

Hesperia  
Community  
Schools



Year Ended  
June 30, 2019

Financial  
Statements

# HESPERIA COMMUNITY SCHOOLS

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**INDEPENDENT AUDITORS' REPORT**

September 9, 2019

Board of Education  
Hesperia Community Schools  
Hesperia, Michigan

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Hesperia Community Schools* (the "District"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

*Management's Responsibility for the Financial Statements*

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

*Independent Auditors' Responsibility*

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

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

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hesperia Community Schools as of June 30, 2019, and the respective changes in financial position, thereof and the budgetary comparison of the general fund and the major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund financial statements and schedules 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 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated September 9, 2019 on our consideration of Hesperia Community 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 our 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.

*Rehmann Lobson LLC*

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

# HESPERIA COMMUNITY SCHOOLS

## Management's Discussion and Analysis

As management of Hesperia Community Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2019.

### Financial Highlights

- The District is required to report its proportionate share of the MPSERS net pension and other postemployment benefit liabilities on the statement of net position. This change has resulted in a deficit net position of governmental activities of \$22,869,382.
- The District's total net position decreased by \$287,988.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,282,296, a decrease of \$6,089 in comparison with the prior year. The budget was closely monitored and emphasis was placed on reducing all possible expenditures.
- At the end of the current fiscal year, unassigned fund balance of the general fund was \$990,762 or 10.2% percent of total general fund expenditures.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements, including management's discussion and analysis, budgetary schedules and combining statements for nonmajor and fiduciary funds.

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

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

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused compensated leave).

Both of the government-wide financial statements display functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The activities of the District include instruction, supporting services, community services, and food services. The District has no business-type activities as of and for the year ended June 30, 2019.

**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 District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.



# HESPERIA COMMUNITY SCHOOLS

## Management's Discussion and Analysis

**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, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the District'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 District's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains numerous individual governmental funds and one agency fund. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the general fund and food service fund which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. These funds include several debt service funds. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund 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 and the schedules for the MPSERS pension and other postemployment benefit plans immediately following the notes to the financial statements. The combining statements referred to earlier in connection with nonmajor governmental funds and General Fund detailed schedule of revenues, expenditures, and changes in fund balance - budget to actual and Agency Funds statements are presented immediately following the required supplementary information.

### Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. The District reported a deficit net position of \$22,869,382 at June 30, 2019. The requirement to report the District's proportionate share of the MPSERS net pension liability and other postemployment benefit liability on the statement of net position is a significant contributor to this deficit balance. Another contributor to the deficit is the District's long-term debt obligations.

# HESPERIA COMMUNITY SCHOOLS

## Management's Discussion and Analysis

	Net Position	
	2019	2018
<b>Assets</b>		
Current and other assets	\$ 2,363,783	\$ 2,340,428
Capital assets, net	15,094,192	15,617,679
<b>Total assets</b>	<u>17,457,975</u>	<u>17,958,107</u>
Deferred outflows of resources	<u>6,941,912</u>	<u>4,258,151</u>
<b>Liabilities</b>		
Current and other liabilities	22,787,706	21,341,360
Long-term liabilities	21,610,503	22,108,128
<b>Total liabilities</b>	<u>44,398,209</u>	<u>43,449,488</u>
Deferred inflows of resources	<u>2,871,060</u>	<u>1,348,164</u>
<b>Net position</b>		
Net investment in capital assets	(2,274,138)	(3,537,582)
Restricted	160,710	113,679
Unrestricted (deficit)	(20,755,954)	(19,157,491)
<b>Total net position</b>	<u><u>\$ (22,869,382)</u></u>	<u><u>\$ (22,581,394)</u></u>

A portion of the District’s net position reflect its investment in capital assets net of related debt (e.g., land, buildings and improvements, machinery and equipment, and vehicles, less any related debt used to acquire those assets that is still outstanding). The District uses these capital assets to provide services to the students it serves; consequently, these assets are not available for future spending. Although the District’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District’s net position represents resources that are subject to other external restrictions on how they may be used. The remaining balance of unrestricted net position, when available, may be used to meet the District’s ongoing obligations to its general programs.

# HESPERIA COMMUNITY SCHOOLS

## Management's Discussion and Analysis

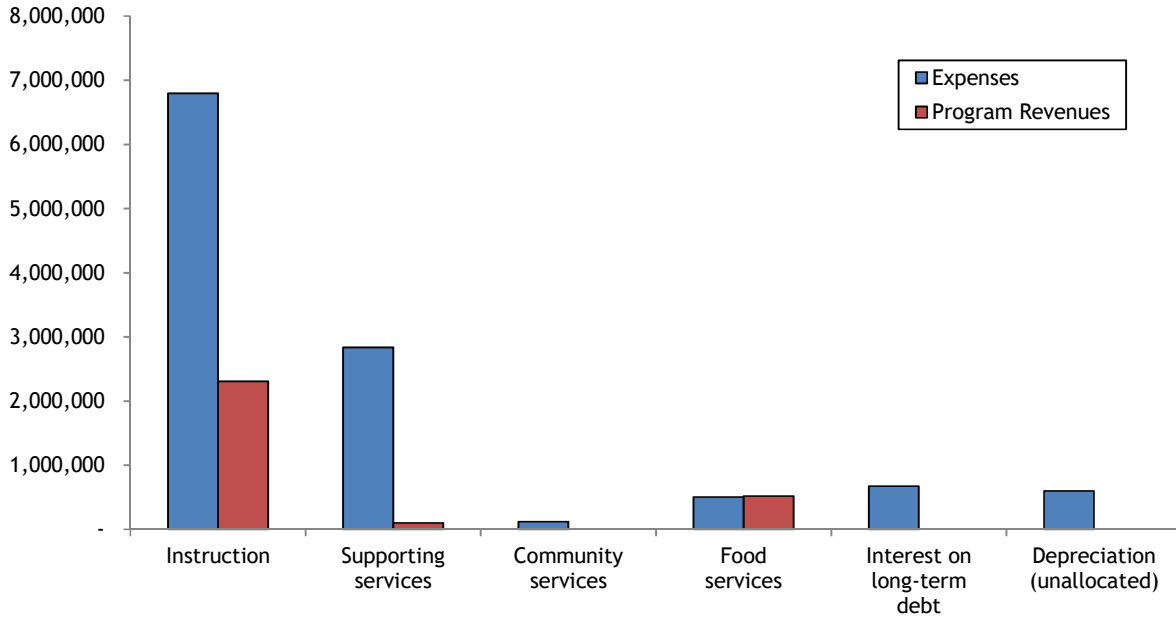
	Change in Net Position	
	2019	2018
Revenues		
Program revenues:		
Charges for services	\$ 98,752	\$ 135,682
Operating grants and contributions	2,830,736	2,702,869
General revenues:		
Property taxes - operations	893,413	891,979
Property taxes - debt service	1,029,176	1,002,190
Grants and contributions not restricted to specific programs	6,343,229	6,428,293
Unrestricted investment earnings	4,835	2,503
Gain on sale of capital assets	-	13,895
Other revenues	43,242	66,224
Total revenues	<u>11,243,383</u>	<u>11,243,635</u>
Expenses		
Instruction	6,797,923	6,029,581
Supporting services	2,835,604	2,580,949
Community services	120,071	15,920
Food services	505,140	501,698
Interest on long-term debt	672,731	740,868
Unallocated depreciation	599,902	596,468
Total expenses	<u>11,531,371</u>	<u>10,465,484</u>
Change in net position	(287,988)	778,151
Net position, beginning of year	(22,581,394)	(18,591,580)
Restatements	-	(4,767,965)
Net position, end of year	<u><u>\$(22,869,382)</u></u>	<u><u>\$ (22,581,394)</u></u>

Governmental Activities. Net position decreased by \$287,988 compared to an increase of \$778,151 in the prior year. Expenses increased largely attributed to changes in staffing and wage increases. Staff retirements have resulted in an increase for training wages as well as paying the termination benefits.

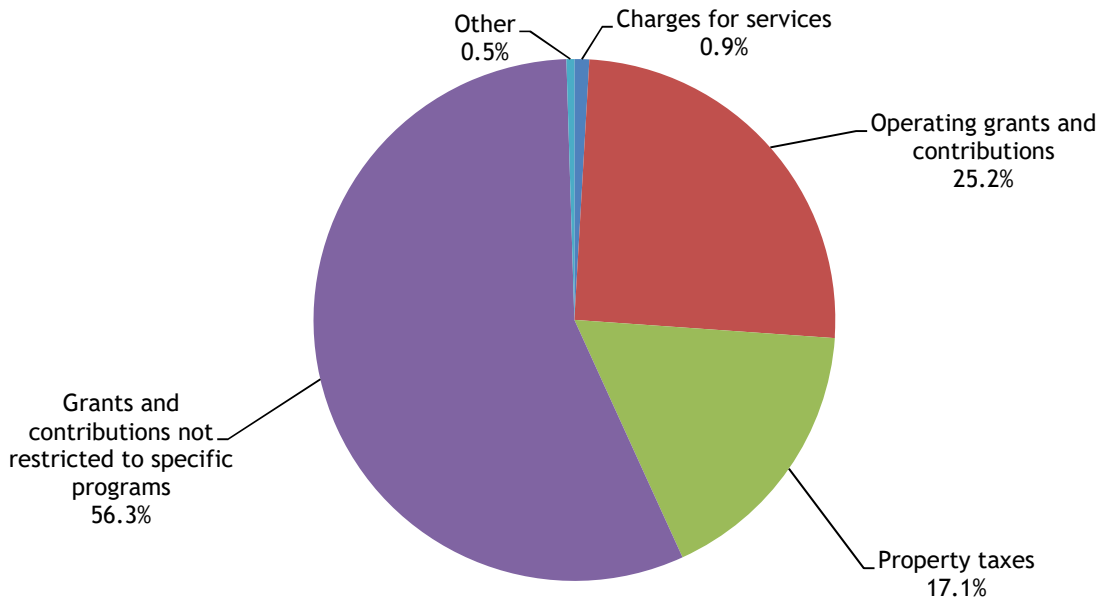
# HESPERIA COMMUNITY SCHOOLS

## Management's Discussion and Analysis

Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities



# HESPERIA COMMUNITY SCHOOLS

## Management's Discussion and Analysis

### Financial Analysis of the Government's Funds

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

**Governmental Funds.** The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a District's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$990,762, while the total fund balance was \$1,026,904. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance and total fund balance represent 10.2% and 10.5%, respectively, of total general fund expenditures.

The fund balance of the District's general fund decreased by \$46,309, or 4.3% from the prior year. The reason for the decrease in the fund balance was attributed to staffing that resulted in more expenditures. The District also monitored the budget closely with the intent of reducing expenditures when it reasonably could.

