100,975
Buildings and Improvements	7,444,594	151,767	26,841	7,569,520
Buses and Other Vehicles	933,226	-	-	933,226
Furniture and Equipment	1,089,740	-	2,000	1,087,740
Total Capital Assets Being Depreciated	9,568,535	151,767	28,841	9,691,461
Less Accumulated Depreciation For:				
Land Improvements	(64,512)	(4,313)	-	(68,825)
Buildings and Improvements	(5,880,341)	(82,345)	(14,324)	(5,948,362)
Buses and Other Vehicles	(410,110)	(32,616)	(1,800)	(440,926)
Furniture and Equipment	(797,839)	(83,191)	-	(881,030)
Total Accumulated Depreciation	(7,152,802)	(202,465)	(16,124)	(7,339,143)
Governmental Activities Capital Assets, Net of Accumulated Depreciation	$ 2,415,733	$ 37,502	$ 12,717	$ 2,440,518

Depreciation expense was not charged to activities as the District considers its assets to impact multiple activities and allocation is not practical. Depreciation expense for the year ended June 30, 2025 was $202,465.

Note 4 - Long-Term Obligations

The following is a summary of changes in long-term obligations of the District for the year ended June 30, 2025:

	Balance 7/1/2024	Additions	Reductions	Balance 6/30/2025	Amount Due Within One Year
Governmental Activities:					
Compensated Absences	$ 22,842	$ 36,936	$ 1,725	$ 58,053	$ 35,150

Note 5 - Net Position

Net position reported on the district-wide statement of net position (deficit) at June 30, 2025 includes the following:

Investment in Capital Assets	
Capital Assets, Net of Accumulated Depreciation	$ 2,440,518
Restricted for:	
Capital Projects	396,000
Food Service	43,416
Scholarships	570,355
Student Activities	139,167
Total Restricted	1,148,938
Unrestricted (Deficit)	(3,565,746)
Total Net Position (Deficit) - District-Wide Statements	$ 23,710

Note 6 - Defined Benefit Pension Plan

General Information about the Plan

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

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

Note 6 - Defined Benefit Pension Plan (Continued)

General Information about the Plan (Continued)

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

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

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

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

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2022 valuation will be amortized over a 16-year period beginning October 1, 2022 and ending September 30, 2038.

The schedule below summarizes pension contribution rates in effect for fiscal year ended September 30, 2024.

Pension Contribution Rates

Benefit Structure	Member	Employer
Basic	0.0 - 4.0%	23.03%
Member Investment Plan	3.0 - 7.0%	23.03%
Pension Plus	3.0 - 6.4%	19.17%
Pension Plus 2	6.20%	20.10%
Defined Contribution	0.00%	13.90%

During the pension plan's fiscal year ended September 30, 2024, MPSERS recognized $919,414 in contributions from the District.

Note 6 - Defined Benefit Pension Plan (Continued)

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

At June 30, 2025, the District reported a liability of $5,383,855 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2022. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2024, the District's proportion was 0.0219911%, which was a decrease of 0.0028351% from its proportion measured as of September 30, 2023.

For the year ended June 30, 2025, the District recognized total pension expense of $239,960.

At June 30, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between actual and expected experience	$ 146,068	$ 58,496	$ 87,572
Changes of assumptions	561,299	394,466	166,833
Net difference between projected and actual earnings on pension plan investments	-	1,027,468	(1,027,468)
Changes in proportion and differences between District contributions and proportionate share of contributions	204,207	723,266	(519,059)
	911,574	2,203,696	(1,292,122)
District 147c MPSERS UAAL Stablization payments received subsequent to measurement date, directly contributed to MPSERS	239,380	239,380	-
District contributions subsequent to the measurement date	451,017	-	451,017
Total	$ 1,601,971	$ 2,443,076	$ (841,105)

The $451,017 reported as deferred outflows related to pension resulting from the District's contributions subsequent to the measurement date will be recognized as reduction of the net pension liability in the year ending June 30, 2026 by the District. The $239,380 reported as deferred outflows and inflows related to the pension resulting from State Aid payments (147c) received subsequent to the measurement date will be recognized as revenue and expense in the year ending June 30, 2026 by the District. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Note 6 - Defined Benefit Pension Plan (Continued)

