Hesperia Community Schools

Year Ended
June 30, 2023

Financial Statements

Rehmann

This page intentionally left blank.

HESPERIA COMMUNITY SCHOOLS

Table of Contents

This page intentionally left blank.

Rehmann

INDEPENDENT AUDITORS' REPORT

November 29, 2023

Board of Education
Hesperia Community Schools
Hesperia, Michigan

Report on the Audit of the Financial Statements

Opinions

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, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2023, and the respective changes in financial position thereof, and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

2330 East Paris Ave SE, Grand Rapids, MI 49546 616.975.4100

Responsibilities of Management for the Financial Statements

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

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

Independent Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards,* we:

- exercise professional judgment and maintain professional skepticism throughout the audit.

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.

- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining fund financial statements 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 were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued, under separate cover, our report dated November 29, 2023, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Rehmann Robson LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2023.

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 $19,693,631.

- The District's total net position increased by $1,330,245.

- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of $2,622,262, an increase of $188,395 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 $1,834,649 or 15.3% 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 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, food services, and student/school activity. The District has no business-type activities as of and for the year ended June 30, 2023.

Management's Discussion and Analysis

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.

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 several individual governmental funds. 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. 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. A budgetary comparison statement for the general fund have been provided herein to demonstrate compliance with those budgets.

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 are presented immediately following the required supplementary information.

Management's Discussion and Analysis

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 $19,693,199 at June 30, 2023. 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.

	Net Position	
	2023	2022
Assets		
Current and other assets	$ 3,880,635	$ 5,683,798
Capital assets, net	13,581,918	13,933,375
Total assets	17,462,553	19,617,173
Deferred outflows of resources	8,120,503	4,824,002
Liabilities		
Other liabilities	1,332,170	3,333,408
Long-term liabilities	40,416,994	34,098,368
Total liabilities	41,749,164	37,431,776
Deferred inflows of resources	3,527,523	8,033,275
Net position		
Net investment in capital assets	3,729,993	3,104,813
Restricted	491,399	434,574
Unrestricted (deficit)	(23,915,023)	(24,563,263)
Total net position	$ (19,693,631)	$ (21,023,876)

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.

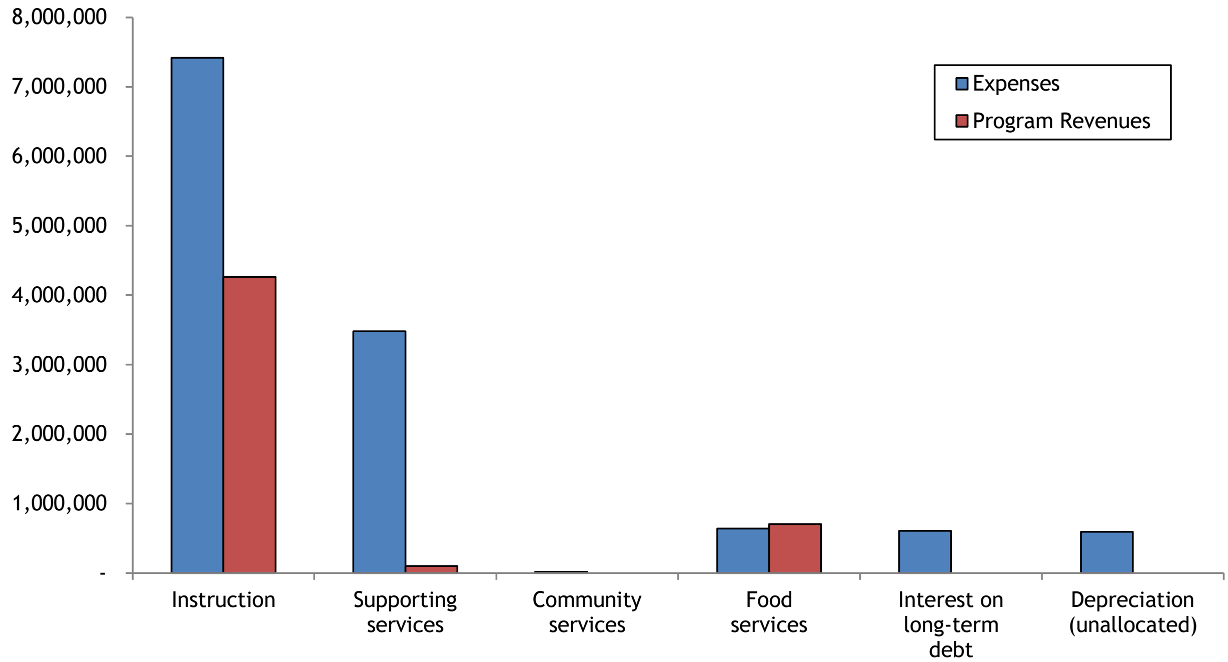
Management's Discussion and Analysis

	Change in Net Position	
	2023	2022
Revenues		
Program revenues:		
Charges for services	$ 553,691	$ 418,476
Operating grants and contributions	4,944,415	5,004,541
General revenues:		
Property taxes - operations	1,035,203	973,733
Property taxes - debt service	1,203,560	1,141,435
Grants and contributions not restricted to specific programs	6,645,924	6,438,891
Unrestricted investment earnings	24,170	950
Other revenues	88,730	71,166
Total revenues	14,495,693	14,049,192
Expenses		
Instruction	7,417,525	6,153,827
Supporting services	3,482,691	3,070,414
Community services	17,919	156,751
Food services	639,400	616,604
Student/school activity	407,551	299,625
Interest on long-term debt	606,561	580,207
Unallocated depreciation	593,801	611,723
Total expenses	13,165,448	11,489,151
Change in net position	1,330,245	2,560,041
Net position, beginning of year	(21,023,876)	(23,583,917)
Net position, end of year	$ (19,693,631)	$ (21,023,876)