The fund balance of the District's food service fund increased by \$12,498 from the prior year. The reason for the increase was attributed to an increase in federal revenue.

### General Fund Budgetary Highlights

Amendments to the original adopted budget are passed in order to reflect changes in information and circumstances. Some of the more significant changes between the original adopted and final amended budgets were:

- The budget for local revenue sources increased based on an increase in local grants and property taxes. The budget for state revenue decreased based on a loss of students.
- Budgeted revenue and expenditures for certain federal awards increased because the full outstanding award balance is budgeted upon notification of award receipt which was unknown at the time of the original budget adoption.

In accordance with State statute, the District is prohibited from amending the budget after year-end. As the District's books are not closed for accounting purposes at that point, a certain level of estimation is required in determining actual expenditures. Some of the more significant differences between the final amended budget and the actual financial results were:

- General fund expenditures decreased in total by \$180,973 from amended budget to actual. The reason for the decrease was attributed to decreases in spending at the various function levels resulting from staffing changes, less spending for professional development, grant carryovers, less utility expenditures than estimated, less in transportation costs than estimated, and overall budget monitoring with the intent of reducing expenditures where the District could.

# HESPERIA COMMUNITY SCHOOLS

## Management's Discussion and Analysis

- General fund total revenues decreased by \$107,881 from amended budget to actual. The reason for the decrease was attributed to the carryover in federal grants and At Risk Funds.

### Capital Asset and Debt Administration

Capital Assets. The District's investment in capital assets for its governmental activities as of June 30, 2019 amounted to \$15,094,192 (net of accumulated depreciation). Significant additions included renovations and additions to the District's facilities funded through voter-approved bond issues. Capital assets at year-end included the following:

	Capital Assets (Net of Depreciation)	
	2019	2018
Land	\$ 75,012	\$ 75,012
Buildings and improvements	13,909,342	14,221,314
Furniture and equipment	888,411	1,037,782
Vehicles	221,427	283,571
Total capital assets, net	<u>\$ 15,094,192</u>	<u>\$ 15,617,679</u>

Additional information on the District's capital assets can be found in Note 7 of this report.

Long-term Debt. At the end of the current fiscal year, the District had total long-term debt outstanding of \$21,610,503. The District's total debt decreased by \$497,625 during the current fiscal year as a result of principal payments on long-term debt.

Additional information on the District's long-term debt can be found in Note 8 of this report.

### Factors Bearing on the District's Future

The following factors were considered in preparing the District's budget for the 2019-2020 fiscal year:

- The District increased revenue to reflect the increased foundation allowance. The District is estimating 20 students less in the fall and subtracted prior year one-time revenue sources.
- The District added for staffing cost increases such as retirement, insurance, and wage increases. The District also added additional programming sections to the high school schedule and will replace retired teachers with less costly new teachers.
- The District increased utility costs and other fixed expenditures for inflation.

### Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Business Manager  
Hesperia Community Schools  
96 S. Division Street  
Hesperia, MI 49421

## BASIC FINANCIAL STATEMENTS

# HESPERIA COMMUNITY SCHOOLS

## Statement of Net Position

June 30, 2019

	Governmental Activities
<b>Assets</b>	
Cash and investments	\$ 722,697
Receivables	1,601,271
Other assets	39,815
Capital assets not being depreciated	75,012
Capital assets being depreciated, net	<u>15,019,180</u>
<b>Total assets</b>	<u>17,457,975</u>
<b>Deferred outflows of resources</b>	
Deferred charge on advance bond refundings	661,977
Deferred pension amounts	5,463,687
Deferred other postemployment benefit amounts	<u>816,248</u>
<b>Total deferred outflows of resources</b>	<u>6,941,912</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	1,148,293
Unearned revenue	27,876
Long-term debt:	
Due within one year	1,909,740
Due in more than one year	19,700,763
Net pension liability (due in more than one year)	17,139,865
Net other postemployment benefit liability (due in more than one year)	<u>4,471,672</u>
<b>Total liabilities</b>	<u>44,398,209</u>
<b>Deferred inflows of resources</b>	
Deferred pension amounts	1,717,882
Deferred other postemployment benefit amounts	<u>1,153,178</u>
<b>Total deferred inflows of resources</b>	<u>2,871,060</u>
<b>Net position</b>	
Net investment in capital assets	(2,274,138)
Restricted for:	
Food service operations	111,231
Debt service	49,479
Unrestricted deficit	<u>(20,755,954)</u>
<b>Total net position</b>	<u>\$ (22,869,382)</u>

The accompanying notes are an integral part of these financial statements.



# HESPERIA COMMUNITY SCHOOLS

## Statement of Activities

For the Year Ended June 30, 2019

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
<b>Governmental activities</b>				
Instruction	\$ 6,797,923	\$ -	\$ 2,309,977	\$ (4,487,946)
Supporting services	2,835,604	59,175	39,903	(2,736,526)
Community services	120,071	-	-	(120,071)
Food services	505,140	39,577	480,856	15,293
Interest on long-term debt	672,731	-	-	(672,731)
Unallocated depreciation	599,902	-	-	(599,902)
<b>Total governmental activities</b>	<b>\$ 11,531,371</b>	<b>\$ 98,752</b>	<b>\$ 2,830,736</b>	<b>(8,601,883)</b>
<b>General revenues</b>				
Property taxes - operations				893,413
Property taxes - debt service				1,029,176
Grants and contributions not restricted to specific programs				6,343,229
Unrestricted investment earnings				4,835
Other revenues				43,242
<b>Total general revenues</b>				<b>8,313,895</b>
<b>Change in net position</b>				<b>(287,988)</b>
<b>Net position, beginning of year</b>				<b>(22,581,394)</b>
<b>Net position, end of year</b>				<b>\$ (22,869,382)</b>

The accompanying notes are an integral part of these financial statements.

# HESPERIA COMMUNITY SCHOOLS

## Balance Sheet

Governmental Funds

June 30, 2019

	General Fund	Food Service	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and investments	\$ 545,989	\$ 32,547	\$ 144,161	\$ 722,697
Accounts receivable	9,380	16	-	9,396
Due from other governments	1,591,875	-	-	1,591,875
Due from other funds	-	100,331	101,070	201,401
Inventory	36,142	3,673	-	39,815
<b>Total assets</b>	<b>\$ 2,183,386</b>	<b>\$ 136,567</b>	<b>\$ 245,231</b>	<b>\$ 2,565,184</b>
<b>Liabilities</b>				
Accounts payable	\$ 195,346	\$ 25,336	\$ -	\$ 220,682
Accrued liabilities	832,929	-	-	832,929
Due to other funds	100,331	-	101,070	201,401
Unearned revenue	27,876	-	-	27,876
<b>Total liabilities</b>	<b>1,156,482</b>	<b>25,336</b>	<b>101,070</b>	<b>1,282,888</b>
<b>Fund balances</b>				
Nonspendable	36,142	3,673	-	39,815
Restricted	-	107,558	144,161	251,719
Unassigned	990,762	-	-	990,762
<b>Total fund balances</b>	<b>1,026,904</b>	<b>111,231</b>	<b>144,161</b>	<b>1,282,296</b>
<b>Total liabilities and fund balances</b>	<b>\$ 2,183,386</b>	<b>\$ 136,567</b>	<b>\$ 245,231</b>	<b>\$ 2,565,184</b>

The accompanying notes are an integral part of these financial statements.

# HESPERIA COMMUNITY SCHOOLS

## Reconciliation

Fund Balances of Governmental Funds  
to Net Position of Governmental Activities  
June 30, 2019

Fund balances - total governmental funds \$ 1,282,296

Amounts reported for *governmental activities* in the statement of net position are different because:

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

Capital assets not being depreciated	75,012
Capital assets being depreciated, net	15,019,180

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Long-term debt	(20,468,152)
Compensated absences	(208,856)
Unamortized bond premiums and discounts, net	(933,495)
Unamortized deferred charge on advance bond refunding	661,977
Accrued interest on bonds payable	(94,682)

Certain pension-related amounts and other postemployment benefit amounts, such as the net pension liability and net other postemployment benefits liability and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.

Net pension liability	(17,139,865)
Deferred outflows related to the net pension liability	5,463,687
Deferred inflows related to the net pension liability	(1,717,882)
Net other postemployment benefit liability	(4,471,672)
Deferred outflows related to the net other postemployment benefit liability	816,248
Deferred inflows related to the net other postemployment benefit liability	(1,153,178)

Net position of governmental activities \$ (22,869,382)

The accompanying notes are an integral part of these financial statements.

# HESPERIA COMMUNITY SCHOOLS

## Statement of Revenues, Expenditures and Change in Fund Balances

Governmental Funds

For the Year Ended June 30, 2019

	General Fund	Food Service	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Local sources	\$ 1,134,931	\$ 39,622	\$ 1,030,596	\$ 2,205,149
Interdistrict sources	109,411	-	-	109,411
State sources	7,966,488	20,751	-	7,987,239
Federal sources	481,479	460,105	-	941,584
<b>Total revenues</b>	<b>9,692,309</b>	<b>520,478</b>	<b>1,030,596</b>	<b>11,243,383</b>
<b>Expenditures</b>				
Current:				
Instruction	6,647,093	-	-	6,647,093
Supporting services	2,863,684	-	-	2,863,684
Community services	119,545	-	-	119,545
Food services	-	499,063	-	499,063
Debt service:				
Principal	117,213	-	1,655,000	1,772,213
Interest	-	-	614,197	614,197
Agent fees and other	-	-	1,301	1,301
<b>Total expenditures</b>	<b>9,747,535</b>	<b>499,063</b>	<b>2,270,498</b>	<b>12,517,096</b>
Revenues over (under) expenditures	(55,226)	21,415	(1,239,902)	(1,273,713)
<b>Other financing sources (uses)</b>				
Transfers in	8,917	-	-	8,917
Transfers out	-	(8,917)	-	(8,917)
Issuance of long-term debt	-	-	1,267,624	1,267,624
<b>Total other financing sources (uses)</b>	<b>8,917</b>	<b>(8,917)</b>	<b>1,267,624</b>	<b>1,267,624</b>
Net change in fund balances	(46,309)	12,498	27,722	(6,089)
Fund balances, beginning of year	1,073,213	98,733	116,439	1,288,385
Fund balances, end of year	\$ 1,026,904	\$ 111,231	\$ 144,161	\$ 1,282,296

The accompanying notes are an integral part of these financial statements.

# HESPERIA COMMUNITY SCHOOLS

## Reconciliation

Net Change in Fund Balances of Governmental Funds  
to Change in Net Position of Governmental Activities  
For the Year Ended June 30, 2019

Net change in fund balances - total governmental funds \$ (6,089)

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital assets purchased/constructed	78,960
Depreciation expense	(599,902)
Loss on disposal of capital assets	(2,545)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but a reduction in long-term debt on the statement of net position.