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

District's Fiscal Year Ending June 30,	Net Deferred Outflows (Inflows) of Resources
2026	$ (285,179)
2027	(97,562)
2028	(552,460)
2029	(356,921)
Total	$ (1,292,122)

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

The total pension liability in the measurement date of September 30, 2024 was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Valuation Date:	September 30, 2023
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return	
- MIP and Basic Plans:	6.00%
- Pension Plus Plan:	6.00%
- Pension Plus 2 Plan:	6.00%
Projected Salary Increases:	2.75% - 11.55%, including wage inflation at 2.75%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members

Mortality Retirees: PubT-2010 Male and Female Retiree Morality Tables scaled by 116% for males and 116% for females and adjusted for mortality improvements using project scale MP-2021 from 2010.

Active Members: PubT-2010 Male and Female Employee Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2021 from 2010.

Note 6 - Defined Benefit Pension Plan (Continued)

Notes

Assumption changes as a result of an experience study for the period 2017 through 2022 have been adopted by MPSERS for use in the annual pension valuations beginning with the September 30, 2023 valuation. The total pension liability as of September 30, 2024, is based on the results of an actuarial valuation with a measurement date of September 30, 2023, and rolled forward using generally accepted actuarial procedures, including the experience study.

Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.4612 for the District.

Recognition period for assets in years is 5.

Full actuarial assumptions are available in the 2024 MPSERS Annual Comprehensive Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Return of Plan Assets - The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2024, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return *
Domestic Equity Pools	25.0%	5.3%
Private Equity Pools	16.0%	9.0%
International Equity	15.0%	6.5%
Fixed Income Pools	13.0%	2.0%
Real Estate and Infrastructure Pools	10.0%	7.1%
Absolute Return Pools	9.0%	5.2%
Real Return/Opportunistic Pools	10.0%	6.9%
Short-Term Investment Pools	2.0%	1.4%
	100.0%	

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

Rate of Return - For the fiscal year ended September 30, 2024, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 15.47%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 6 - Defined Benefit Pension Plan (Continued)

Discount Rate - A discount rate of 6.0% was used to measure the total pension liability (6.0% for the Pension Plus Plan, 6.0% for the Pension Plus 2 Plan). This discount rate was based on the long-term expected rate of return on pension plan investments of 6.0% (6.0% for the Pension Plus Plan and 6.0% for the Pension Plus 2 Plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability, calculated using the discount rate of 6.0% (6.0% for the Pension Plus Plan, 6.0% for the Pension Plus 2 Plan), as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease 5.0%	Current Discount Rate 6.0%	1% Increase 7.0%
$ 7,892,789	$ 5,383,855	$ 3,294,684

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

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

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

The District reported a payable of $51,990 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2025.

Note 7 - Post-Employment Benefits Other Than Pensions (OPEB)

General Information about the Plan

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

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

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

Note 7 - Post-Employment Benefits Other Than Pensions (OPEB) (Continued)

General Information about the Plan (Continued)

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

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

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

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

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

Employer OPEB contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2023 valuation date will be amortized over a 16-year period beginning October 1, 2023 and ending September 30, 2038.

Note 7 - Post-Employment Benefits Other Than Pensions (OPEB) (Continued)

General Information about the Plan (Continued)

The schedule below summarizes OPEB contribution rates in effect for the fiscal year ended September 30, 2024.

OPEB Contribution Rates

Benefit Structure	Member	Employer
Premium Subsidy	3.00%	8.31%
Personal Healthcare Fund (PHF)	0.00%	7.06%

Required contributions to the OPEB plan from the District were $179,718 for the year ended September 30, 2024.

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

At June 30, 2025, the District reported an asset of $930,667 for its proportionate share of the MPSERS net OPEB asset. The net OPEB asset was measured as of September 30, 2024, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation rolled forward from September 30, 2023. The District's proportion of the net OPEB asset was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2024, the District's proportion was 0.02162131 percent, which was a decrease of .00426395 percent from its proportion measured as of October 1, 2023.

For the year ended June 30, 2025, the District recognized a reduction of OPEB expense of $382,261.