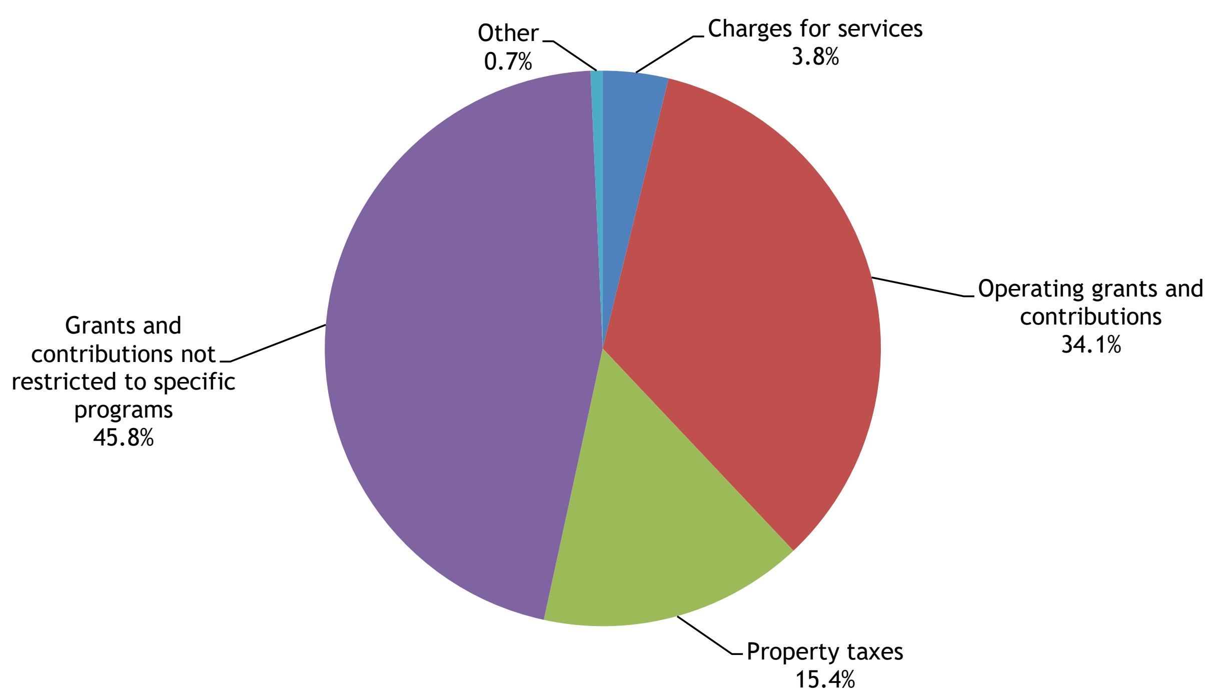
Governmental Activities. Net position increased by $1,330,245 compared to an increase of $2,560,041 in the prior year. The current increase can be attributed to COVID-19 federal grant funding and the change in liabilities reported for pension and OPEB.

Management's Discussion and Analysis

Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities



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 $1,834,649, while the total fund balance was $1,961,429. 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 15.3% and 16.3%, respectively, of total general fund expenditures.

The fund balance of the District's general fund increased by $134,321, or 7.4% from the prior year. The reason for the increase in the fund balance was attributed an increase in federal COVID-19 funding. Additionally, the District monitored the budget closely with the intent of reducing expenditures where it reasonably could.

The fund balance of the District's 2016 Refunding Bond fund decreased by $22,210 from the prior year. The reason for the decrease was attributed to normal bond payments.

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 decreased based on a decrease in anticipated erate reimbursements and donations from the Fremont Community Foundation. The budget for state revenue increased based on an increase in awarded State Aid.

- 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 were less in total by $419,172 from amended budget to actual. The reason for the decrease was attributed to budgeting for grants at the full award amount when in fact, the full amount of the various grants were not expended in the current year. Those unexpended grant funds will carry forward to fiscal year 2024.

- General fund total revenues were less by $823,308 from amended budget to actual. The reason for the decrease was largely attributed to unexpended ESSER grant funds.

Capital Asset and Debt Administration

Capital Assets. The District's investment in capital assets for its governmental activities as of June 30, 2023 amounted to $13,581,918 (net of accumulated depreciation). Capital assets at year-end included the following:

	Capital Assets (Net of Depreciation)	
	2023	2022
Land	$ 75,012	$ 75,012
Buildings and improvements	12,322,911	12,626,112
Furniture and equipment	1,112,722	1,176,829
Vehicles	71,273	55,422
Total capital assets, net	$ 13,581,918	$ 13,933,375

Additional information on the District's capital assets can be found in the footnotes to the financial statements.

Long-term Debt. At the end of the current fiscal year, the District had total long-term debt outstanding of $19,443,572. The District's total debt decreased by $590,765 during the current fiscal year as a result of principal payments on long-term debt offset by additional draws from the Michigan School Loan Revolving Fund.

Additional information on the District's long-term debt can be found in the footnotes to the financial statements.

Factors Bearing on the District's Future

The following factors were considered in preparing the District's budget for the 2023-2024 fiscal year:

- The District increased revenue to reflect the increased foundation allowance. The District is estimating the same number of students in the fall.

- 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.

- The budget for the year ended June 30, 2024 was adopted in June 2023 when there was a high degree of uncertainty related to the funding and operations for districts in the State of Michigan due to the novel coronavirus outbreak (COVID-19). Subsequent to year end, additional funding has been provided by the State of Michigan through various restricted federal grant programs. Despite this, there continues to be a high degree of uncertainty regarding potential changes to state and federal funding. In addition, the District is continuously evaluating the impacts of the pandemic as it determines the appropriate methods to deliver education to students in a safe environment. These factors will have a significant impact on the operational and financial performance of the District.

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

This page intentionally left blank.

