

Mason County Promise Zone Authority

Mason County, Michigan

Financial Statements

For the Year Ended December 31, 2021

with Independent Auditors' Report

CONTENTS

	Page
Independent Auditors' Report.....	1-3
Management's Discussion And Analysis	4-6
Basic Financial Statements	
Statement of Net Position and General Fund Balance Sheet.....	7
Statement of Activities and General Fund Revenues, Expenditures and Changes In Fund Balance.....	8
Statement of Revenues, Expenditures and Change in Budget and Actual – General Fund.....	9
Notes to Financial Statements	10-16
Internal Control and Compliance	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	17-18

INDEPENDENT AUDITORS' REPORT

Board of Directors
Mason County Promise Zone Authority
Ludington, Michigan

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and general fund of the Mason County Promise Zone Authority of the County of Mason as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Mason County Promise Zone Authority of the County of Mason's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Mason County Promise Zone Authority of the County of Mason, as of December 31, 2021, and the respective changes in financial position thereof and the budgetary comparison for the General Fund 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 (GAAS) 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 Mason County Promise Zone Authority of the County of Mason, 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 Mason County Promise Zone Authority of the County of Mason'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 auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, 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 Mason County Promise Zone Authority of the County of Mason'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 Mason County Promise Zone Authority of the County of Mason's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2022, on our consideration of the Mason County Promise Zone Authority of the County of Mason's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Mason County Promise Zone Authority of the County of Mason's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mason County Promise Zone Authority of the County of Mason's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

East Lansing, Michigan
June 30, 2022

Management's Discussion and Analysis (Unaudited)

The following is a narrative overview and analysis of the financial activities of the Mason County Promise Zone Authority (the "Authority") for the year ended December 31, 2021. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- Scholarships accrued in the amount of \$306,771 during 2021, funded through property taxes. Scholarships accrued in the amount of \$266,461 during 2020, funded through local contributions.
- Tuition scholarships provided assistance to 148 students in 2021 compared to 136 students in 2020.
- The Authority's total net position for the year ended December 31, 2021 was \$1,466,849 compared to \$1,140,895 for the year ended December 31, 2020.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

To simplify financial reporting, the government-wide financial statements and the fund statements have been combined to report the statement of net position and general fund balance sheet on one page. The statement of activities has also been combined on one page with the general fund revenues, expenditures, and changes in fund balance.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The statement of net position and governmental fund balance sheet presents information related to the net position and fund balance of the Authority and may, over time, be a useful indicator of the financial stability of the entity. In both cases, the Authority's net position and fund balance exceeded its liabilities, which was \$167,159, at the end of the 2021 fiscal year.

The statement of activities and governmental fund revenues, expenditures, and changes in fund balance presents information showing how the Authority's assets changed during the most recent fiscal year.

Both of the government-wide financial statements distinguish functions of the Authority that are principally supported by contributions revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees (business-type activities).

The governmental activities of the Authority include community development. The Authority did not have any business-type activities in the current year.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority uses fund accounting to demonstrate compliance with finance-related legal requirements.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Authority's near-term financial decisions.

The Authority maintains one fund (the general fund). Information is presented in the general fund statement of revenues, expenditures, and changes in fund balance for the Authority. The general fund is a major fund for financial reporting purposes.

The Authority does not maintain proprietary or fiduciary funds.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the Authority's financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to this management's discussion and analysis in the current year. A budgetary comparison schedule is provided.

Government-wide Financial Analysis

As previously stated, net position may serve to be a useful indicator of the Authority's financial position over time. In the case of the Authority, assets exceeded liabilities by \$1,466,849 at the close of the most recent fiscal year.

Net Position Governmental Activities		
	<u>2020</u>	<u>2021</u>
Total Assets	\$ 1,300,792	\$ 1,634,008
Total Liabilities	<u>159,897</u>	<u>167,159</u>
Net Position - Unrestricted	\$ <u>1,140,895</u>	\$ <u>1,466,849</u>
Change in Net Position Governmental Activities		
	<u>2020</u>	<u>2021</u>
Revenues		
Property tax revenue	\$ 773,141	\$ 816,037
Local Contributions	1,826	525
Investment Income	1,433	8,146
Miscellaneous Income	<u>74</u>	<u>82</u>
Total Revenues	\$ <u>776,474</u>	\$ <u>824,790</u>
Expenses		
Scholarships	266,461	306,771
Support Services	<u>73,887</u>	<u>92,065</u>
Total Expenses	<u>340,348</u>	<u>398,836</u>
Change in Net Position	436,126	425,954
Net Position at Beginning of Year	704,769	1,140,895
Prior period adjustment	<u>0</u>	<u>(100,000)</u>
Net Position at End of Year	\$ <u>1,140,895</u>	\$ <u>1,466,849</u>

During the year ended December 31, 2021, the Authority spent \$306,771 on scholarships for student tuition and \$92,065 on support services for the Authority, and \$1,466,849 unspent which will remain as net position until the following year.