At June 30, 2025, 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	Net Deferred Outflows (Inflows) of Resources
Differences between actual and expected experience	$ -	$ 986,223	$ (986,223)
Changes of Assumptions	203,271	23,364	179,907
Net difference between projected and actual earnings on OPEB plan investments	-	176,186	(176,186)
Changes in proportion and differences between District contributions and proportionate share of contributions	110,918	169,915	(58,997)
District contributions subsequent to measurement date	160,843	-	160,843
Total	$ 475,032	$ 1,355,688	$ (880,656)

Note 7 - Post-Employment Benefits Other Than Pensions (OPEB) (Continued)

Contributions subsequent to the measurement date, in the amount of $160,843, reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as an increase of the net OPEB asset in the year ending June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

District's Fiscal Year Ending June 30,	Net Deferred Outflows (Inflows) of Resources
2026	$ (351,224)
2027	(180,102)
2028	(199,324)
2029	(181,625)
Thereafter	(129,224)
Total	$ (1,041,499)

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

Additional information as of the latest actuarial valuation follows:

Valuation Date:	September 30, 2023
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return	6.00%
Projected Salary Increases:	2.75 - 11.55%, including wage inflation at 2.75%
Healthcare Cost Trend Rate:	Pre-65: 7.25% Year 1 graded to 3.5% Year 15 Post-65: 6.50% Year 1 graded to 3.5% Year 15

Mortality

Retirees: PubT-2010 Male and Female Retiree Mortality Tables, scaled by 116% for males and 116% for females and adjusted for mortality improvements using projection scale MP-2021 from 2010.

Active Members: PubT-2010 Male and Female Employee Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2021 from 2010.

Opt Out Assumptions – 21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan.

Survivor Coverage – 80% of male retirees and 67% of female retires are assumed to have coverage continuing after the retiree's death.

Note 7 - Post-Employment Benefits Other Than Pensions (OPEB) (Continued)

Coverage Election at Retirement – 75% of male and 60% of female future retirees are assumed to elect coverage for one or more dependents.

Notes:

Assumption changes as a result of an experience study for the period 2017 through 2022 have been adopted by the System for use in the annual OPEB valuations beginning with the September 30, 2023 valuation. The total OPEB liability as of September 30, 2024, is based on the results of an actuarial valuation date of September 30, 2023, and rolled forward using generally accepted actuarial procedures, including the experience study.

Recognition period for liabilities is the average of the expected remaining service lives of all employees in years is 6.2834.

Recognition period for assets in years is 5.

Full actuarial assumptions are available in the 2024 MPSERS Annual Comprehensive Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Return on Plan Assets - The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2023, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return *
Domestic Equity Pools	25.0%	5.3%
Private Equity Pools	16.0%	9.0%
International Equity	15.0%	6.5%
Fixed Income Pools	13.0%	2.0%
Real Estate and Infrastructure Pools	10.0%	7.1%
Absolute Return Pools	9.0%	5.2%
Real Return/Opportunistic Pools	10.0%	6.9%
Short-Term Investment Pools	2.0%	1.4%
	100.0%	

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

Rate of Return - For the fiscal year ended September 30, 2024, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 15.45%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 7 - Post-Employment Benefits Other Than Pensions (OPEB) (Continued)

Discount Rate - A discount rate of 6.00% 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 6.00%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB asset.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability (Asset) to Changes in the Discount Rate - The following presents the District's proportionate share of the net OPEB liability (asset) calculated using the discount rate of 6.00%, as well as what the District's proportionate share of the net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease 5.00%	Current Discount Rate 6.00%	1% Increase 7.00%
$ (719,227)	$ (930,667)	$ (1,113,479)

Sensitivity of the District's Proportionate Share of the Net OPEB Liability (Asset) to Healthcare Cost Trent Rate - The following presents the District's proportionate share of the net OPEB liability (asset) calculated using assumed trend rates, as well as what the District's proportionate share of next OPEB liability (asset) would be if it were calculated using a trend rate that is 1-percentage-point lower or 1-percentage-point higher.

1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
$ (1,113,481)	$ (930,667)	$ (734,600)

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2024 MPSERS ACFR, available on the ORS website at www.michigan.gov/orsschools.

Payables to the OPEB Plan

The District reported a payable of $19,661 for the outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2025.

Note 8 - Risk Management

The District 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 has purchased commercial insurance for health claims and participates in the Set/Seg (risk pool) for claims relating to workers' compensation and property/casualty claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 9 - Contingencies

The District received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. The District believes such disallowances, if any, would be immaterial.