Principal payments on long-term debt	1,772,213
Issuance of long-term debt	(1,267,624)
Accrued interest on School Loan Fund added to principal	(78,762)
Amortization of bond premiums and discounts, net	49,139
Amortization of deferred charge on advance bond refunding	(34,421)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Change in the net pension liability and related deferred amounts	(420,246)
Change in the net other postemployment benefit liability and related deferred amounts	191,819
Change in accrued interest payable on bonds	6,811
Change in compensated absences payable	22,659

Change in net position of governmental activities \$ (287,988)

The accompanying notes are an integral part of these financial statements.

# HESPERIA COMMUNITY SCHOOLS

## Statement of Revenues, Expenditures and Change in Fund Balance Budget and Actual - General Fund For the Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Local sources	\$ 993,975	\$ 1,130,339	\$ 1,134,931	\$ 4,592
Interdistrict sources	283,201	116,202	109,411	(6,791)
State sources	8,170,385	8,004,798	7,966,488	(38,310)
Federal sources	512,156	548,851	481,479	(67,372)
<b>Total revenues</b>	<b>9,959,717</b>	<b>9,800,190</b>	<b>9,692,309</b>	<b>(107,881)</b>
<b>Expenditures</b>				
Current:				
Instruction	6,933,390	6,696,587	6,647,093	(49,494)
Supporting services	2,895,477	2,992,575	2,863,684	(128,891)
Community services	19,466	121,471	119,545	(1,926)
Debt service:				
Principal	120,093	117,213	117,213	-
Capital outlay	62	562	-	(562)
<b>Total expenditures</b>	<b>9,968,488</b>	<b>9,928,408</b>	<b>9,747,535</b>	<b>(180,873)</b>
Revenues over (under) expenditures	(8,771)	(128,218)	(55,226)	72,992
<b>Other financing sources</b>				
Transfers in	13,000	12,000	8,917	(3,083)
<b>Net change in fund balance</b>	<b>4,229</b>	<b>(116,218)</b>	<b>(46,309)</b>	<b>69,909</b>
Fund balance, beginning of year	1,073,213	1,073,213	1,073,213	-
<b>Fund balance, end of year</b>	<b>\$ 1,077,442</b>	<b>\$ 956,995</b>	<b>\$ 1,026,904</b>	<b>\$ 69,909</b>

The accompanying notes are an integral part of these financial statements.

# HESPERIA COMMUNITY SCHOOLS

## Statement of Revenues, Expenditures and Change in Fund Balance

Budget and Actual - Food Service Fund

For the Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Local sources:				
Lunch sales	\$ 44,500	\$ 8,258	\$ 10,121	\$ 1,863
Other	29,272	26,085	29,501	3,416
Total local sources	<u>73,772</u>	<u>34,343</u>	<u>39,622</u>	<u>5,279</u>
State sources - State School Aid	<u>24,171</u>	<u>19,874</u>	<u>20,751</u>	<u>877</u>
Federal sources:				
Federal aid received through the State	389,000	403,845	426,743	22,898
USDA donated commodities	30,867	31,494	33,362	1,868
Total federal sources	<u>419,867</u>	<u>435,339</u>	<u>460,105</u>	<u>24,766</u>
Total revenues	517,810	489,556	520,478	30,922
<b>Expenditures</b>				
Current - food services	<u>517,149</u>	<u>497,006</u>	<u>499,063</u>	<u>2,057</u>
Revenues over (under) expenditures	661	(7,450)	21,415	28,865
<b>Other financing uses</b>				
Transfers out	<u>(13,000)</u>	<u>(12,000)</u>	<u>(8,917)</u>	<u>(3,083)</u>
Net change in fund balance	(12,339)	(19,450)	12,498	31,948
Fund balance, beginning of year	<u>98,733</u>	<u>98,733</u>	<u>98,733</u>	<u>-</u>
Fund balance, end of year	<u>\$ 86,394</u>	<u>\$ 79,283</u>	<u>\$ 111,231</u>	<u>\$ 31,948</u>

The accompanying notes are an integral part of these financial statements.

# HESPERIA COMMUNITY SCHOOLS

## Statement of Fiduciary Assets and Liabilities

Agency Fund  
June 30, 2019

Assets	
Cash and cash equivalents	\$ 65,953
Liabilities	
Due to others	\$ 163
Due to student groups	65,790
Total liabilities	\$ 65,953

The accompanying notes are an integral part of these financial statements.



## NOTES TO FINANCIAL STATEMENTS

# HESPERIA COMMUNITY SCHOOLS

## Notes to Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies of Hesperia Community Schools (the “District”), consistently applied in the preparation of the accompanying financial statements, is as follows:

#### The Reporting Entity

As required by generally accepted accounting principles, these financial statements present the reporting entity of Hesperia Community Schools. The criteria identified in GAAP, including financial accountability, have been utilized in identifying the District’s reporting entity which includes no component units.

#### *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 of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended June 30, 2019.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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 who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental and fiduciary funds even though the latter is excluded from the government-wide financial statements.

Major individual governmental funds are reported as separate columns in the fund financial statements.

#### *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The agency fund follows the accrual basis of accounting, but does not have a measurement focus.

# HESPERIA COMMUNITY SCHOOLS

## Notes to Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Property taxes, State aid, expenditure-driven grant revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

*General fund* - This fund is the District's primary operating fund. It accounts for all financial resources not accounted for and reported in another fund.

*Food Service fund* - This fund accounts for the District's food service operations.

Additionally, the District reports the following fund types:

*Debt service funds* are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

*Agency funds* are used to account for resources held on the behalf of other individuals and governments.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. The District had no capital grants and contributions for the year ended June 30, 2019. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes, unrestricted grants and interest income.

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.

The effect of interfund activity has been eliminated from the government-wide financial statements.

# HESPERIA COMMUNITY SCHOOLS

## Notes to Financial Statements

### *Property Taxes*

Property taxes are recognized as revenue in the general and debt service funds on a levy year basis. The 2018 levy amounts are recognized as current property tax revenue to the extent that they are collected during the year or within 60 days after year-end. Collections of delinquent taxes in subsequent years are recognized as property tax revenues in the year collected. Property taxes are levied December 1 on the assessed valuation of property located in the District as of the preceding December 31, the lien date. Assessed values are established annually by the various governmental units within the District and are equalized by the State of Michigan.

### *Cash and Cash Equivalents*

The District considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents.

### *Investments*

Investments consist of participation in an external investment pool. In accordance with GASB 79, the District's shares are recorded at amortized cost, which approximates fair value.

State statutes authorize the District to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

### *Receivables*

The District follows the practice of recording revenues that have been earned but not yet received as receivables. Receivables consist primarily of state aid payments from the State of Michigan and federal grant funds earned but not yet collected. No amounts have been identified as potentially uncollectible by management, and therefore, no amount has been recorded as a provision for bad debts.

# HESPERIA COMMUNITY SCHOOLS

## Notes to Financial Statements

### *Other Assets*

Inventories consist of office supplies and food items. Inventories are stated at cost (first in, first out). Payments to vendors for services that will benefit periods beyond a fund's fiscal year-end are recorded as prepaid items in both the government-wide and fund financial statements.

### *Capital Assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition cost at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the District are depreciated using the straight line method over the following estimated useful lives:

	Years
Buildings and improvements	15-50
Furniture and equipment	5-10
Vehicles	5-20

### *Deferred Outflows of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future periods and will not be recognized as an outflow of resources (expense/expenditure) until then. The District reports deferred outflows for the charge on advance refunding. This amount represents the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The District also reports deferred outflows of resources related to the net pension liability and the net other postemployment benefit liability. A portion of these costs represent contributions to the plan subsequent to the plan measurement date.

### *Salaries Payable and Accrued Employee Benefits*

A liability is recorded at June 30, 2019 for those amounts owed to teachers and other employees of the District who do not work during the summer when school is not in session but have elected to have their salaries paid over an entire year. This has the effect of properly charging their salaries to expenditures in the fiscal year in which their services are received, even though they are not paid until July and August of the following fiscal year.

# HESPERIA COMMUNITY SCHOOLS

## Notes to Financial Statements

The liability for accrued retirement and the employer share of FICA related to the salaries payable has been recorded as has the liability for employee health insurances for the months of July and August. The District pays these insurances for this period as a part of the compensation for services rendered in the preceding school year.

### *Compensated Absences*

It is the District's policy to permit employees to accumulate various earned but unused vacation and sick pay benefits. These accrue when earned in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

### *Deferred Inflows of Resources*

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District reported deferred inflows at June 30, 2019 for amounts related to pension and other postemployment benefit costs in the government-wide statement of net position.

### *Long-term Obligations*

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

In the fund financial statements, governmental fund types recognized bond premiums and discounts, during the current period. The face amount of debt issued is reported as an other financing source. Discounts and premiums on debt issuances are reported as other financing uses and sources, respectively.

### *Fund Equity*

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 resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can only 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 Education. A formal resolution of the Board of Education is required to establish, modify, or rescind a fund balance commitment. The District reports assigned fund balance for amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Assignments are made by the Board of Education and this authority has not been delegated. Unassigned fund balance is the residual classification for the general fund.

# HESPERIA COMMUNITY SCHOOLS

## Notes to Financial Statements

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

### *Interfund Transactions*

During the course of normal operations, the District has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers. The amounts recorded as subsidies or advances are determined by the District. Balances outstanding at year-end are reported as due to/from other funds.

### *Pensions and Other Postemployment Benefits*

For purposes of measuring the net pension and other postemployment benefit liabilities, deferred outflows of resources and deferred inflows of resources related to pension and other postemployment benefits, and pension other postemployment benefits expense, information about the fiduciary net position of the plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. 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.

### *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## 2. ACCOUNTABILITY AND BUDGETARY COMPLIANCE

### *Budgets and Budgetary Accounting*

Budgets are adopted for general and special revenue funds as required by state law and are adopted on a basis consistent with generally accepted accounting principles (GAAP). The District considers the debt service payment schedule to be an adequate budgetary control for the debt service funds. The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the Board a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all governmental funds.

# HESPERIA COMMUNITY SCHOOLS

## Notes to Financial Statements

5. Adoption and amendments of all budgets used by the District are governed by Public Act 621, which was followed for the year ended June 30, 2019. Expenditures may not exceed appropriations at the function code level. The appropriations resolutions are based on the projected expenditures budget of the department heads of the District. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the Board of Education.