BASIC FINANCIAL STATEMENTS

HESPERIA COMMUNITY SCHOOLS

Statement of Net Position

June 30, 2023

	Governmental Activities
Assets	
Cash and investments	$ 1,912,964
Receivables	1,832,548
Other assets	135,123
Capital assets not being depreciated	75,012
Capital assets being depreciated, net	13,506,906
Total assets	17,462,553
Deferred outflows of resources	
Deferred charge on advance bond refundings	529,467
Deferred pension amounts	6,025,579
Deferred other postemployment benefit amounts	1,565,457
Total deferred outflows of resources	8,120,503
Liabilities	
Accounts payable and accrued liabilities	1,307,866
Unearned revenue	24,304
Bonds, notes and other long-term liabilities:	
Due within one year	1,038,622
Due in more than one year	18,404,950
Net pension liability (due in more than one year)	19,881,804
Net other postemployment benefit liability (due in more than one year)	1,091,618
Total liabilities	41,749,164
Deferred inflows of resources	
Deferred pension amounts	912,732
Deferred other postemployment benefit amounts	2,614,791
Total deferred inflows of resources	3,527,523
Net position	
Net investment in capital assets	3,729,993
Restricted for:	
Food service operations	246,203
Debt service	245,196
Unrestricted (deficit)	(23,915,023)
Total net position	$ (19,693,631)

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

HESPERIA COMMUNITY SCHOOLS

Statement of Activities

For the Year Ended June 30, 2023

Functions / Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue
Governmental activities				
Instruction	$ 7,417,525	$ -	$ 4,262,420	$ (3,155,105)
Supporting services	3,482,691	59,725	42,293	(3,380,673)
Community services	17,919	-	-	(17,919)
Food services	639,400	64,677	639,702	64,979
Student/school activity	407,551	429,289	-	21,738
Interest on long-term debt	606,561	-	-	(606,561)
Unallocated depreciation	593,801	-	-	(593,801)
Total governmental activities	$ 13,165,448	$ 553,691	$ 4,944,415	(7,667,342)
General revenues				
Property taxes - operations				1,035,203
Property taxes - debt service				1,203,560
Grants and contributions not restricted to specific programs				6,645,924
Unrestricted investment earnings				24,170
Other revenues				88,730
Total general revenues				8,997,587
Change in net position				1,330,245
Net position, beginning of year				(21,023,876)
Net position, end of year				$ (19,693,631)

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

HESPERIA COMMUNITY SCHOOLS

Balance Sheet
Governmental Funds
June 30, 2023

	General Fund	2016 Refunding	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and investments	$ 1,262,594	$ 244,985	$ 451,349	$ 1,958,928
Due from other governments	1,814,353	-	18,195	1,832,548
Due from other funds	246,013	-	328,138	574,151
Inventory	25,331	-	8,343	33,674
Prepaid items	101,449	-	-	101,449
Total assets	$ 3,449,740	$ 244,985	$ 806,025	$ 4,500,750
Liabilities				
Accounts payable	$ 390,370	$ -	$ 6,915	$ 397,285
Cash overdrawn	-	-	45,964	45,964
Accrued liabilities	836,738	-	46	836,784
Due to other funds	236,899	244,779	92,473	574,151
Unearned revenue	24,304	-	-	24,304
Total liabilities	1,488,311	244,779	145,398	1,878,488
Fund balances				
Nonspendable	126,780	-	8,343	135,123
Restricted	-	206	556,647	556,853
Committed	-	-	110,446	110,446
Unassigned	1,834,649	-	(14,809)	1,819,840
Total fund balances	1,961,429	206	660,627	2,622,262
Total liabilities and fund balances	$ 3,449,740	$ 244,985	$ 806,025	$ 4,500,750

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

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2023

Fund balances - total governmental funds	$ 2,622,262
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	13,506,906
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Bonds, notes and other long-term liabilities	(18,503,158)
Compensated absences	(184,022)
Unamortized bond premiums	(769,186)
Unamortized bond discounts	12,794
Unamortized deferred charge on advance bond refunding	529,467
Accrued interest on bonds payable	(73,797)
Certain pension and other postemployment benefit-related 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	(19,881,804)
Deferred outflows related to the net pension liability	6,025,579
Deferred inflows related to the net pension liability	(912,732)
Net other postemployment benefit liability	(1,091,618)
Deferred outflows related to the net other postemployment benefit liability	1,565,457
Deferred inflows related to the net other postemployment benefit liability	(2,614,791)
Net position of governmental activities	$ (19,693,631)

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, 2023

	General Fund	2016 Refunding	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Local sources	$ 1,243,024	$ 195,614	$ 1,502,105	$ 2,940,743
Interdistrict sources	115,251	-	-	115,251
State sources	9,245,864	-	33,787	9,279,651
Federal sources	1,554,133	-	605,915	2,160,048
Total revenues	12,158,272	195,614	2,141,807	14,495,693
Expenditures				
Current:				
Instruction	8,181,574	-	-	8,181,574
Supporting services	3,794,891	-	-	3,794,891
Community services	18,624	-	-	18,624
Food services	-	-	694,493	694,493
Student/school activity	-	-	407,551	407,551
Debt service:				
Principal	28,819	975,000	900,000	1,903,819
Interest	687	24,669	477,389	502,745
Agent fees and other	-	-	500	500
Capital outlay	536	-	-	536
Total expenditures	12,025,131	999,669	2,479,933	15,504,733
Revenues over (under) expenditures	133,141	(804,055)	(338,126)	(1,009,040)
Other financing sources (uses)				
Transfers in	1,180	-	84,262	85,442
Transfers out	-	-	(85,442)	(85,442)
Issuance of long-term debt	-	781,845	415,590	1,197,435
Total other financing sources (uses)	1,180	781,845	414,410	1,197,435
Net change in fund balances	134,321	(22,210)	76,284	188,395
Fund balances, beginning of year	1,827,108	22,416	584,343	2,433,867
Fund balances, end of year	$ 1,961,429	$ 206	$ 660,627	$ 2,622,262

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

Reconciliation

Net Change in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended June 30, 2023

Net change in fund balances - total governmental funds	$	188,395
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		242,344
Depreciation expense		(593,801)
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 bonds		1,903,819
Proceeds from School Loan Revolving Fund		(1,197,435)
Accrued interest on School Loan Fund added to principal		(146,275)
Amortization of bond premiums and discounts, net		71,580
Amortization of deferred charge on advance bond refunding		(38,301)
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		54,208
Change in the net other postemployment benefit liability and related deferred amounts		876,955
Change in accrued interest payable on bonds		9,680
Change in compensated absences payable		(40,924)
Change in net position of governmental activities	$	1,330,245