For time to time the District is involved in legal actions and claims, most of which normally occur in governmental operations. In the opinion of District management, these issues, and any other proceedings known to exist at June 30, 2025, are not likely to have a material impact on the District's financial position.

The District has a contract for capital projects with a total anticipated cost of $193,928. At June 30, 2025 approximately $101,728 is a remaining commitment to the contractor.

REQUIRED SUPPLEMENTARY INFORMATION

STEPHENSON AREA PUBLIC SCHOOLS

Schedule of Revenues, Expenditures and Change in Fund Balance
Budget and Actual
General Fund
For the Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES				
Local Sources	$ 2,535,857	$ 2,719,114	$ 2,754,389	$ 35,275
State Sources	10,051,278	10,023,852	10,002,605	(21,247)
Federal Sources	215,223	320,080	266,587	(53,493)
Other Sources	125,684	140,273	135,571	(4,702)
Total Revenues	12,928,042	13,203,319	13,159,152	(44,167)
EXPENDITURES				
Current:				
Instruction:				
Basic Programs	2,561,587	2,747,733	2,689,200	58,533
Added Needs	887,493	1,037,095	1,061,685	(24,590)
Support Service:				
Pupil Support Services	110,433	241,200	191,015	50,185
Board of Education	61,096	88,604	96,906	(8,302)
Executive Administration	387,028	348,382	350,148	(1,766)
School Administration	432,687	417,711	409,491	8,220
Business Services	106,752	103,898	103,898	-
Operation and Maintenance	615,488	726,664	715,648	11,016
Pupil Transportation	362,211	367,506	363,153	4,353
Information Management Services	107,686	114,812	118,244	(3,432)
Athletics	272,718	267,870	278,707	(10,837)
Payments to Other Public Schools	7,082,986	6,877,737	6,882,191	(4,454)
Total Expenditures	12,988,165	13,339,212	13,260,286	78,926
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(60,123)	(135,893)	(101,134)	34,759
OTHER FINANCING SOURCES				
Sale of Capital Assets	-	515	515	-
NET CHANGE IN FUND BALANCE	(60,123)	(135,378)	(100,619)	34,759
FUND BALANCE - BEGINNING	2,767,875	2,767,875	2,767,875	-
FUND BALANCE - ENDING	$ 2,707,752	$ 2,632,497	$ 2,667,256	$ 34,759

See Notes to Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual - General Fund

Budgets and Budgetary Accounting

Operating budgets are adopted each fiscal year for governmental funds, except as noted below. Reported budget amounts are as originally adopted or as amended by School Board resolution.

The District follows these procedures in establishing the budgetary data reflected in the budgetary comparison schedule.

a. Based upon requests from district staff, district administration recommends budget proposals to the school board.

b. The school board prepares a proposed budget including proposed expenditures and the means of financing them for the July 1 through June 30 fiscal year.

c. Pursuant to the public budget hearing, the school board may make alterations to the proposed budget.

d. Once the school board (following the public hearing) adopts the budget, no changes may be made in the amount of tax to be levied or in the amount of the various appropriations and the purposes of such appropriations, unless authorized by a 2/3 vote of the entire school board.

e. Appropriations lapse at year-end, unless authorized as a carryover by the school board. The portion of fund balance representing carryover appropriations is reported as assigned fund balance.

The major scholarships special revenue fund does not have an adopted budget, therefore, no budget-to-actual schedule is presented.

Basis of Accounting

The budget is prepared on the same modified accrual basis of accounting as applied to the governmental funds in the basic financial statements.

Excess of Expenditures Over Budget

General Fund		
Instruction:		
Added Needs	$	24,590
Support Service:		
Board of Education		8,302
Executive Administration		1,766
Support Service:		
Information Management Services		3,432
Athletics		10,837
Non-program Transactions		
Payments to Other Public Schools		4,454

STEPHENSON AREA PUBLIC SCHOOLS

Schedule of Employer's Proportionate Share of the Net Pension Liability
Michigan Public School Employees Retirement Plan