Financial Analysis of the Authority's Funds

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Authority's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At December 31, 2021, the Authority's general fund reported a fund balance of \$1,456,849.

General Fund Budgetary Highlights

The Authority approved a budget of \$536,492 in the current year.

Economic Factors and Next Year's Budget and Rates

The Authority considered the following factors in preparing the Authority's budget for the 2022 fiscal year:

The Authority expects to collect property tax revenue in the 2022 fiscal year. These property taxes will pay for scholarships and support services in the 2022 fiscal year.

Scholarship expense for student tuition will continue to increase as the program becomes more accepted by the community.

Requests for Information

This financial report is designed to provide the wide variety of users of this document with a general overview of the Authority's finances and demonstrate the Mason County Promise Zone Authority's accountability for the money entrusted to it. If you have any questions regarding this report or need additional financial information, please direct your requests to:

Mason County Promise Zone Authority
5300 W. US 10
Ludington, MI 49431

MASON COUNTY PROMISE ZONE AUTHORITY
STATEMENTS OF NET POSITION AND GENERAL FUND BALANCE SHEET
DECEMBER 31, 2021

	General Fund	Adjustments	Governmental Activities Statement of Net Position
CURRENT ASSETS			
Cash	\$ 400,559		400,559
Investments	786,493		786,493
Accounts receivable	433,440		433,440
Interest receivable	1,747		1,747
Prepaid expenses	1,769		1,769
Pledges receivable	5,000		5,000
	<u>1,629,008</u>		<u>1,629,008</u>
TOTAL CURRENT ASSETS	<u>1,629,008</u>		<u>1,629,008</u>
Long Term Pledges Receivable	5,000		5,000
	<u>5,000</u>		<u>5,000</u>
TOTAL NONCURRENT ASSETS	<u>5,000</u>		<u>5,000</u>
TOTAL ASSETS	<u>1,634,008</u>	\$ <u></u>	<u>1,634,008</u>
LIABILITIES			
Accounts payable	167,159		167,159
	<u>167,159</u>		<u>167,159</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenues	10,000	(10,000)	
	<u>10,000</u>	<u>(10,000)</u>	
FUND BALANCE/NET POSITION			
Nonspendable - prepaid items	1,769	(1,769)	
Unassigned/unrestricted	1,455,080	11,769	1,466,849
	<u>1,456,849</u>	<u>10,000</u>	<u>1,466,849</u>
TOTAL FUND BALANCE/NET POSITION	<u>1,456,849</u>	\$ <u>10,000</u>	<u>1,466,849</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ <u>1,634,008</u>		

See accompanying notes to financial statements.

MASON COUNTY PROMISE ZONE AUTHORITY
STATEMENTS OF ACTIVITIES AND GENERAL FUND REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2021

	General Fund	Adjustments	Governmental Activities Statement of Activities
REVENUES			
Property taxes	\$ 816,037		816,037
Local contributions	5,525	(5,000)	525
Investment Income	18,282		18,282
Unrealized gain (loss) on investments	(10,136)		(10,136)
Miscellaneous	82		82
	<u>829,790</u>	<u>(5,000)</u>	<u>824,790</u>
EXPENSES			
Scholarships	306,771		306,771
Support services	92,065		92,065
	<u>398,836</u>	<u></u>	<u>398,836</u>
CHANGE IN FUND BALANCE/NET POSITION	430,954	(5,000)	425,954
FUND BALANCE/NET POSITION, JANUARY 1	1,025,895	115,000	1,140,895
PRIOR PERIOD ADJUSTMENT	<u></u>	<u>(100,000)</u>	<u>(100,000)</u>
FUND BALANCE/NET POSITION, DECEMBER 31	<u>\$ 1,456,849</u>	<u>10,000</u>	<u>1,466,849</u>

See accompanying notes to financial statements.