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, 2023

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Local sources	$ 1,434,255	$ 1,188,882	$ 1,243,024	$ 54,142
Interdistrict sources	117,274	112,372	115,251	2,879
State sources	8,700,041	9,351,236	9,245,864	(105,372)
Federal sources	2,202,249	2,329,090	1,554,133	(774,957)
Total revenues	12,453,819	12,981,580	12,158,272	(823,308)
Expenditures				
Current:				
Instruction	7,650,238	8,468,209	8,181,574	(286,635)
Supporting services	4,727,765	3,926,415	3,794,891	(131,524)
Community services	158,940	20,111	18,624	(1,487)
Debt service:				
Principal	59,273	28,819	28,819	-
Interest and fiscal charges	-	687	687	-
Capital outlay	62	62	536	474
Total expenditures	12,596,278	12,444,303	12,025,131	(419,172)
Revenues over (under) expenditures	(142,459)	537,277	133,141	(404,136)
Other financing sources				
Transfers in	8,900	-	1,180	1,180
Net change in fund balance	(133,559)	537,277	134,321	(402,956)
Fund balance, beginning of year	1,827,108	1,827,108	1,827,108	-
Fund balance, end of year	$ 1,693,549	$ 2,364,385	$ 1,961,429	$ (402,956)

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

NOTES TO FINANCIAL STATEMENTS

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, 2023.

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.*

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.

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.

2016 Refunding fund - This fund accounts for the District's funding and debt payments for the 2016 refunding bonds.

Additionally, the District reports the following fund types:

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

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

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, 2023. 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.

Property Taxes

Property taxes are recognized as revenue in the general and debt service funds on a levy year basis. The 2022 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

State statues 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 9140 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.

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 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 assets 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, 2023 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.

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 assets 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 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. The unassigned classification should be only used to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned

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.

Notes to Financial Statements

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.

5. Adoption and amendments of all budgets used by the District are governed by Public Act 621. 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, 2023, 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
General Fund			
Capital outlay	$ 62	$ 536	$ 474

Deficit Fund Balance

The District reported deficit fund balances of $12,001, and $2,808 in its 2020 refunding bond and 2016B refunding bond nonmajor debt service funds, respectively.

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 76% of the District's general fund revenue during the 2023 fiscal year.

Notes to Financial Statements

4. DEPOSITS

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

	Governmental Activities
Cash and investments	$ 1,912,964

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

Checking and savings accounts	$ 1,912,864
Cash on hand	100
Total	$ 1,912,964

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.

Deposit Risk

Custodial Credit Risk. 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, $1,942,770 of the District's bank balance of $2,210,885 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Notes to Financial Statements

5. RECEIVABLES AND PAYABLES

Receivables in the government-wide financial statements at June 30, 2023 are as follows:

	Governmental Activities
Due from other governments	$ 1,832,548

Accounts payable and accrued liabilities in the government-wide financial statements at June 30, 2023 are as follows:

	Governmental Activities
Accounts payable	$ 397,285
Accrued liabilities	836,784
Interest payable on long-term debt	73,797
Totals	$ 1,307,866

6. INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS

At June 30, 2023, interfund receivables and payables consisted of the following:

	Due From	Due To
General fund	$ 246,013	$ 236,899
2016 refunding	-	244,779
Nonmajor governmental funds	328,138	92,473
	$ 574,151	$ 574,151

Notes to Financial Statements

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.

	Transfers In
Transfer Out	Nonmajor Governmental Funds
General fund	$ 1,180
Nonmajor governmental funds	84,262
	$ 85,442

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.

Notes to Financial Statements

7. CAPITAL ASSETS

A summary of changes in capital assets activity for the year ended June 30, 2023 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	18,409,509	23,672	-	-	18,433,181
Furniture and equipment	5,010,303	170,292	-	-	5,180,595
Vehicles	643,432	48,380	-	-	691,812
	24,063,244	242,344	-	-	24,305,588
Less accumulated depreciation for:					
Buildings and improvements	(5,783,397)	(326,873)	-	-	(6,110,270)
Furniture and equipment	(3,833,474)	(234,399)	-	-	(4,067,873)
Vehicles	(588,010)	(32,529)	-	-	(620,539)
	(10,204,881)	(593,801)	-	-	(10,798,682)
Total capital assets being depreciated, net	13,858,363	(351,457)	-	-	13,506,906
Governmental activities capital assets, net	$ 13,933,375	$ (351,457)	$ -	$ -	$ 13,581,918

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

8. BONDS, NOTES AND OTHER LONG-TERM LIABILITIES

The following is a summary of bonds, notes and other long-term debt transactions of the District for the year ended June 30, 2023:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental activities					
General obligation bonds	$ 15,170,000	$ -	$ (1,875,000)	$ 13,295,000	$ 910,000
Notes from direct borrowings and direct placements	28,819	-	(28,819)	-	-
Total	15,198,819	-	(1,903,819)	13,295,000	910,000
Unamortized premiums	842,511	-	(73,325)	769,186	73,325
Unamortized discounts	(14,539)	-	1,745	(12,794)	(1,745)
School Revolving Loan Fund	3,864,448	1,343,710	-	5,208,158	-
Compensated absences	143,098	86,831	(45,907)	184,022	57,042
Total governmental activities	$ 20,034,337	$ 1,430,541	$ (2,021,306)	$ 19,443,572	$ 1,038,622

The District's general obligation bonds consists of the following items:

	Ending Balance	Due Within One Year
2020 refunding bonds series A (refunding 2009) due in amounts ranging from $285,000 to $330,000 plus interest at 4.00% through 2025.	$ 580,000	$ 295,000
2020 refunding bonds series B due in amounts ranging from $0 to $715,000 plus interest at 2.39-2.71% through 2032.	3,670,000	-
2016 refunding bonds due in amounts ranging from $290,000 to $360,000 plus interest at 4.00% through 2038.	5,455,000	360,000
2017 refunding bonds due in amounts ranging from $215,000 to $290,000 plus interest at 3.00% through 2038.	3,590,000	255,000
Total	$ 13,295,000	$ 910,000

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

Year Ended June 30,	Principal	Interest	Total
2024	$ 910,000	$ 431,755	$ 1,341,755
2025	915,000	397,680	1,312,680
2026	1,130,000	363,805	1,493,805
2027	1,175,000	329,236	1,504,236
2028	1,210,000	293,276	1,503,276
2029-2033	5,055,000	905,668	5,960,668
2034-2038	2,900,000	260,600	3,160,600
Totals	$ 13,295,000	$ 2,982,020	$ 16,277,020

The State of Michigan school loan revolving funds represent amounts borrowed from the State of Michigan school revolving loan fund 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, 2023, are as follows:

	School Loan Revolving Fund		
	Principal	Interest	Total
Beginning balance	$ 3,797,665	$ 66,783	$ 3,864,448
Additions	1,197,435	146,275	1,343,710
Ending balance	$ 4,995,100	$ 213,058	$ 5,208,158

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.