MPSERS Fiscal Year End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Covered-Employee Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
9/30/2024	0.0219911%	$ 5,383,855	$ 2,323,068	231.76%	74.44%
9/30/2023	0.0248262%	8,035,264	2,609,859	307.88%	66.30%
9/30/2022	0.0238836%	8,982,316	2,361,684	380.34%	60.95%
9/30/2021	0.0234068%	5,541,659	2,224,844	249.08%	72.32%
9/30/2020	0.0236090%	8,109,962	1,996,888	406.13%	60.31%
9/30/2019	0.0261030%	8,644,419	2,250,166	384.17%	62.36%
9/30/2018	0.0272389%	8,188,496	2,284,764	358.40%	62.21%
9/30/2017	0.0283623%	7,349,867	2,306,811	318.62%	64.21%
9/30/2016	0.0296847%	7,406,092	2,524,277	293.39%	63.27%
9/30/2015	0.2946270%	7,196,282	2,437,027	295.29%	62.92%

Schedule of Employer Pension Contributions
Michigan Public School Employees Retirement Plan
Determined as of the Year Ended June 30

District Year End Date	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
6/30/2025	$ 919,414	$ 919,414	$ -	$ 2,769,817	33.19%
6/30/2024	894,764	894,764	-	2,405,108	37.20%
6/30/2023	812,899	812,899	-	2,427,694	33.48%
6/30/2022	702,818	702,818	-	2,375,499	29.59%
6/30/2021	396,912	396,912	-	1,901,913	20.87%
6/30/2020	400,241	400,241	-	2,108,702	18.98%
6/30/2019	404,463	404,463	-	2,244,658	18.02%
6/30/2018	413,070	413,070	-	2,292,608	18.02%
6/30/2017	440,954	440,954	-	2,328,606	18.94%
6/30/2016	475,873	475,873	-	2,437,027	19.53%

*Ten years of data will be presented as it becomes available beginning with 2014.

See Notes to Schedules of Employer's Proportionate Share of Net Pension Liability and Employer Pension Contributions and Employer's Proportionate Share of Net OPEB Liability (Asset) and Employer OPEB Contributions

STEPHENSON AREA PUBLIC SCHOOLS

Schedule of Employer's Proportionate Share of the Net OPEB Liability (Asset)
Michigan Public School Employees Retirement Plan

MPSERS Fiscal Year End Date (Measurement Date)	District's Proportion of the Net OPEB Liability	District's Proportionate Share of the Net OPEB Liability (Asset)	District's Covered-Employee Payroll (OPEB)	District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
9/30/2024	0.02162131%	$ (930,667)	$ 2,323,068	40.06%	107.71%
9/30/2023	0.02588526%	(146,432)	2,609,859	5.61%	105.72%
9/30/2022	0.02416624%	511,856	2,361,684	21.67%	87.33%
9/30/2021	0.02462080%	375,806	2,361,684	15.91%	59.44%
9/30/2020	0.02249784%	1,205,269	1,996,888	60.36%	48.46%
9/30/2019	0.02570430%	1,844,988	2,250,166	81.99%	42.95%
9/30/2018	0.02841059%	2,130,668	2,284,764	93.26%	36.39%

Schedule of Employer OPEB Contributions
Michigan Public School Employees Retirement Plan
Determined as of the Year Ended June 30

District Year End Date	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
6/30/2025	$ 179,718	$ 179,718	$ -	$ 2,769,817	6.49%
6/30/2024	201,645	201,645	-	2,405,108	8.38%
6/30/2023	184,082	184,082	-	2,427,694	7.58%
6/30/2022	182,771	182,771	-	2,375,499	7.69%
6/30/2021	158,953	158,953	-	1,901,913	8.36%
6/30/2020	177,474	177,474	-	2,108,702	8.42%
6/30/2019	187,412	187,412	-	2,244,658	8.35%

*Ten years of data will be presented as it becomes available beginning with 2017.

Defined Benefit Pension Plan

Changes of benefit terms. There were no changes of benefit terms for the plan year ended September 30, 2024.

Changes of assumptions. There were no changes of benefit assumptions for the plan year ended September 30, 2024.

Post-Employment Benefits Other Than Pensions

Changes of benefit terms. There were no changes of benefit terms for the plan year ended September 30, 2024.

Changes of assumptions. There were no changes of benefit assumptions for the plan year ended September 30, 2024.