### *Excess of Expenditures Over Appropriations*

During the year ended June 30, 2019, the District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	Total Appropriations	Amount of Expenditures	Budget Variance
Food Service			
Current - food services	\$ 497,006	\$ 499,063	\$ 2,057

## 3. STATE OF MICHIGAN SCHOOL AID

The District reports State of Michigan school aid in the fiscal year in which the District is entitled to the revenue as provided by State of Michigan school aid appropriation acts. State funding represented 82% of the District's general fund revenue during the 2019 fiscal year.

## 4. DEPOSITS AND INVESTMENTS

The captions on the financial statements relating to cash and investments are as follows:

	Governmental Activities	Fiduciary Funds	Total
Cash and investments	\$ 722,697	\$ 65,953	\$ 788,650

Cash and investments are comprised of the following at year-end:

Checking and savings accounts	\$ 784,871
Investments	3,679
Cash on hand	100
<b>Total</b>	<b>\$ 788,650</b>

Cash and cash equivalents are comprised of deposits in various financial institutions located in Michigan. State policy limits the District's investing options to financial institutions located in Michigan. All accounts are in the name of the District and a specific fund or common account.

The District chooses to disclose its investments by specifically identifying each. As of year-end, the District had investments in the Michigan Liquid Asset Fund Plus (MILAF+) Max and management series in the amount of \$3,679. Investments in MILAF+ are carried at amortized cost, in accordance with GASB Statements 72 and 79.



# HESPERIA COMMUNITY SCHOOLS

## Notes to Financial Statements

### *Investment and Deposit Risk*

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The MILAF+ investment does not have a stated maturity date.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of District's specific financial institutions, qualified mutual funds, and qualified external investment pools as identified in Note 1 (summary of significant accounting policies). The investment policy does not have specific limits in excess of State law on investment credit risk. The District's investments were rated by Standard and Poors as AAAM as of year-end.

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District minimizes this risk by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors to be in compliance with the requirements set forth in the District's investment policy. As of year-end, \$708,743 of the District's bank balance of \$994,738 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk - Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District minimized this risk by pre-qualifying the financial institutions, brokers/dealers, intermediaries and advisors to be in compliance with the requirements set forth in the District's investment policy. The District is exposed to no custodial credit risk on its investments because they are held in the name of the District.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

## 5. RECEIVABLES AND PAYABLES

Receivables in the government-wide financial statements at June 30, 2019 are as follows:

	Governmental Activities
Accounts	\$ 9,396
Due from other governments	<u>1,591,875</u>
Totals	<u>\$ 1,601,271</u>

# HESPERIA COMMUNITY SCHOOLS

## Notes to Financial Statements

Accounts payable and accrued liabilities in the government-wide financial statements at June 30, 2019 are as follows:

	Governmental Activities
Accounts payable	\$ 220,682
Accrued liabilities	832,929
Interest payable on long-term debt	<u>94,682</u>
<b>Totals</b>	<b><u>\$ 1,148,293</u></b>

## 6. INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS

At June 30, 2018, interfund receivables and payables consisted of the following:

	Due From	Due To
General fund	\$ -	\$ 100,331
Food Service fund	100,331	-
Nonmajor governmental funds	<u>101,070</u>	<u>101,070</u>
	<b><u>\$ 201,401</u></b>	<b><u>\$ 201,401</u></b>

The District often reports interfund balances between many of its funds. These interfund balances result primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfer Out	Transfers In
	General Fund
Food Service fund	<u>\$ 8,917</u>

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

# HESPERIA COMMUNITY SCHOOLS

## Notes to Financial Statements

### 7. CAPITAL ASSETS

A summary of changes in capital assets activity for the year ended June 30, 2019 was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental activities					
Capital assets, not being depreciated:					
Land	\$ 75,012	\$ -	\$ -	\$ -	\$ 75,012
Capital assets, being depreciated:					
Buildings and improvements	19,715,141	46,014	-	-	19,761,155
Furniture and equipment	3,031,139	27,528	(4,307)	-	3,054,360
Vehicles	642,314	5,418	-	-	647,732
	<u>23,388,594</u>	<u>78,960</u>	<u>(4,307)</u>	<u>-</u>	<u>23,463,247</u>
Less accumulated depreciation for:					
Buildings and improvements	(5,493,827)	(357,986)	-	-	(5,851,813)
Furniture and equipment	(1,993,357)	(174,354)	1,762	-	(2,165,949)
Vehicles	(358,743)	(67,562)	-	-	(426,305)
	<u>(7,845,927)</u>	<u>(599,902)</u>	<u>1,762</u>	<u>-</u>	<u>(8,444,067)</u>
Total capital assets being depreciated, net	<u>15,542,667</u>	<u>(520,942)</u>	<u>(2,545)</u>	<u>-</u>	<u>15,019,180</u>
Governmental activities capital assets, net	<u>\$ 15,617,679</u>	<u>\$ (520,942)</u>	<u>\$ (2,545)</u>	<u>\$ -</u>	<u>\$ 15,094,192</u>

Depreciation expense is reported as unallocated in the statement of activities.

### 8. LONG-TERM DEBT

The following is a summary of long-term debt transactions of the District for the year ended June 30, 2019:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental activities					
General obligation bonds	\$ 18,567,402	\$ -	\$ (1,672,402)	\$ 16,895,000	\$ 1,730,000
Notes from direct borrowings and direct placements	301,623	-	(99,811)	201,812	54,884
Total	<u>18,869,025</u>	<u>-</u>	<u>(1,772,213)</u>	<u>17,096,812</u>	<u>1,784,884</u>
Unamortized premiums and discounts	982,634	-	(49,139)	933,495	49,139
School Revolving Loan	2,024,954	1,346,386	-	3,371,340	-
Compensated absences	231,515	-	(22,659)	208,856	75,717
Total governmental activities	<u>\$ 22,108,128</u>	<u>\$ 1,346,386</u>	<u>\$ (1,844,011)</u>	<u>\$ 21,610,503</u>	<u>\$ 1,909,740</u>

# HESPERIA COMMUNITY SCHOOLS

## Notes to Financial Statements

The District's debt consists of the following items:

	Ending Balance	Due Within One Year
2009 refunding bonds due in amounts ranging from \$300,000 to \$335,000 plus interest at 3.75-4.30% through 2025.	\$ 1,875,000	\$ 325,000
2016 school bond loan refunding bonds due in amounts ranging from \$765,000 to \$975,000 plus interest at 1.49-2.53% through 2023.	3,675,000	850,000
2016 refunding bonds due in amounts ranging from \$290,000 to \$355,000 plus interest at 4.00% through 2038.	6,750,000	305,000
2017 refunding bonds due in amounts ranging from \$215,000 to \$290,000 plus interest at 3.00% through 2038.	4,595,000	250,000
2016 IPA installment purchase agreement due in amounts ranging from \$25,487 to \$29,338 plus interest of 2.5% through 2023.	113,083	27,221
2017 computer installment purchase agreement due in amounts ranging from \$27,663 to \$30,564 plus interest of 3.38% through 2022.	88,729	27,663
<b>Total</b>	<b>\$ 17,096,812</b>	<b>\$ 1,784,884</b>

Future principal and interest payment requirements on outstanding general obligation bonds are as follows:

Year Ended June 30,	Principal	Interest	Total
2020	\$ 1,730,000	\$ 543,370	\$ 2,273,370
2021	1,815,564	493,699	2,309,263
2022	1,814,436	437,748	2,252,184
2023	1,885,000	348,844	2,233,844
2024	920,000	314,875	1,234,875
2025-2029	3,405,000	1,239,175	4,644,175
2030-2034	3,015,000	687,400	3,702,400
2035-2038	2,310,000	166,350	2,476,350
<b>Totals</b>	<b>\$ 16,895,000</b>	<b>\$ 4,231,461</b>	<b>\$ 21,126,461</b>

# HESPERIA COMMUNITY SCHOOLS

## Notes to Financial Statements

Future principal and interest payment requirements on notes from direct borrowings and direct placements are as follows:

Year Ended June 30,	Principal	Interest	Total
2020	\$ 54,884	\$ 5,526	\$ 60,410
2021	57,475	3,730	61,205
2022	59,179	2,155	61,334
2023	30,274	399	30,673
Totals	<u>\$ 201,812</u>	<u>\$ 11,810</u>	<u>\$ 213,622</u>

The State of Michigan school loan funds represent amounts borrowed from the State of Michigan school bond loan program to supplement property tax revenue for making payments on the District's general obligation bonds. Although interest accrues each year, no payment is due until such time as the District's property tax revenue is sufficient to support the debt service requirements on the general obligation bonds. Changes to the school loan funds for the year ended June 30, 2019, are as follows:

	School Loan Revolving Fund		
	Principal	Interest	Total
Beginning balance	\$ 2,024,954	\$ -	\$ 2,024,954
Additions	1,267,624	78,762	1,346,386
Deductions	-	-	-
Ending balance	<u>\$ 3,292,578</u>	<u>\$ 78,762</u>	<u>\$ 3,371,340</u>

Compensated absences are expected to be liquidated by the general and food service funds.

Bond issuances are expected to be liquidated by the debt service funds while QZAB bonds and installment purchase agreements are expected to be liquidated by the general fund.

On July 11, 2018, the District received proceeds of a State Aid Anticipation Note in the amount of \$1,800,000 which was repaid in full prior to year-end. The interest rate at June 30, 2018 was 2.39%.

	Beginning Balance	Additions	Deletions	Ending Balance
Note payable	\$ -	\$ 1,800,000	\$ (1,800,000)	\$ -

# HESPERIA COMMUNITY SCHOOLS

## Notes to Financial Statements

### 9. PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS

#### *Plan Description*

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

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

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

The System's financial statements are available at the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

#### *Pension 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 for are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.50%. 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 member 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.

# HESPERIA COMMUNITY SCHOOLS

## Notes to Financial Statements

Participants in the defined contribution plan consist of one of the following: (1) members who worked for a Michigan public school on or after September 4, 2012 and elected to be enrolled in the defined contribution plan; (2) members who elected to transfer from the defined benefit plan to the defined contribution plan under the reform (P.A. 300) of 2012; or (3) members who worked for a Michigan public school on or after February 1, 2018 and did not elect participation in the Pension Plus 2 plan. Members who worked for a Michigan public school on or after September 4, 2012 and elected to be enrolled in the defined contribution plan receive a 100% match of the member contribution rate up to a maximum of 3% based on the member's gross earnings. Additionally, there is a mandatory employer contribution of 4% of the member's gross earnings for MPSERS members who elected to convert from a Basic or MIP benefit plan to the defined contribution benefit plan. Members electing the Pension Plus or Pension Plus 2 benefit plan receive a 50% match of the member's contribution percent up to a maximum of 1% based on the member's gross earnings. Effective October 1, 2017, there is a mandatory employer contribution of 4% of the member's gross earnings for members who elect the Defined Contribution benefit plan. The employer must match 100% of the employee contribution for any member who elected the Personal Healthcare Fund up to a maximum of 2% of the member's gross earnings. For all members with a Personal Health Care Fund (PHF), the first 2% of DC contributions must go into the PHF and must be matched 100% by the employer.