Notes to Financial Statements

9. STATE AID ANTICIPATION NOTE

On July 7, 2021, the District received proceeds of a State of Michigan School Aid anticipation note in the amount of $1,900,000 with an interest rate of 0.29%. This note was paid in full at June 30, 2023.

On July 6, 2022, the District received proceeds of $2,100,000 from a State of Michigan School Aid anticipation note maturing on June 30, 2023 with an interest rate of 2.45%. This note was paid in full at June 30, 2023.

A summary of changes in state aid note payable activity for the year ended June 30, 2023 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Note payable	$ 1,900,000	$ 2,100,000	$ (4,000,000)	$ -

10. PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS

Plan Description

The Michigan Public School Employees' Retirement System (the "System" or MPSERS) 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.

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 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.

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.

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, 2021 valuation will be amortized over an 17-year period beginning October 1, 2021 and ending September 30, 2038.

The table below summarizes pension contribution rates in effect for fiscal year 2023:

Benefit Structure	Member Rates	Employer Rates
Basic	0.00% - 4.00%	20.14% - 20.16%
Member Investment Plan (MIP)	3.00% - 7.00%	20.14% - 20.16%
Pension Plus	3.00% - 6.40%	17.22% - 17.24%
Pension Plus 2	6.20%	19.93% - 19.95%
Defined Contribution	0.00%	13.73% - 13.75%

For the year ended June 30, 2023, required and actual contributions from the District to the pension plan were $1,810,176, which included $816,235, the amount received from the State and remitted to the System to fund the MPSERS unfunded actuarial accrued liability ("UAAL") stabilization rate. In addition, the District had additional contributions of $475,365, which was a one-time, state payment toward the MPSERS unfunded liability.

The table below summarizes defined contribution rates in effect for fiscal year 2023:

Benefit Structure	Member Rates	Employer Rates
Premium Subsidy	3.00%	8.07% - 8.09%
Personal Healthcare Fund (PHF)	0.00%	7.21% - 7.23%

For the year ended June 30, 2023, required and actual contributions from the District to the OPEB plan were $420,755.

The table below summarizes defined contribution rates in effect for fiscal year 2023:

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, 2023, required and actual contributions from the District for those members with a defined contribution benefit were $19,230.

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

At June 30, 2023, the District reported a liability of $19,881,804 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2021. 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, 2022, the District's proportion was 0.05286%, which was a decrease of 0.00286% from its proportion measured as of September 30, 2021.

For the year ended June 30, 2023, the District recognized pension expense of $2,108,322. At June 30, 2023, 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	$ 198,887	$ 44,454	$ 154,433
Changes in assumptions	3,416,406	-	3,416,406
Net difference between projected and actual earnings on pension plan investments	46,623	-	46,623
Changes in proportion and differences between employer contributions and proportionate share of contributions	171,043	868,278	(697,235)
	3,832,959	912,732	2,920,227
District contributions subsequent to the measurement date	2,192,620	-	2,192,620
Total	$ 6,025,579	$ 912,732	$ 5,112,847

The amount reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2024. 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
2024	$ 797,286
2025	594,561
2026	470,947
2027	1,057,433
Total	$ 2,920,227

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

At June 30, 2023, the District reported a liability of $1,091,618 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2021. 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, 2022, the District’s proportion was 0.05154% which was a decrease of 0.00559% from its proportion measured as of September 30, 2021.

Notes to Financial Statements

For the year ended June 30, 2023, the District recognized OPEB expense of $(512,485). At June 30, 2023, 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	$ -	$ 2,138,062	$ (2,138,062)
Changes in assumptions	972,994	79,227	893,767
Net difference between projected and actual earnings on OPEB plan investments	85,319	-	85,319
Changes in proportion and differences between employer contributions and proportionate share of contributions	129,133	397,502	(268,369)
	1,187,446	2,614,791	(1,427,345)
District contributions subsequent to the measurement date	378,011	-	378,011
Total	$ 1,565,457	$ 2,614,791	$ (1,049,334)

The amount reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Amount
2024	$ (486,135)
2025	(417,515)
2026	(372,773)
2027	(60,519)
2028	(76,980)
Thereafter	(13,423)
Total	$ (1,427,345)

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, 2021 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)	6.00%
Pension Plus plan (hybrid)	6.00%
Pension Plus 2 plan (hybrid)	6.00%
OPEB plans	6.00%
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	Pre-65: 7.75% Year 1 graded to 3.5% Year 15; 3.0% Year 120 Post-65: 5.25% Year 1 graded to 3.5% Year 15; 3.0% Year 120
Mortality	RP-2014 Male and Female Employee 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.
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 and OPEB valuations beginning with the September 30, 2018 valuation. The total pension and OPEB liabilities as of September 30, 2022, are based on the results of an actuarial valuation date of September 30, 2021, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 4.3922 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 6.2250 years which is the average of the expected remaining service lives of all employees. The recognition period for assets is 5 years.

Changes in assumptions. The payroll growth assumption for amortization purposes used in determining the fiscal year 2024 employer contributions decreased from 2.5% to 2.0%. Additionally, the discount rate used in the September 30, 2021 actuarial valuation decreased to 6.00% for the MIP and Basic plans, 6.00% for the Pension Plus Plan, and 6.00% for OPEB.