SUPPLEMENTARY INFORMATION

STEPHENSON AREA PUBLIC SCHOOLS
Combining Balance Sheet
Nonmajor Governmental Funds
As of June 30, 2025

	Special Revenue Funds		
	Food Service	Student Activities	Total
ASSETS			
Cash and Investments	$ 39,292	$ 139,167	$ 178,459
Due from Other Governments	2,291	-	2,291
Inventories	2,638	-	2,638
TOTAL ASSETS	$ 44,221	$ 139,167	$ 183,388
FUND BALANCES			
Liabilities:			
Accounts Payable	$ 805	$ -	$ 805
Fund Balances:			
Nonspendable:			
Inventories	$ 2,638	$ -	$ 2,638
Restricted for:			
Student Activities	-	139,167	139,167
Food Service	40,778	-	40,778
Total Fund Balances	43,416	139,167	182,583
TOTAL LIABILITIES AND FUND BALANCES	$ 44,221	$ 139,167	$ 183,388

STEPHENSON AREA PUBLIC SCHOOLS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2025

	Special Revenue Funds		
	Food Service	Student Activities	Total
REVENUES			
Local Sources	$ 13,678	$ 75,836	$ 89,514
State Sources	99,424	-	99,424
Federal Sources	222,710	-	222,710
Total Revenues	335,812	75,836	411,648
EXPENDITURES			
Food Service	380,013	-	380,013
Student Activities	-	86,274	86,274
Total Expenditures	380,013	86,274	466,287
NET CHANGES IN FUND BALANCES	(44,201)	(10,438)	(54,639)
FUND BALANCES - BEGINNING	87,617	149,605	237,222
FUND BALANCES - ENDING	$ 43,416	$ 139,167	$ 182,583

ADDITIONAL REPORT AND OTHER ITEMS

KerberRose

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

To the Board of Education
Stephenson Area Public Schools
Stephenson, 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 the *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 Stephenson Area Public Schools (District), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 17, 2025.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2025-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

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

To the Board of Education
Stephenson Area Public Schools

Stephenson Area Public School District's Response to Finding

Government Auditing Standards requires the auditor to perform procedures on the District's response to the finding identified in our audit and described in the accompanying schedule of findings and responses. The District's response was not subjected to the other auditing procedures applied in the audit of 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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KerberRose SC

KerberRose SC
Certified Public Accountants
Green Bay, Wisconsin
September 17, 2025

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiency identified?	Yes
Noncompliance material to the financial statements noted?	No

Section II - Financial Statement Finding

2025-001 Financial Reporting

Prior Year Audit Finding:	2024-001
Condition:	During our audit, we noted that the internal control system does not include a process for preparing the annual audited financial statements and the related disclosures in accordance with GAAP.
Criteria:	Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial position, change in net position, and disclosures in the financial statements, in conformity with U.S. Generally Accepted Accounting Principles (GAAP).
Cause:	Management does not have the training and expertise to prepare the financial statements in conformity with U.S. Generally Accepted Accounting Principles (GAAP).
Effect:	Although the auditors are preparing the financial statements and related footnotes, management of the District thoroughly reviews them and accepts responsibility for their completeness and accuracy. The outsourcing is a result of management's cost/benefit decision to use our accounting expertise rather than incurring this internal resource cost.
Recommendation:	We recommend that management continue to make this decision on a cost/benefit basis.
Management's Response:	Due to limited staffing the District will continue to contract with an outside audit firm to complete the statements. Management reviews the financial statements and compares to the District's financial records for completeness and accuracy and accepts responsibility for those financial statements.
Responsible Official:	Susanne Carpenter, Superintendent and Diana Murray, Business Manager
Anticipated Completion Date:	This finding will not completely resolve itself given the cost/benefit basis the District continues to make.

Financial Statement Finding

2024-001 - Financial Reporting - see finding 2025-001.

Stephenson Area Public Schools
W526 Division Street – P.O. Box 509
Stephenson, Michigan 49887
Phone 906-753-2221 Fax 906-753-4676

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Phone: 906-753-2223 Fax 906-753-2864 Phone: 906-753-2222 Fax: 906-753-2326

CORRECTIVE ACTION PLAN

Financial Statement Finding

2025-001 - Financial Reporting - The District is aware that their staff does not have the training to prepare financial statements and related notes in accordance with GAAP. The District will rely on the assistance of the auditors for preparation of the financial statements and related notes. Management does review and approve the financial statements by comparing the financial statements to internally generated financial reports and records.