### *Other Postemployment Benefits Provided*

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

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

# HESPERIA COMMUNITY SCHOOLS

## Notes to Financial Statements

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 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, 2017 valuation will be amortized over a 21-year period beginning October 1, 2017 and ending September 30, 2038.

The table below summarizes pension contribution rates in effect for fiscal year 2019:

Benefit Structure	Member Rates	Employer Rates
Basic	0.00% - 4.00%	17.89% - 18.25%
Member Investment Plan (MIP)	3.00% - 7.00%	17.89% - 18.25%
Pension Plus	3.00% - 6.40%	16.46% - 16.61%
Pension Plus 2	6.20%	19.59% - 19.74%
Defined Contribution	0.00%	13.39% - 13.54%

For the year ended June 30, 2019, required and actual contributions from the District to the pension plan were \$1,476,149, which included \$619,714, the amount received from the State and remitted to the System to fund the MPSERS unfunded actuarial accrued liability ("UAAL") stabilization rate.

The table below summarizes OPEB contribution rates in effect for fiscal year 2019:

Benefit Structure	Member Rates	Employer Rates
Premium Subsidy	3.00%	7.67% - 7.93%
Personal Healthcare Fund (PHF)	0.00%	7.42% - 7.57%

For the year ended June 30, 2019, required and actual contributions from the District to the OPEB plan were \$377,610.



# HESPERIA COMMUNITY SCHOOLS

## Notes to Financial Statements

The table below summarizes defined contribution rates in effect for fiscal year 2019:

Benefit Structure	Member Rates	Employer Rates
Defined Contribution	0.00% - 3.00%	0.00% - 7.00%
Personal Healthcare Fund (PHF)	0.00% - 2.00%	0.00% - 2.00%

For the year ended June 30, 2019, required and actual contributions from the District for those members with a defined contribution benefit were \$28,128.

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

At June 30, 2019, the District reported a liability of \$17,139,865 for its proportionate share of the MPERS net pension liability. The net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2017. 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, 2018, the District's proportion was 0.05702%, which was a decrease of 0.00099% from its proportion measured as of September 30, 2017.

For the year ended June 30, 2019, the District recognized pension expense of \$1,965,585. At June 30, 2019, 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 expected and actual experience	\$ 79,532	\$ 124,552	\$ (45,020)
Changes in assumptions	3,969,579	-	3,969,579
Net difference between projected and actual earnings on pension plan investments	-	1,171,931	(1,171,931)
Changes in proportion and differences between employer contributions and proportionate share of contributions	16,877	421,399	(404,522)
	<u>4,065,988</u>	<u>1,717,882</u>	<u>2,348,106</u>
District contributions subsequent to the measurement date	1,397,699	-	1,397,699
Total	<u>\$ 5,463,687</u>	<u>\$ 1,717,882</u>	<u>\$ 3,745,805</u>

# HESPERIA COMMUNITY SCHOOLS

## Notes to Financial Statements

The \$1,397,699 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2020	\$ 933,096
2021	695,877
2022	516,377
2023	<u>202,756</u>
Total	<u>\$ 2,348,106</u>

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

At June 30, 2019, the District reported a liability of \$4,471,672 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2017. The District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2018, the District's proportion was 0.05625% which was a decrease of 0.00197% from its proportion measured as of September 30, 2017.

For the year ended June 30, 2019, the District recognized OPEB expense of \$185,944. At June 30, 2019, 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 expected and actual experience	\$ -	\$ 832,293	\$ (832,293)
Changes in assumptions	473,552	-	473,552
Net difference between projected and actual earnings on OPEB plan investments	-	171,857	(171,857)
Changes in proportion and differences between employer contributions and proportionate share of contributions	168	149,028	(148,860)
	<u>473,720</u>	<u>1,153,178</u>	<u>(679,458)</u>
District contributions subsequent to the measurement date	342,528	-	342,528
Total	<u>\$ 816,248</u>	<u>\$ 1,153,178</u>	<u>\$ (336,930)</u>

# HESPERIA COMMUNITY SCHOOLS

## Notes to Financial Statements

The \$342,528 reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2020	\$ (163,373)
2021	(163,373)
2022	(163,373)
2023	(128,323)
2024	<u>(61,016)</u>
Total	<u>\$ (679,458)</u>

### 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. The total pension and OPEB liabilities in the September 30, 2017 actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age, normal
Wage inflation rate	2.75%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	7.05%
Pension Plus plan (hybrid)	7.00%
Pension Plus 2 plan (hybrid)	6.00%
OPEB plans	7.15%
Projected salary increases	2.75% - 11.55%, including wage inflation at 2.75%
Cost of living adjustments	3% annual non-compounded for MIP members
Healthcare cost trend rate	7.5% Year 1 graded to 3.0% Year 12
Mortality	RP-2014 Male and Female Healthy Annuitant Mortality Tables, adjusted for mortality improvements using projection scale MP-2017 from 2006. For retirees, the tables were scaled by 82% for males and 78% for females. For active members, 100% of the table rates were used for both males and females
Other OPEB assumptions:	
Opt out assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan
Survivor coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death

# HESPERIA COMMUNITY SCHOOLS

## Notes to Financial Statements

Coverage election at retirement 75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2017 valuation. The total pension liability as of September 30, 2018, is based on the results of an actuarial valuation date of September 30, 2017, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 4.5304 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 5.6018 years which is the average of the expected remaining service lives of all employees. The recognition period for assets is 5 years.

### *Long-term Expected Return on Plan Assets*

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2018, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00%	5.70%	1.60%
Alternative investment pools	18.00%	9.20%	1.66%
International equity	16.00%	7.20%	1.15%
Fixed income pools	10.50%	0.50%	0.05%
Real estate and infrastructure pools	10.00%	3.90%	0.39%
Absolute return pools	15.50%	5.20%	0.81%
Short-term investment pools	2.00%	0.00%	0.00%
	<u>100.00%</u>		5.66%
Inflation			2.30%
Risk adjustment			<u>-0.91%</u>
Investment rate of return			<u>7.05%</u>

# HESPERIA COMMUNITY SCHOOLS

## Notes to Financial Statements

### *Long-term Expected Return on OPEB 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, 2018, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00%	5.70%	1.60%
Private equity pools	18.00%	9.20%	1.66%
International equity	16.00%	7.20%	1.15%
Fixed income pools	10.50%	0.50%	0.05%
Real estate and infrastructure pools	10.00%	3.90%	0.39%
Absolute return pools	15.50%	5.20%	0.81%
Short-term investment pools	2.00%	0.00%	0.00%
	100.00%		5.66%
Inflation			2.30%
Risk adjustment			-0.81%
Investment rate of return			7.15%

### *Discount Rate*

A discount rate of 7.05% was used to measure the total pension liability (7.0% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan, both of which are hybrid plans provided through non-university employers only) and a discount rate of 7.15% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on pension and OPEB plan investments of 7.05% (7.0% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan) and 7.15%, respectively. The projection of cash flows used to determine these discount rates 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 and 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 pension and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liabilities.

# HESPERIA COMMUNITY SCHOOLS

## Notes to Financial Statements

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.05% (7.00% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan), as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

	1% Decrease (6.05% / 6.00% / 5.00%)	Current Discount Rate (7.05% / 7.00% / 6.00%)	1% Increase (8.05% / 8.00% / 7.00%)
District's proportionate share of the net pension liability	\$ 22,503,318	\$ 17,139,865	\$ 12,683,706

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

The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of 7.15%, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
District's proportionate share of the net OPEB liability	\$ 5,368,152	\$ 4,471,672	\$ 3,717,624

### *Sensitivity of District's Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate*

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

	1% Decrease (6.50%)	Current Healthcare Cost Trend Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net OPEB liability	\$ 3,677,901	\$ 4,471,672	\$ 5,382,290

### *Pension and OPEB Plans Fiduciary Net Position*

Detailed information about the pension and OPEB plan's fiduciary net position is available in the separately issued MPSERS financial statements available on the State of Michigan Office of Retirement Services website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

# HESPERIA COMMUNITY SCHOOLS

## Notes to Financial Statements

### *Payable to the Pension Plan*

At June 30, 2019, the District reported a payable of \$210,795 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2019.

### *Payable to the OPEB Plan*

At June 30, 2019, the District reported a payable of \$40,679 for the outstanding amount of OPEB contributions to the Plan required for the year ended June 30, 2019.

## 10. FUND BALANCES - GOVERNMENTAL FUNDS

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the District classifies fund balances based primarily on the extent to which it is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Detailed information on fund balances of governmental funds is as follows:

	General Fund	Food Service Fund	Nonmajor Governmental Funds	Total
Nonspendable				
Inventory	\$ 36,142	\$ 3,673	\$ -	\$ 39,815
Restricted				
Debt service	-	-	144,161	144,161
Food service program	-	107,558	-	107,558
	-	107,558	144,161	251,719
Unassigned	990,762		-	990,762
Total fund balances - governmental funds	\$ 1,026,904	\$ 111,231	\$ 144,161	\$ 1,282,296

## 11. NET INVESTMENT IN CAPITAL ASSETS

The composition of the District's net investment in capital assets as of June 30, 2019, was as follows:

	Governmental Activities
Capital assets:	
Capital assets not being depreciated	\$ 75,012
Capital assets being depreciated, net	15,019,180
	<u>15,094,192</u>
Related debt:	
Installment debt	17,096,812
Premiums/discounts on bonds payable, net	933,495
Deferred charge on advance bond refundings, net	(661,977)
	<u>17,368,330</u>
Net investment in capital assets	<u>\$ (2,274,138)</u>

# HESPERIA COMMUNITY SCHOOLS

## Notes to Financial Statements

### 12. CONTINGENCIES

#### *Federal Grant Programs*

The District participates in federally assisted grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District expects such amounts, if any, not to be material.

#### *Risk Management*

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2019, the District carried commercial insurance and participated in a public entity risk pool. The District has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

### 13. OPERATING LEASE

The District leases nine buses under an operating lease. Operating lease expense for the year ended June 30, 2019 was \$84,973. Future minimum operating lease payments on noncancelable lease terms having initial or remaining lease terms of one year or more are as follows for the years subsequent to June 30, 2019:

Year Ending June 30,	Amount
2020	\$ 87,191
2021	<u>416,012</u>
Total	<u>\$ 503,203</u>

### 14. RELATED PARTIES

During the year ended June 30, 2019, a member of the Board of Education owns a hardware store that the District uses for supplies. Expenditures incurred with this vendor were \$9,573 for the year ended June 30, 2019.