Long-term Expected Return on Pension 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, 2022, 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	25.00%	4.77%	1.19%
Private equity pools	16.00%	8.13%	1.30%
International equity pools	15.00%	6.26%	0.94%
Fixed income pools	13.00%	-0.19%	-0.02%
Real estate and infrastructure pools	10.00%	4.95%	0.50%
Absolute return pools	9.00%	2.52%	0.23%
Real return/opportunistic pools	10.00%	5.42%	0.54%
Short-term investment pools	2.00%	-0.47%	-0.01%
	100.00%		4.67%
Inflation			2.20%
Risk adjustment			-0.87%
Investment rate of return			6.00%

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, 2022, 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	25.00%	4.77%	1.19%
Private equity pools	16.00%	8.13%	1.30%
International equity pools	15.00%	6.26%	0.94%
Fixed income pools	13.00%	-0.19%	-0.02%
Real estate and infrastructure pools	10.00%	4.95%	0.50%
Absolute return pools	9.00%	2.52%	0.23%
Real return/opportunistic pools	10.00%	5.42%	0.54%
Short-term investment pools	2.00%	-0.47%	-0.01%
	100.00%		4.67%
Inflation			2.20%
Risk adjustment			-0.87%
Investment rate of return			6.00%

Rate of Return

For the fiscal year ended September 30, 2022, the annual money-weighted rate of return on pension and OPEB plan investments, net of pension and OPEB plan investment expense, was -4.18% and -4.99%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 6.00% was used to measure the total pension and OPEB liabilities. This discount rate was based on the long-term expected rate of return on pension and OPEB plan investments of 6.00%. 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.

Sensitivity of the 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 6.00%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

	1% Decrease (5.00%)	Current Discount Rate (6.00%)	1% Increase (7.00%)
District's proportionate share of the net pension liability	$ 26,236,596	$ 19,881,804	$ 14,645,170

Sensitivity of the 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 6.00%, 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 point higher:

	1% Decrease (5.00%)	Current Discount Rate (6.00%)	1% Increase (7.00%)
District's proportionate share of the net OPEB liability	$ 1,831,084	$ 1,091,618	$ 468,896

Sensitivity of the 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 point higher:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's proportionate share of the net OPEB liability	$ 457,117	$ 1,091,618	$ 1,803,858

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.

Payable to the Pension Plan

At June 30, 2023, the District reported a payable of $340,707 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2023.

Payable to the OPEB Plan

At June 30, 2023, the District reported a payable of $42,337 for the outstanding amount of OPEB contributions to the Plan required for the year ended June 30, 2023.

Notes to Financial Statements

11. FUND BALANCES - GOVERNMENT 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	2016 Refunding	Nonmajor Governmental Funds	Total
Nonspendable				
Inventory	$ 25,331	$ -	$ 8,343	$ 33,674
Prepaid items	101,449	-	-	101,449
	126,780	-	8,343	135,123
Restricted				
Debt service	-	206	318,787	318,993
Food service program	-	-	237,860	237,860
	-	206	556,647	556,853
Committed				
Student/school activity	-	-	110,446	110,446
Unassigned	1,834,649	-	(14,809)	1,819,840
Total fund balances - governmental funds	$ 1,961,429	$ 206	$ 660,627	$ 2,622,262

12. NET INVESTMENT IN CAPITAL ASSETS

The composition of the District's net investment in capital assets as of June 30, 2023, was as follows:

	Governmental Activities
Capital assets:	
Capital assets not being depreciated	$ 75,012
Capital assets being depreciated, net	13,506,906
	13,581,918
Related debt:	
General obligation bonds payable	13,295,000
Non capital-related debt	(3,670,000)
Premiums on bonds payable	769,186
Discounts on bonds payable	(12,794)
Deferred charge on advance bond refundings, net	(529,467)
	9,851,925
Net investment in capital assets	$ 3,729,993

13. 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, 2023, 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.

14. SUBSEQUENT EVENTS

On July 10, 2023, the District received proceeds of $2,700,000 from a State of Michigan School Aid anticipation note maturing on June 30, 2024. The note has an interest rate of 5.24%.

15. CORONAVIRUS (COVID-19)

In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. While the pandemic has resulted in an increase in the demands on the District to deliver education to students in a safe environment, the Federal Government has also provided significant resources to help mitigate the impacts of COVID-19. Over the past two years, the District has been awarded funds from various sources to be used to respond to the impacts of the COVID-19 pandemic. Of the amount awarded, approximately $1.2 million was expended and recognized as revenue during the current fiscal year. With these additional Federal resources, at this time management does not believe that the negative financial impact of the pandemic, if any, would be material to the District.

■ ■ ■ ■ ■

This page intentionally left blank.

REQUIRED SUPPLEMENTARY INFORMATION

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 proportionate share of the net pension liability	$ 13,430,779	$ 14,732,690	$ 14,492,483	$ 15,031,701	$ 17,139,865
District's proportion of the net pension liability	0.06098%	0.06032%	0.05809%	0.05801%	0.05702%
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%

See notes to required supplementary information.

Year Ended June 30,			
2020	2021	2022	2023
$ 18,345,336	$ 18,783,295	$ 13,191,994	$ 19,881,804
0.05540%	0.05468%	0.05572%	0.05286%
$ 4,816,125	$ 4,810,710	$ 5,107,790	$ 4,961,751
380.91%	390.45%	258.27%	400.70%
60.31%	59.72%	72.60%	60.77%

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	(1,289,645)	(1,231,423)	(1,673,635)	(1,498,043)	(1,476,149)
Contribution deficiency (excess)	$ -	$ (67,810)	$ (369,239)	$ -	$ -
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%

See notes to required supplementary information.

Year Ended June 30,			
2020	2021	2022	2023
$ 1,452,309	$ 1,654,542	$ 1,826,367	$ 1,810,176
(1,452,309)	(1,654,542)	(1,826,367)	(1,810,176)
$ -	$ -	$ -	$ -
$ 4,854,096	$ 5,002,454	$ 5,076,856	$ 5,045,713
29.92%	33.07%	35.97%	35.88%

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	2020	2021	2022	2023
District's proportionate share of the net OPEB liability	$ 5,156,123	$ 4,471,672	$ 3,972,614	$ 2,927,479	872,037	$ 1,091,618
District's proportion of the net OPEB liability	0.05823%	0.05625%	0.05535%	0.05465%	0.05713%	0.05286%
District's covered payroll	$ 4,905,524	$ 4,775,495	$ 4,816,125	$ 4,810,710	5,107,790	$ 4,961,751
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	105.11%	93.64%	82.49%	60.85%	17.07%	22.00%
Plan fiduciary net position as a percentage of the total OPEB liability	36.39%	42.95%	48.46%	59.44%	87.33%	83.09%

See notes to required supplementary information.