Responsible Officials
Susanne Carpenter, Superintendent
Diana Murray, Business Manager

Anticipated Completion Date
This finding will not be completely resolved given the cost/benefit analysis the District continues to base its decision on.

KerberRose

To the Board of Education
Stephenson Area Public Schools
Stephenson, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Stephenson Area Public Schools (District) as of and for the year ended June 30, 2025. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated information in our engagement letter to you as well as verbally during our initial planning meetings. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and *Government Auditing Standards* Issued by the Comptroller General of the United States

As stated in our engagement letter dated August 12, 2025, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit.

Other Information in Documents Containing Audited Financial Statements

We applied certain limited procedures to the management's discussion and analysis, schedule of revenues, expenditures and change in fund balance – budget and actual – general fund, schedule of employer's proportionate share of the net pension liability and schedule of employer pension contributions, and schedules of employer's proportionate share of net OPEB liability (asset) and employer OPEB contributions which are required supplementary information (RSI) that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining balance sheet – nonmajor governmental funds and combining statement of revenues, expenditures and changes in fund balances – nonmajor governmental funds, which accompany the financial statements but are not RSI. Our responsibility for the supplementary information as described by professional standards, was to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information was fairly stated, in all material respects, in relation to the financial statements as a whole.

Audit Scope, Significant Risks and Other

Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures.

Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Any internal control related matters that are required to be communicated under professional standards are included later in this letter.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. As discussed in Note 1, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 101 – Compensated Absences as of and for the year ended June 30, 2025. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the useful lives of the capital assets is based on industry standards. We evaluated the key factors and assumptions used to develop the estimated useful lives in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's estimate of the net pension liability and related deferred outflows and inflows of resources is based on an actuarially determined amount. We evaluated the key factors and assumptions used to develop the pension liability in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's estimate of the other post-employment benefits (OPEB) asset and related deferred outflows and inflows of resources is based on an actuarially determined amount. We evaluated the key factors and assumptions used to develop the OPEB asset in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of deposits and investments and the related risks associated with these items is located in Note 2 to the financial statements. The footnote was prepared based on the requirements of the Governmental Accounting Standards Board and is intended to inform readers as to the risk associated with the District's cash and investments.

The disclosure of the net pension liability, as well as the related deferred outflows and inflows, is located in Note 6 to the financial statements. The footnote was prepared based on the requirements of the Governmental Accounting Standards Board and is intended to inform readers as to the risks associated with the District's participation in the Michigan Public School Employees' Retirement System.

The disclosure of other post-employment benefit asset, as well as the related deferred outflows and inflows, is disclosed in Note 7 to the financial statements. The footnote was prepared based on the requirements of the Governmental Accounting Standards Board and is intended to inform readers as to the risk associated with the District's other post- employment benefits.

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

Difficulties Encountered in Performing the Audit

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

Corrected Misstatements

Professional standards require us to accumulate all know and likely misstatements identified during the audit, other than those that are trivial and communicate them to the appropriate level of management. There were no such adjustments to report.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter, dated September 17, 2025.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Internal Control Over Compliance

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2025, 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, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

Financial Reporting - Management is responsible for establishing and maintaining internal controls for the fair presentation of the financial position, change in net position, and disclosures in the financial statements in conformity with U.S. Generally Accepted Accounting Principles (GAAP). During the audit, we noted that the internal control system does not include a process for preparing the annual audited financial statements and related disclosures in accordance with GAAP. Management requested that KerberRose SC assist in preparing a draft of the audited financial statements, including the related footnote disclosures. The outsourcing is a result of management's cost/benefit decision to use our accounting expertise rather than incurring this internal resource cost. This matter is common in most small organizations since they do not have the resources to devote to this area of internal control. The District has an assigned individual with knowledge and skills to review the financial statements by comparing the audited financial statements to internally generated financial reports and records. After this process is complete, the District approves and accepts responsibility for the audited financial statements.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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. Accordingly, we do not express an opinion on compliance. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards,* issued by the Comptroller General of the United States.

Closing

We thank you for allowing us to be of service to the Stephenson Area Public Schools. We received complete cooperation and appreciate your consideration of our comments and your implementation of suggestions.

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

KerberRose SC

KerberRose SC
Certified Public Accountants
Green Bay, Wisconsin
September 17, 2025