MASON COUNTY PROMISE ZONE AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

FOR YEAR ENDED DECEMBER 31, 2021

	BUDGETED AMOUNTS		ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE) FINAL TO ACTUAL
	ORIGINAL	FINAL		
REVENUES				
Property taxes	\$ 773,141	773,141	816,037	42,896
Local contributions	-	-	5,525	5,525
Investment Income	-	-	18,282	18,282
Unrealized gain (loss) on investments	-	-	(10,136)	(10,136)
Miscellaneous	-	-	82	82
Total Revenues	<u>773,141</u>	<u>773,141</u>	<u>829,790</u>	<u>56,649</u>
EXPENDITURES				
Scholarships	235,000	407,000	306,771	100,229
Support services	<u>119,492</u>	<u>129,492</u>	<u>92,065</u>	<u>37,427</u>
Total Expenditures	<u>354,492</u>	<u>536,492</u>	<u>398,836</u>	<u>137,656</u>
Net change in fund balance	418,649	236,649	430,954	\$ <u><u>194,305</u></u>
Fund balance, January 1	<u>1,025,895</u>	<u>1,025,895</u>	<u>1,025,895</u>	
Fund balance, December 31	\$ <u><u>1,444,544</u></u>	<u><u>1,262,544</u></u>	<u><u>1,456,849</u></u>	

See accompanying notes to financial statements.

MASON COUNTY PROMISE ZONE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Mason County Promise Zone Authority (the “Authority”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority’s accounting policies are described below.

Reporting Entity

The Mason County Promise Zone Authority was established through the Michigan Promise Zone Authority Act, MCL 390.1661 on June 6, 2018. Financial operations began during the 2018 fiscal year. The Authority is governed by a Board of Directors consisting of eleven members.

The Authority’s purpose is to provide eligible high school graduates with a tuition-free path to an associate’s degree, as required and set forth in the Promise Zone Development Plan. The Authority will also promote post-secondary education and prepare students for future success in college and career choices.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the primary government.

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 grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

A combined financial statement is provided for the general fund and the statement of net position, and the general fund and the statement of activities. The general fund is considered to be a major fund for financial reporting purposes.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Governmental fund financial information is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

MASON COUNTY PROMISE ZONE AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued

DECEMBER 31, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Authority reports the following major governmental fund:

The *general fund* is the Authority's primary operating fund. It accounts for all financial resources of the Authority.

Restricted assets and revenues are reported subject to restrictions beyond the government's control. The restrictions may be externally imposed or imposed by law. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Budget

Public Act 621 of 1978, as amended, provides that the legislative body of a local unit of government must formally adopt an operating budget prior to the commencement of the fiscal year. The Authority's expenditures were administered by Mason County and the Community Foundation for Mason County (the "Foundation"). The program as a whole was subject to a controlled spending plan and administrative oversight. However, the Authority did adopt a budget for the year ended December 31, 2021 and therefore, was in compliance with the State Budget Act.

Assets, Liabilities, and Net Position

Cash and Equivalents

Amounts reported as cash and cash equivalents include amounts on hand and amounts held by the Authority.

Local Contributions

The Authority recognized local contributions for scholarships made to eligible students through the Mason County Promise Zone Authority through the Community Foundation for Mason County. The Community Foundation for Mason County holds all funds for the Authority until the funds are ready to be expensed.

Fund Balances

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either: (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, or laws or regulations of other governments. As applicable, committed fund balance is reported for amounts that can be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority, the Board of Directors. Once adopted, the limitation imposed by the formal action remains in place until a similar formal action is taken to remove or revise the limitation.

MASON COUNTY PROMISE ZONE AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued

DECEMBER 31, 2021

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - Concluded

The Authority reports assigned fund balance, if applicable, for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Directors may assign fund balance. Assignments generally only exist temporarily, therefore an additional action does not normally have to be taken for the removal of an assignment.

Unassigned fund balance is the residual classification for the general fund.

When the government incurs an expenditure for purposes for which various fund balance classifications can be used, it is the government's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

NOTE 2: **EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

P.A. 621 of 1978 provides that counties and other local units of government shall not incur expenditures in excess of the amounts appropriated in the formal budget document adopted by the Promise Zone Authority Board of Directors. For the year ended December 31, 2021, the Authority had formally adopted a budget and had no expenditures that exceeded the budget document as adopted by the Authority Board of Directors.

NOTE 3: **CASH, CASH EQUIVALENTS, AND INVESTMENTS**

At December 31, 2021 the Authority's cash balance was \$400,559 and investment balance was \$786,493. The cash and investments are held by the Mason County Treasurer.