Required Supplementary Information
MPSERS Cost-Sharing Multiple-Employer Plan
Schedule of District OPEB Contributions

	Year Ended June 30,					
	2018	2019	2020	2021	2022	2023
Statutorily required contribution	$ 356,670	$ 377,610	$ 439,138	$ 413,283	$ 406,382	$ 420,878
Contributions in relation to the statutorily required contribution	(356,670)	(377,610)	(439,138)	(413,283)	(406,382)	(420,878)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
District's covered payroll	$ 4,769,706	$ 4,825,335	$ 4,854,096	$ 5,002,454	$ 5,076,856	$ 5,045,713
Contributions as a percentage of covered payroll	7.48%	7.83%	9.05%	8.26%	8.00%	8.34%

See notes to required supplementary information.

Notes to Required Supplementary Information

Pension Information

GASB 68 was implemented in fiscal year 2015. The pension plan schedules are being built prospectively. Ultimately, 10 years of data will be presented.

The amounts presented in the schedule of the District's Proportionate Share of the Net Pension Liability were determined as of September 30 of the preceding year (the plan year).

The significant changes in assumptions for each of the fiscal years ended June 30 were as follows:

- 2023 - The payroll growth assumption for amortization purposes used in determining the fiscal year 2024 employer contributions decreased from 2.5% to 2.0%. Additionally, the discount rate used in the September 30, 2021 actuarial valuation decreased to 6.00% for the MIP and Basic plans, and 6.00% for the Pension Plus Plan.
- 2022 - The payroll growth assumption for amortization purposes used in determining the fiscal year 2023 employer contributions decreased from 3.0% to 2.5%.
- 2021 - The payroll growth assumption for amortization purposes used in determining the fiscal year 2022 employer contributions decreased from 3.5% to 3.0%.
- 2020 - The discount rate used in the September 30, 2018 actuarial valuation decreased to 6.80% for the MIP and Basic plans, 6.80% for the Pension Plus Plan, and 6.00% for the Pension Plus 2 plan.
- 2019 - The discount rate used in the September 30, 2017 actuarial valuation decreased to 7.05% for the MIP and Basic plans, 7.00% for the Pension Plus plan, and 6.00% for the Pension Plus 2 plan.
- 2018 - The discount rate used in the September 30, 2016 actuarial valuation decreased to 7.50% for the MIP and Basic plans and 7.00% for the Pension Plus plan.

OPEB Information

GASB 75 was implemented in fiscal year 2018. The OPEB plan schedules are being built prospectively. Ultimately, 10 years of date will be presented.

The amounts presented in the schedule of the District's Proportionate Share of the Net OPEB Liability were determined as of September 30 of the preceding year (the plan year).

The significant changes in assumptions for each of the fiscal years ended June 30 were as follows:

- 2023 - The payroll growth assumption for amortization purposes used in determining the fiscal year 2024 employer contributions decreased from 2.5% to 2.0%. Additionally, the discount rate used in the September 30, 2021 actuarial valuation decreased to 6.00%.
- 2022 - The payroll growth assumption for amortization purposes used in determining the fiscal year 2023 employer contributions decreased from 3.0% to 2.5%. The healthcare cost trend rate used in the September 30, 2020 actuarial valuation increased to 7.75%.
- 2021 - The payroll growth assumption for amortization purposes used in determining the fiscal year 2022 employer contributions decreased from 3.5% to 3.0%. The healthcare cost trend rate used in the September 30, 2019 actuarial valuation decreased to 7.0%.
- 2020 - The discount rate used in the September 30, 2018 actuarial valuation decreased to 6.95%.
- 2019 - The discount rate used in the September 30, 2017 actuarial valuation decreased to 7.15%.

COMBINING FUND
FINANCIAL STATEMENTS

This page intentionally left blank.

NONMAJOR GOVERNMENTAL FUNDS

HESPERIA COMMUNITY SCHOOLS

Combining Balance Sheet

Nonmajor Governmental Funds
June 30, 2023

	Special Revenue		Debt Service	
	Food Service	Student/school Activity	2020 Refunding	2017B Refunding
Assets				
Cash and investments	$ 35,691	$ 110,446	$ 76,278	$ 759
Due from other governments	18,195	-	-	-
Due from other funds	236,899	-	-	-
Inventory	8,343	-	-	-
Total assets	$ 299,128	$ 110,446	$ 76,278	$ 759
Liabilities				
Accounts payable	$ 6,915	$ -	$ -	$ -
Cash overdrawn	45,964	-	-	-
Accrued liabilities	46	-	-	-
Due to other funds	-	-	88,279	500
Total liabilities	52,925	-	88,279	500
Fund balances				
Nonspendable	8,343	-	-	-
Restricted	237,860	-	-	259
Committed	-	110,446	-	-
Unassigned	-	-	(12,001)	-
Total fund balances	246,203	110,446	(12,001)	259
Total liabilities and fund balances	$ 299,128	$ 110,446	$ 76,278	$ 759

Debt Service			
2016B Refunding	2009 Refunding	2009 Bonds	Total
$ 886	$ 227,289	$ -	$ 451,349
-	-	-	18,195
-	91,239	-	328,138
-	-	-	8,343
$ 886	$ 318,528	$ -	$ 806,025
$ -	$ -	$ -	$ 6,915
-	-	-	45,964
-	-	-	46
3,694	-	-	92,473
3,694	-	-	145,398
-	-	-	8,343
-	318,528	-	556,647
-	-	-	110,446
(2,808)	-	-	(14,809)
(2,808)	318,528	-	660,627
$ 886	$ 318,528	$ -	$ 806,025

HESPERIA COMMUNITY SCHOOLS

Combining Statement of Revenues, Expenditures and Change in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2023