### 15. SUBSEQUENT EVENT

On July 11, 2019, the District received proceeds of \$1,975,000 from a State of Michigan School Aid anticipation note maturing on June 30, 2020. The note has an interest rate of 2.1%.





## REQUIRED SUPPLEMENTARY INFORMATION

# HESPERIA COMMUNITY SCHOOLS

## Required Supplementary Information MPSERS Cost-Sharing Multiple-Employer Plan

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

	Year Ended June 30,				
	2015	2016	2017	2018	2019
District's proportion of the net pension liability	\$ 13,430,779	\$ 14,732,690	\$ 14,492,483	\$ 15,031,701	\$ 17,139,865
District's proportionate share of the net pension liability	0.06098000%	0.06031801%	0.05808801%	0.05800554%	0.05701542%
District's covered payroll	\$ 5,101,036	\$ 4,827,765	\$ 4,885,092	\$ 4,905,524	\$ 4,775,495
District's proportionate share of the net pension liability as a percentage of its covered payroll	263.30%	305.17%	296.67%	306.42%	358.91%
Plan fiduciary net position as a percentage of the total pension liability	66.20%	63.17%	63.27%	64.21%	62.36%

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

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

## HESPERIA COMMUNITY SCHOOLS

### Required Supplementary Information MPSERS Cost-Sharing Multiple-Employer Plan

#### Schedule of District Pension Contributions

	Year Ended June 30,				
	2015	2016	2017	2018	2019
Statutorily required contribution	\$ 1,289,645	\$ 1,163,613	\$ 1,304,396	\$ 1,498,043	\$ 1,476,149
Contributions in relation to the statutorily required contribution	<u>(1,289,645)</u>	<u>(1,231,423)</u>	<u>(1,673,635)</u>	<u>(1,498,043)</u>	<u>(1,476,149)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (67,810)</u>	<u>\$ (369,239)</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 5,101,036	\$ 4,827,765	\$ 4,885,092	\$ 4,769,706	\$ 4,825,335
Contributions as a percentage of covered payroll	25.28%	25.51%	34.26%	31.41%	30.59%

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

# HESPERIA COMMUNITY SCHOOLS

## Required Supplementary Information MPSERS Cost-Sharing Multiple-Employer Plan

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

	Year Ended June 30,	
	2018	2019
District's proportion of the net OPEB liability	\$ 5,156,123	\$ 4,471,672
District's proportionate share of the net OPEB liability	0.05822528%	0.05625487%
District's covered payroll	\$ 4,905,524	\$ 4,775,495
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	105.11%	93.64%
Plan fiduciary net position as a percentage of the total OPEB liability	36.39%	42.95%

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

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

# HESPERIA COMMUNITY SCHOOLS

## Required Supplementary Information MPSERS Cost-Sharing Multiple-Employer Plan

### Schedule of District OPEB Contributions

	Year Ended June 30,	
	2018	2019
Statutorily required contribution	\$ 356,670	\$ 377,610
Contributions in relation to the statutorily required contribution	<u>(356,670)</u>	<u>(377,610)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 4,769,706	\$ 4,825,335
Contributions as a percentage of covered payroll	7.48%	7.83%

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

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**COMBINING AND INDIVIDUAL FUND  
FINANCIAL STATEMENTS AND SCHEDULES**

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## GENERAL FUND

# HESPERIA COMMUNITY SCHOOLS

## Detail Schedule of Revenues, Expenditures and Change in Fund Balance Budget and Actual - By Activity - General Fund For the Year Ended June 30, 2019

	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>			
Local sources:			
Property taxes	\$ 893,386	\$ 893,413	\$ 27
Contributions from private sources	138,562	135,731	(2,831)
Earnings on investments	2,800	3,371	571
Transportation	11,280	15,823	4,543
Athletics	41,200	43,351	2,151
Other	43,111	43,242	131
<b>Total local sources</b>	<b>1,130,339</b>	<b>1,134,931</b>	<b>4,592</b>
Interdistrict sources:			
ISD	101,202	94,411	(6,791)
GSRP reimbursements	15,000	15,000	-
<b>Total interdistrict sources</b>	<b>116,202</b>	<b>109,411</b>	<b>(6,791)</b>
State sources:			
State aid - unrestricted	6,343,225	6,343,229	4
Special education	327,844	327,845	1
At risk	519,593	498,496	(21,097)
Early Literacy	15,057	15,057	-
Computer Adaptive Tests	6,476	6,476	-
MPSERS	676,927	676,927	-
MPSERS offset	66,906	66,906	-
Other	48,770	31,552	(17,218)
<b>Total state sources</b>	<b>8,004,798</b>	<b>7,966,488</b>	<b>(38,310)</b>
Federal sources:			
IDEA	142,356	117,706	(24,650)
Title I A	292,399	276,682	(15,717)
Title IV A	72,930	47,188	(25,742)
Title II A	18,220	15,920	(2,300)
Title VI B	19,084	15,810	(3,274)
Schools and roads	3,862	8,173	4,311
<b>Total federal sources</b>	<b>548,851</b>	<b>481,479</b>	<b>(67,372)</b>
<b>Total revenues</b>	<b>9,800,190</b>	<b>9,692,309</b>	<b>(107,881)</b>

continued...

# HESPERIA COMMUNITY SCHOOLS

## Detail Schedule of Revenues, Expenditures and Change in Fund Balance Budget and Actual - By Activity - General Fund For the Year Ended June 30, 2019

	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Expenditures</b>			
Instruction:			
Basic programs:			
Elementary	\$ 2,582,005	\$ 2,581,248	\$ (757)
Middle school	1,045,918	1,045,601	(317)
High school	1,244,812	1,244,648	(164)
Total basic programs	<u>4,872,735</u>	<u>4,871,497</u>	<u>(1,238)</u>
Added needs:			
Special education	1,053,873	1,047,836	(6,037)
Compensatory education	769,979	727,760	(42,219)
Total added needs	<u>1,823,852</u>	<u>1,775,596</u>	<u>(48,256)</u>
Total instruction	<u>6,696,587</u>	<u>6,647,093</u>	<u>(49,494)</u>
Supporting services:			
Pupil services:			
Guidance services	152,633	151,904	(729)
Health services	39,900	37,870	(2,030)
Social work services	76,650	76,192	(458)
Total pupil services	<u>269,183</u>	<u>265,966</u>	<u>(3,217)</u>
Instructional staff:			
Improvement of instruction	81,209	47,139	(34,070)
Educational media services	30,232	29,052	(1,180)
Supervision and direction of instruction	26,612	24,635	(1,977)
Total instructional staff	<u>138,053</u>	<u>100,826</u>	<u>(37,227)</u>
General administration:			
Board of Education	53,855	50,170	(3,685)
Executive administration	201,249	194,498	(6,751)
Principal's office	365,752	356,582	(9,170)
School administration	1,300	1,125	(175)
Total general administration	<u>622,156</u>	<u>602,375</u>	<u>(19,781)</u>

continued...

# HESPERIA COMMUNITY SCHOOLS

## Detail Schedule of Revenues, Expenditures and Change in Fund Balance Budget and Actual - By Activity - General Fund For the Year Ended June 30, 2019

	Final Budget	Actual	Actual Over (Under) Final Budget
Expenditures (continued)			
Supporting services (concluded):			
Business services:			
Fiscal services	\$ 213,546	\$ 213,511	\$ (35)
Other business services	114,177	114,122	(55)
Total business services	<u>327,723</u>	<u>327,633</u>	<u>(90)</u>
Operation and maintenance:			
Operating and buildings services	596,222	578,745	(17,477)
Security services	50,205	32,803	(17,402)
Total operation and maintenance	<u>646,427</u>	<u>611,548</u>	<u>(34,879)</u>
Transportation	<u>565,076</u>	<u>548,119</u>	<u>(16,957)</u>
Information management:			
Staff/personnel services	2,004	1,632	(372)
Information management services	163,845	149,217	(14,628)
Other central services	29,348	29,347	(1)
Total operation and maintenance	<u>195,197</u>	<u>180,196</u>	<u>(15,001)</u>
Athletics	<u>228,760</u>	<u>227,021</u>	<u>(1,739)</u>
Total supporting services	<u>2,992,575</u>	<u>2,863,684</u>	<u>(128,891)</u>
Community services:			
Community recreation	1,142	-	(1,142)
Community activities	2,000	1,231	(769)
Other community services	118,329	118,314	(15)
Total community services	<u>121,471</u>	<u>119,545</u>	<u>(1,926)</u>
Debt service:			
Principal	<u>117,213</u>	<u>117,213</u>	<u>-</u>
Capital outlay	<u>562</u>	<u>-</u>	<u>(562)</u>
Total expenditures	<u>9,928,408</u>	<u>9,747,535</u>	<u>(180,873)</u>
Revenues over (under) expenditures	<u>(128,218)</u>	<u>(55,226)</u>	<u>72,992</u>

continued...

# HESPERIA COMMUNITY SCHOOLS

**Detail Schedule of Revenues, Expenditures and Change in Fund Balance**  
 Budget and Actual - By Activity - General Fund  
 For the Year Ended June 30, 2019

	Final Budget	Actual	Actual Over (Under) Final Budget
Other financing sources			
Transfers in	\$ 12,000	\$ 8,917	\$ (3,083)
Net change in fund balances	(116,218)	(46,309)	69,909
Fund balances, beginning of year	1,073,213	1,073,213	-
Fund balances, end of year	<u>\$ 956,995</u>	<u>\$ 1,026,904</u>	<u>\$ 69,909</u>

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## NONMAJOR GOVERNMENTAL FUNDS

# HESPERIA COMMUNITY SCHOOLS

## Combining Balance Sheet Nonmajor Governmental Funds June 30, 2019

	Debt Service		
	2017B Refunding	2016B Refunding	2016 Refunding
<b>Assets</b>			
Cash and investments	\$ 1,311	\$ 4,725	\$ 6,966
Due from other funds	5,847	30,906	50,952
<b>Total assets</b>	<u>\$ 7,158</u>	<u>\$ 35,631</u>	<u>\$ 57,918</u>
<b>Liabilities</b>			
Due to other funds	\$ -	\$ -	\$ -
<b>Fund balances</b>			
Restricted	7,158	35,631	57,918
<b>Total liabilities and fund balances</b>	<u>\$ 7,158</u>	<u>\$ 35,631</u>	<u>\$ 57,918</u>





Debt Service		
2009 Refunding	2009 Bonds	Total
\$ 127,742	\$ 3,417	\$ 144,161
-	13,365	101,070
<u>\$ 127,742</u>	<u>\$ 16,782</u>	<u>\$ 245,231</u>
\$ 101,070	\$ -	\$ 101,070
<u>26,672</u>	<u>16,782</u>	<u>144,161</u>
<u>\$ 127,742</u>	<u>\$ 16,782</u>	<u>\$ 245,231</u>