In accordance with Michigan Compiled Laws, the County is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures no more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

MASON COUNTY PROMISE ZONE AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued

DECEMBER 31, 2021

NOTE 3: CASH, CASH EQUIVALENTS, AND INVESTMENTS - Continued

As of December 31, 2021, the carrying amount and bank balance for each type of deposit and investment is as follows:

	BOOK BALANCE	BANK BALANCE	FDIC INSURED
Cash deposits	\$ 400,559	\$ 400,559	\$ 0
Investments	<u>786,493</u>	<u>786,493</u>	<u>0</u>
	<u>\$ 1,187,052</u>	<u>\$1,187,052</u>	<u>\$ 0</u>

Financial Statement Presentation:

	CASH AND CASH EQUIVALENTS	INVESTMENTS (CERTIFICATES OF DEPOSIT)	INVESTMENTS (MARKETABLE SECURITIES)	TOTAL
Governmental funds	<u>\$400,559</u>	<u>\$374,729</u>	<u>\$411,764</u>	<u>\$1,187,052</u>

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of December 31, 2021, the carrying amount of the Authority's deposits were \$400,559 and the bank balance was \$400,559, of which \$0 was covered by federal depository insurance. The remaining balance of \$400,559 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Authority held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Investments

As of December 31, 2021, the carrying amounts and market values for the investments were as follows:

INVESTMENT TYPE	CARRYING AMOUNT	WEIGHTED AVERAGE MATURITY	RATING	PERCENTAGE
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Insured or registered for which the securities are held by the County's agent in the County's name:

Municipal Bonds	<u>\$ 411,764</u>	3.0 Years	AA3/AA-	100.0%
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MASON COUNTY PROMISE ZONE AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued

DECEMBER 31, 2021

NOTE 3: CASH AND INVESTMENTS – Concluded

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of December 31, 2021, the Authority's investments were rated by Moody's as noted above.

Interest Rate Risk

The Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by designating its investment portfolio with the objective of obtaining a rate of return through the economic cycles considering risk constraints and cash flow characteristics.

Custodial Credit Risk

The Authority will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments that are in possession of an outside party by diversifying its investments by institution to ensure that potential losses on individual securities do not exceed the income generated by the remainder of the portfolio.

NOTE 4: FAIR VALUE MEASUREMENT

The County categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. 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. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

Instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The County's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The County has the following recurring fair value measurements as of December 31, 2021:

- Agency Bonds of \$400,000 are valued using active market prices (Level 1 inputs).
- Certificates of Deposit of \$380,000 are valued using quoted market prices (Level 2 inputs).

MASON COUNTY PROMISE ZONE AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued

DECEMBER 31, 2021

NOTE 4: FAIR VALUE MEASUREMENT – Concluded

The County has the following recurring fair value measurements as of December 31, 2021:

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS

Quoted Prices Balance December 31, 2021	Fair Value Measurement Using		
	Significant In Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	\$400,000	\$380,000	\$0

NOTE 5: CONTINGENT LIABILITY

The Authority provides scholarships to students that reside in the Mason County service area and graduate from a Mason County high school with a 2.0 GPA or higher. During the current fiscal year, these scholarships could be used at West Shore Community College. These scholarships are reviewed on a semester-by-semester basis.

As these scholarships are contingent upon a student's enrollment, submission of an annual renewal application and FAFSA, and meeting academic performance requirements, the Authority has not recorded a liability at this time.

NOTE 6: RELATED PARTIES

The Community Foundation of Mason County is the fiduciary for Mason County Promise Zone Authority. All donated funds are held at the Community Foundation and are disbursed as needed. A member of the Mason County Promise Zone Authority Board is also an employee at the Community Foundation who administered the donated funds for the Promise Zone in 2021. All transactions are processed through Mason County. Mason County is also a fiduciary, Mason County holds all property tax revenues and makes the payments for the Authority. The Authority's Treasurer is an employee of the County.

NOTE 7: PLEDGES RECEIVABLE

The Authority has received promises to give for upcoming years. The Authority has not created an allowance for doubtful accounts per GAAP because the amount would be immaterial. All is considered collectible at year end December 31, 2021.

2022	\$	5,000
2023		<u>5,000</u>
Total	\$	<u>10,000</u>

MASON COUNTY PROMISE ZONE AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Concluded

DECEMBER 31, 2021

NOTE 8: INTEREST INCOME

The Community Foundation holds some of the Authority's funds in interest bearing accounts. For the year ended December 31, 2021 the Authority had received \$13,114 in income from funds held by the Community Foundation.

NOTE 9: PRIOR PERIOD ADJUSTMENT

The Authority wrote off a donation pledge of \$100,000 that was recorded as revenue in a previous period.

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*

Members of the Advisory Board
Mason County Promise Zone Authority
Mason County, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the general fund of the *Mason County Promise Zone Authority* (the "Authority"), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 30, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

Clark, Schaefer, Hackett & Co.

East Lansing, Michigan
June 30, 2022