## HESPERIA COMMUNITY SCHOOLS

### Combining Statement of Revenues, Expenditures and Change in Fund Balances

Nonmajor Governmental Funds

For the Year Ended June 30, 2019

	Debt Service		
	2017B Refunding	2016B Refunding	2016 Refunding
Revenues			
Local sources	\$ 48,085	\$ 254,140	\$ 419,097
Expenditures			
Debt service:			
Principal	-	290,000	825,000
Interest	137,850	281,600	96,536
Agent fees and other	500	-	500
Total expenditures	138,350	571,600	922,036
Revenues under expenditures	(90,265)	(317,460)	(502,939)
Other financing sources			
Issuance of long-term debt	86,378	326,951	515,209
Net change in fund balances	(3,887)	9,491	12,270
Fund balances, beginning of year	11,045	26,140	45,648
Fund balances, end of year	\$ 7,158	\$ 35,631	\$ 57,918



Debt Service		
2009 Refunding	2009 Bonds	Total
\$ 199,366	\$ 109,908	\$ 1,030,596
325,000	215,000	1,655,000
90,686	7,525	614,197
152	149	1,301
415,838	222,674	2,270,498
(216,472)	(112,766)	(1,239,902)
218,055	121,031	1,267,624
1,583	8,265	27,722
25,089	8,517	116,439
\$ 26,672	\$ 16,782	\$ 144,161

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## AGENCY FUND

# HESPERIA COMMUNITY SCHOOLS

## Statement of Fiduciary Assets and Liabilities

Agency Fund  
June 30, 2019

	Student Activities
<b>Assets</b>	
Cash and cash equivalents	<u>\$ 65,953</u>
<b>Liabilities</b>	
Due to others	\$ 163
Due to student groups	<u>65,790</u>
<b>Total liabilities</b>	<u>\$ 65,953</u>

# HESPERIA COMMUNITY SCHOOLS

## Statement of Changes in Fiduciary Assets and Liabilities

Agency Fund

For the Year Ended June 30, 2019

	Beginning Balance	Additions	Deductions	Ending Balance
<b>Assets</b>				
Cash and cash equivalents	\$ 62,843	\$ 270,914	\$ 267,804	\$ 65,953
<b>Liabilities</b>				
Due to others	\$ 207	\$ -	\$ 44	\$ 163
Due to student groups	62,636	289,306	286,152	65,790
<b>Total liabilities</b>	<b>\$ 62,843</b>	<b>\$ 289,306</b>	<b>\$ 286,196</b>	<b>\$ 65,953</b>

Hesperia  
Community  
Schools



Year Ended  
June 30, 2019

Single Audit Act  
Compliance



# HESPERIA COMMUNITY SCHOOLS

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INDEPENDENT AUDITORS' REPORT ON THE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REQUIRED BY THE UNIFORM GUIDANCE

September 9, 2019

Board of Education  
Hesperia Community Schools  
Hesperia, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Hesperia Community Schools* (the "District") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated September 9, 2019 which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is 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 other 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Rehmann Robson LLC*

# HESPERIA COMMUNITY SCHOOLS

## Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2019

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Grant Award Amount
<b>U.S. Department of Agriculture</b>				
Child Nutrition Cluster:				
National School Lunch - Breakfast	10.553	MDE	181970	\$ 134,391
National School Lunch - Breakfast	10.553	MDE	191970	111,510
National School Lunch Section 11 Free and Reduced	10.555	MDE	181960	261,127
National School Lunch Section 11 Free and Reduced	10.555	MDE	191960	259,750
Entitlement Commodities (non-cash)	10.555	MDE	-n/a-	33,362
Total Child Nutrition Cluster				
Forest Service Schools and Roads Cluster:				
School and Roads - Basic Grants to States	10.665	NC	n/a	8,173
Total U.S. Department of Agriculture				
<b>U.S. Department of Education</b>				
Title I, Part A	84.010	MDE	181530-1718	283,614
Title I, Part A	84.010	MDE	191530-1819	292,399
Special Education Cluster:				
IDEA	84.027A	NCRESA	180450/1718	140,130
IDEA	84.027A	NCRESA	180450/1819	142,356
Title V, Part B	84.358	MDE	180660-1718	21,122
Title V, Part B	84.358	MDE	190660-1819	19,084
Title II, Part A	84.367	MDE	180520-1718	59,546
Title II, Part A	84.367	MDE	190520-1819	72,930
Title IV, Part A	84.424	MDE	180750-1718	10,000
Title IV, Part A	84.424	MDE	190750-1819	18,220
Total U.S. Department of Education				
Total Federal Financial Assistance				

See notes to schedule of expenditures of federal awards.

Accrued (Unearned) Revenue June 30, 2018	Current Year Cash Received	Expenditures (Memo Only) Prior Years	Expenditures Year Ended June 30, 2019	Accrued (Unearned) Revenue June 30, 2019
\$ -	\$ 17,973	\$ 116,418	\$ 17,973	\$ -
-	106,999	-	111,510	4,511
-	<u>124,972</u>	<u>116,418</u>	<u>129,483</u>	<u>4,511</u>
-	37,510	223,617	37,510	-
-	250,986	-	259,750	8,764
-	33,362	-	33,362	-
-	<u>321,858</u>	<u>223,617</u>	<u>330,622</u>	<u>8,764</u>
-	446,830	340,035	460,105	13,275
-	8,173	-	8,173	13,275
-	<u>455,003</u>	<u>340,035</u>	<u>468,278</u>	<u>26,550</u>
66,912	66,912	281,250	-	-
-	186,200	-	276,682	90,482
<u>66,912</u>	<u>253,112</u>	<u>281,250</u>	<u>276,682</u>	<u>90,482</u>
72,171	72,171	140,130	-	-
-	117,706	-	117,706	-
<u>72,171</u>	<u>189,877</u>	<u>140,130</u>	<u>117,706</u>	<u>-</u>
1,761	1,761	20,384	-	-
-	12,800	-	15,810	3,010
<u>1,761</u>	<u>14,561</u>	<u>20,384</u>	<u>15,810</u>	<u>3,010</u>
3,091	3,091	51,991	-	-
-	41,266	-	47,188	5,922
<u>3,091</u>	<u>44,357</u>	<u>51,991</u>	<u>47,188</u>	<u>5,922</u>
2,837	2,837	9,865	-	-
-	8,782	-	15,920	7,138
<u>2,837</u>	<u>11,619</u>	<u>9,865</u>	<u>15,920</u>	<u>7,138</u>
146,772	513,526	503,620	473,306	106,552
<u>\$ 146,772</u>	<u>\$ 968,529</u>	<u>\$ 843,655</u>	<u>\$ 941,584</u>	<u>\$ 133,102</u>

# HESPERIA COMMUNITY SCHOOLS

## Notes to Schedule of Expenditures of Federal Awards

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Hesperia Community Schools (the "District") under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is described in Note 1 to the District's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been incurred and all grant requirements have been met.

The Schedule has been arranged to provide information on both actual cash received and the revenue recognized. Accordingly, the effects of accruals of accounts receivable, unearned revenue and accounts payable items at both the beginning and end of the fiscal year have been reported.

Expenditures are in agreement with amounts reported in the financial statements and the financial reports. The amounts reported on the Grant Auditor Report reconcile with this Schedule.

### 2. 10% DE MINIMIS COST RATE

For purposes of charging indirect costs to federal awards, the District has not elected to use the 10% de minimis cost rate as permitted by §200.414 of the Uniform Guidance.

### 3. PASS-THROUGH AGENCIES

The District receives certain federal grants as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the Schedule with an abbreviation, defined as follows:

Pass-through Agency Abbreviation	Pass-through Agency Name
MDE	Michigan Department of Education
NCRESA	Newaygo County RESA
NC	Newaygo County



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*

September 9, 2019

Board of Education  
Hesperia Community Schools  
Hesperia, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Hesperia Community Schools* (the "District"), as of and for the year ended June 30, 2019, 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 9, 2019.

#### 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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## 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 District'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.

*Rehmann Lobson LLC*

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

September 9, 2019

Board of Education  
Hesperia Community Schools  
Hesperia, Michigan

**Report on Compliance for Each Major Federal Program**

We have audited the compliance of *Hesperia Community Schools* (the "District") with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on the District's major federal program for the year ended June 30, 2019. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

*Management's Responsibility*

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

*Independent Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for the District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the District's compliance.



### *Opinion on Each Major Federal Program*

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

### **Report on Internal Control Over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### *Purpose of this Report*

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



# HESPERIA COMMUNITY SCHOOLS

## Schedule of Findings and Questioned Costs For the Year Ended June 30, 2019

### SECTION I - SUMMARY OF AUDITORS' RESULTS

#### Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ yes  X  no

Significant deficiency(ies) identified? \_\_\_\_\_ yes  X  none reported

Noncompliance material to financial statements noted? \_\_\_\_\_ yes  X  no

#### Federal Awards

Internal control over major programs:

Material weakness(es) identified? \_\_\_\_\_ yes  X  no

Significant deficiency(ies) identified? \_\_\_\_\_ yes  X  none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? \_\_\_\_\_ yes  X  no

Identification of major programs:

#### CFDA Number

#### Name of Federal Program or Cluster

10.553 and 10.555

Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

\_\_\_\_\_ yes  X  no

# HESPERIA COMMUNITY SCHOOLS

## Schedule of Findings and Questioned Costs For the Year Ended June 30, 2019

### SECTION II - FINANCIAL STATEMENT FINDINGS

None noted.

# HESPERIA COMMUNITY SCHOOLS

## Schedule of Findings and Questioned Costs For the Year Ended June 30, 2019

### SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

# HESPERIA COMMUNITY SCHOOLS

## ■ Summary Schedule of Prior Audit Findings For the Year Ended June 30, 2019

### 2018-001 - Audit Adjustments and Preparation of Financial Statements in Accordance with GAAP

During our audit, material audit adjustments were proposed to record bond issuance costs, issuance of long-term debt, deferred loss on refunding, premium on refunding, and payment to escrow agent. In addition, a prior period adjustment was proposed to restate the governmental activities in regards to the 2016 bond refunding. This matter has been corrected during the current year.

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**INDEPENDENT AUDITORS' COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

September 9, 2019

Board of Education  
Hesperia Community Schools  
Hesperia, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Hesperia Community Schools* (the "District") as of and for the year ended June 30, 2019, and have issued our report thereon dated September 9, 2019. Professional standards require that we advise you of the following matters relating to our audit.

**Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our engagement letter dated July 25, 2019, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding internal control over financial reporting and compliance noted during our audit in a separate letter to you dated September 9, 2019. In addition, we noted a certain other matter which is included in Attachment A to this letter.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and in our meeting about planning matters on August 14, 2019.

**Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, as appropriate, and our firm has complied with all relevant ethical requirements regarding independence.

## Qualitative Aspects of the District's Significant Accounting Practices

### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in Note 1 to the financial statements.

There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during the year.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units. In addition, the financial statements include net pension and other postemployment benefit liabilities and other related amounts, which are dependent on estimates made by the plan. These estimates are based on historical trends and industry standards, but are not within the control of management.

## Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

## Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. We did not identify any misstatements during our audit.

### Disagreements with Management

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

### Representations Requested from Management

We have requested certain written representations from management, which are included in Attachment C to this letter.

### Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

### Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the District's auditors.

### Other Information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is 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 is fairly stated, in all material respects, in relation to the financial statements as a whole. We made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

### Upcoming Changes in Accounting Standards

Generally accepted accounting principles (GAAP) are continually changing in order to promote the usability and enhance the applicability of information included in external financial reporting. While it would not be practical to include an in-depth discussion of every upcoming change in professional standards, Attachment B to this letter contains a brief overview of recent pronouncements of the Governmental Accounting Standards Board (GASB) and their related effective dates. Management is responsible for reviewing these standards, determining their applicability, and implementing them in future accounting periods.



This information is intended solely for the use of the governing body and management of Hesperia Community Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Rehmann Johnson LLC". The signature is written in a cursive style with a large, prominent 'R' at the beginning.

# HESPERIA COMMUNITY SCHOOLS

## ■ Attachment A - Comments and Recommendations For the June 30, 2019 Audit

During our audit, we became aware of a certain other matter that is an opportunity for strengthening internal control and/or improving operating efficiency. This memorandum summarizes our comment and recommendation regarding this matter. Our consideration of the District's internal control over financial reporting is described in our report, dated September 9, 2019, issued in accordance with *Government Auditing Standards*. This memorandum does not affect that report or our report dated September 9, 2019, on the financial statements of Hesperia Community Schools.

### *Review and Approval of Timesheets*

During our testing of the Child Nutrition Cluster we observed that there were inconsistencies of signed approved timesheets and timesheets that lacked signed approval. We recommend that the District consistently document the review and approval of timesheets by having a responsible official review and approve all food service timesheets as evidenced by their signature.

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# HESPERIA COMMUNITY SCHOOLS

## Attachment B - Upcoming Changes in Accounting Standards / Regulations

For the June 30, 2019 Audit

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the District in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the District. For the complete text of these and other GASB standards, visit [www.gasb.org](http://www.gasb.org) and click on the "Standards & Guidance" tab. If you have questions regarding the applicability, timing, or implementation approach for any of these standards, please contact your audit team.

### **GASB 84 ■ Fiduciary Activities**

*Effective 12/15/2019 (your FY 2020)*

This standard establishes new criteria for determining how to report fiduciary activities in governmental financial statements. The focus is on whether the government is controlling the assets, and who the beneficiaries are. Under this revised standard, most school districts will not report any fiduciary funds beginning in FY 2020, and will instead need to report student activity accounts in a budgeted special revenue fund.

### **GASB 87 ■ Leases**

*Effective 12/15/2020 (your FY 2021)*

This standard establishes a single model for reporting all leases (including those previously classified as operating and capital). Lessees will now report offsetting intangible lease assets and lease liabilities equal to the present value of future lease payments. Lessors will report offsetting lease receivables and deferred inflows of resources.

### **GASB 89 ■ Accounting for Interest Cost Incurred before the End of a Construction Period**

*Effective 12/15/2020 (your FY 2021)*

This standard eliminates the requirement for governments to capitalize interest during the construction period for business-type activities. As this simplifies the accounting for interest, early implementation is encouraged. We do not expect this standard to have any significant effect on the District.

### **GASB 90 ■ Majority Equity Interests**

*Effective 12/15/2019 (your FY 2020)*

This standard addresses situations in which a government acquires a majority of the equity interest in a legally separate organization, and whether such holdings should be reported as an investment or a component unit. We do not expect this standard to have any significant effect on the District.

### **GASB 91 ■ Conduit Debt Obligations**

*Effective 12/15/2021 (your FY 2022)*

This standard defines "conduit debt obligations", where a government issues debt whose proceeds are received and repaid by a third-party obligor without the issuer being primarily liable. The standard requires issuers to disclose conduit debt obligations, but not to record a liability unless it is *more likely than not* that a commitment made by the issuer will require it to support one or more debt payments for a conduit debt obligation. We do not expect this standard to have any significant effect on the District.



# HESPERIA COMMUNITY SCHOOLS

## Attachment C - Management Representations

For the June 30, 2019 Audit

The following pages contain the written representations that we requested from management.



# HESPERIA COMMUNITY SCHOOLS

96 S Division  
P.O. Box 338  
Hesperia, MI 49421-0338  
Superintendent Phone: (231) 854-6185, Fax: (231) 854-1586  
Website: [www.hesp.net](http://www.hesp.net)



September 9, 2019

Rehmann Robson  
2330 East Paris Ave. SE  
Grand Rapids, MI 49546

This representation letter is provided in connection with your audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Hesperia Community Schools* (the "District"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and the respective budgetary comparison for the general fund and each major special revenue fund of the District in conformity with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of September 9, 2019:

## Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated July 25, 2019, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP. We have reviewed, approved, and taken responsibility for the financial statements and related notes.
2. We acknowledge our responsibility 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.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
5. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.
6. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

8. With regard to items reported at fair value:
  - a. The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
  - b. The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
  - c. The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
  - d. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.
9. All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
10. All funds and activities are properly classified.
11. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
12. All components of net position and fund balance classifications have been properly reported.
13. All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
14. All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
15. All interfund and intra-entity transactions and balances have been properly classified and reported.
16. Special items and extraordinary items have been properly classified and reported.
17. Deposit and investment risks have been properly and fully disclosed.
18. Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
19. All required supplementary information is measured and presented within the prescribed guidelines.
20. We are responsible for the fair presentation of the District's proportionate share of the net pension liability and net other postemployment benefit liability of the Michigan Public School Employees Retirement System (MPERS) and related amounts. We provided MPERS with complete and accurate information regarding the District's participation in the plan, and have reviewed the information provided by MPERS for inclusion in the District's financial statements.

#### Information Provided

21. We have provided you with:
  - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
  - b. Additional information that you have requested from us for the purpose of the audit; and
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
22. All transactions have been recorded in the accounting records and are reflected in the financial statements.
23. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

24. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - a. Management;
  - b. Employees who have significant roles in internal control; or
  - c. Others where the fraud could have a material effect on the financial statements.
25. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
26. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.
27. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
28. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
29. The government has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
30. We have disclosed to you all guarantees, whether written or oral, under which the government is contingently liable.
31. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
32. There are no:
  - a. Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
  - b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.
33. The government has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
34. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
35. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB-62. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

#### **Supplementary Information in Relation to the Financial Statements as a Whole**

36. With respect to the supplementary information accompanying the financial statements:
  - a. We acknowledge our responsibility for the presentation of the supplementary information in accordance with accounting principles generally accepted in the United States of America.
  - b. We believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America.
  - c. The methods of measurement or presentation have not changed from those used in the prior period.

- d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.

#### **Required Supplementary Information**

37. With respect to the required supplementary information accompanying the financial statements:
  - a. We acknowledge our responsibility for the presentation of the required supplementary information in accordance with accounting principles generally accepted in the United States of America.
  - b. We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with accounting principles generally accepted in the United States of America.
  - c. The methods of measurement or presentation have not changed from those used in the prior period.
  - d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.

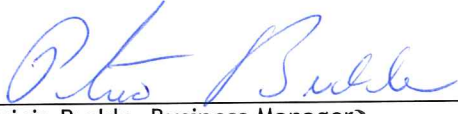
#### **Uniform Guidance (2 CFR 200)**

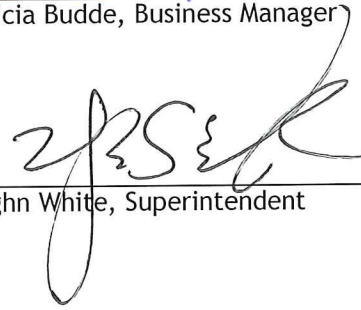
38. With respect to federal awards, we represent the following to you:
  - a. We are responsible for understanding and complying with and have complied with the requirements of the Uniform Guidance.
  - b. We are responsible for the preparation and presentation of the schedule of expenditures of federal awards in accordance with the Uniform Guidance.
  - c. We believe the schedule of expenditures of federal awards, including its form and content, is fairly presented in accordance with the Uniform Guidance.
  - d. The methods of measurement or presentation have not changed from those used in the prior period.
  - e. We believe the significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.
  - f. We are responsible for including the auditor's report on the schedule of expenditures of federal awards in any document that contains the schedule and that indicates that the auditor has reported on such information.
  - g. When the schedule of expenditures of federal awards is not presented with the audited financial statements, management will make the audited financial statements readily available to the intended users of the schedule of expenditures of federal awards no later than the date of issuance by the entity of the schedule of expenditures of federal awards and the auditor's report thereon.
  - h. We have, in accordance with the Uniform Guidance, identified in the schedule of expenditures of federal awards, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, food commodities, direct appropriations, and other assistance.



- i. We are responsible for complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program; and we have complied, in all material respects, with these requirements.
- j. We have provided to you our interpretations of any compliance requirements that have varying interpretations.
- k. We are responsible for establishing and maintaining effective internal control over compliance requirements applicable to federal programs that provide reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. Also, no changes have been made in the internal control system to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to significant deficiencies, including material weaknesses, reported in the schedule of findings and questioned costs.
- l. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relating to federal programs.
- m. We have received no requests from a federal agency to audit one or more specific programs as a major program.
- n. We have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews. We also know of no instances of noncompliance occurring subsequent to the end of the period audited.
- o. We have charged costs to federal awards in accordance with applicable cost principles, including amounts claimed or used for matching determined in accordance with relevant guidelines in the Uniform Guidance.
- p. We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- q. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared (and are prepared on a basis consistent with the schedule of expenditures of federal awards).
- r. The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- s. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance, and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- t. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
- u. We are responsible for and have accurately completed the appropriate sections of the Data Collection Form as required by the Uniform Guidance, and we are responsible for preparing and implementing a correction action plan for each audit finding.
- v. We have disclosed all contracts or other agreements with service organizations and disclosed to you all communications from these service organizations relating to noncompliance at the organizations.
- w. We have reviewed, approved, and taken responsibility for the financial statements and related notes.

- x. We have disclosed to you the nature of any subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the reporting period.

 9-9-19  
\_\_\_\_\_  
Patricia Budde, Business Manager

 9/9/19  
\_\_\_\_\_  
Vaughn White, Superintendent