	Special Revenue		Debt Service	
	Food Service	Student/school Activity	2020 Refunding	2017B Refunding
Revenues				
Local sources	$ 64,695	$ 429,289	$ 122,617	$ 245,388
State sources	33,787	-	-	-
Federal sources	605,915	-	-	-
Total revenues	704,397	429,289	122,617	245,388
Expenditures				
Food service	694,493	-	-	-
Student/school activity	-	407,551	-	-
Debt service:				
Principal	-	-	-	255,000
Interest	-	-	93,679	115,350
Agent fees and other	-	-	-	500
Total expenditures	694,493	407,551	93,679	370,850
Revenues over (under) expenditures	9,904	21,738	28,938	(125,462)
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	-	-	(84,262)	-
Issuance of long-term debt	-	-	43,323	101,307
Total other financing sources (uses)	-	-	(40,939)	101,307
Net change in fund balances	9,904	21,738	(12,001)	(24,155)
Fund balances, beginning of year	236,299	88,708	-	24,414
Fund balances, end of year	$ 246,203	$ 110,446	$ (12,001)	$ 259

Debt Service			
2016B Refunding	2009 Refunding	2009 Bonds	Total
$ 355,821	$ 284,295	$ -	$ 1,502,105
-	-	-	33,787
-	-	-	605,915
355,821	284,295	-	2,141,807
-	-	-	694,493
-	-	-	407,551
340,000	305,000	-	900,000
232,034	36,326	-	477,389
-	-	-	500
572,034	341,326	-	2,479,933
(216,213)	(57,031)	-	(338,126)
-	84,262	-	84,262
-	-	(1,180)	(85,442)
178,980	91,980	-	415,590
178,980	176,242	(1,180)	414,410
(37,233)	119,211	(1,180)	76,284
34,425	199,317	1,180	584,343
$ (2,808)	$ 318,528	$ -	$ 660,627

Hesperia Community Schools

Year Ended
June 30, 2023

Single Audit Act Compliance

Rehmann

This page intentionally left blank.

HESPERIA COMMUNITY SCHOOLS

Table of Contents

■ ■ ■ ■ ■

This page intentionally left blank.

Rehmann

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

November 29, 2023

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, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated November 29, 2023 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

2330 East Paris Ave SE, Grand Rapids, MI 49546 616.975.4100

HESPERIA COMMUNITY SCHOOLS

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2023

Federal Agency / Cluster / Program Title	Assistance Listing Number	Passed Through	Pass-through / Grantor Number	Approved Grant Award Amount
U.S. Department of Agriculture				
Local Food for Schools	10.185	**MDE**	230985	$ 3,576
Child Nutrition Cluster:				
National School Lunch - Breakfast	10.553	MDE	221970	168,024
National School Lunch - Breakfast	10.553	MDE	231970	139,075
National School Lunch - Lunch	10.555	MDE	220910	36,734
National School Lunch - Lunch	10.555	MDE	221960	390,369
National School Lunch - Lunch	10.555	MDE	231960	320,491
Entitlement Commodities (non-cash)	10.555	MDE	n/a	33,763
Bonus Commodities (non-cash)	10.555	MDE	n/a	635
Total Child Nutrition Cluster				
COVID-19 - Pandemic EBT Local Level Costs	10.649	MDE	210980	628
Forest Service Schools and Roads Cluster:				
School and Roads - Basic Grants to States	10.665	NC	n/a	225
Total U.S. Department of Agriculture				
U.S. Department of Education				
Title I, Part A	84.010	MDE	221530-2122	287,123
Title I, Part A	84.010	MDE	231530-2223	259,393
Special Education Cluster:				
IDEA	84.027A	NCRESA	200450-2122	143,668
IDEA	84.027A	NCRESA	200450-2021	140,520
Total Special Education Cluster				
Title V, Part B	84.358	MDE	220660-2122	35,314
Title V, Part B	84.358	MDE	223660-2223	23,570
Title II, Part A	84.367	MDE	220520-2122	78,366
Title II, Part A	84.367	MDE	230520-2223	33,792
Title IV, Part A	84.424	MDE	220750-2122	23,215
Title IV, Part A	84.424	MDE	210750-2021	26,537
COVID-19 - Education Stabilization Fund:				
COVID-19 - ESSER II Formula	84.425D	MDE	213712-2122	965,645
COVID-19 - 98c Learning Loss	84.425D	MDE	213782-2223	45,060
COVID-19 - ARP ESSER III Formula	84.425U	MDE	213713-2122	1,445,092
Total U.S. Department of Education				
Total Federal Financial Assistance				

See notes to schedule of expenditures of federal awards.

Accrued (Unearned) Revenue June 30, 2022	Current Year Cash Received	Expenditures (Memo Only) Prior Years	Adjustments	Expenditures Year Ended June 30, 2023	Accrued (Unearned) Revenue June 30, 2023
$ -	$ -	$ -	$ -	$ 3,576	$ 3,576
7,148	28,835	146,337	-	21,687	-
-	135,021	-	-	139,075	4,054
7,148	163,856	146,337	-	160,762	4,054
-	36,734	-	-	36,734	-
13,577	63,531	340,415	-	49,954	-
-	314,843	-	-	320,491	5,648
-	33,763	-	-	33,763	-
-	635	-	-	635	-
13,577	449,506	340,415	-	441,577	5,648
20,725	613,362	486,752	-	602,339	9,702
-	628	-	-	628	-
-	225	-	-	225	-
20,725	614,215	486,752	-	606,768	13,278
98,784	101,657	280,692	-	2,873	-
-	162,125	-	-	202,828	40,703
98,784	263,782	280,692	-	205,701	40,703
40,541	40,541	143,668	-	-	-
-	67,164	-	-	67,164	-
40,541	107,705	143,668	-	67,164	-
27,576	35,314	27,576	-	7,738	-
-	17,476	-	-	17,476	-
27,576	52,790	27,576	-	25,214	-
21,809	27,611	72,564	-	5,802	-
-	23,770	-	-	23,770	-
21,809	51,381	72,564	-	29,572	-
3,502	6,613	20,104	-	3,111	-
-	10,109	-	-	10,109	-
3,502	16,722	20,104	-	13,220	-
-	3,618	962,027	-	3,618	-
-	-	-	-	45,060	45,060
-	1,163,731	281,361	18,336	1,145,395	-
-	1,167,349	1,243,388	18,336	1,194,073	45,060
192,212	1,659,729	1,787,992	18,336	1,534,944	85,763
$ 212,937	$ 2,273,944	$ 2,274,744	$ 18,336	$ 2,141,712	$ 99,041

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, 2023. 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 or other applicable 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. ADJUSTMENT

The COVID-19 - ARP ESSER II Formula grant revenue has been adjusted by $18,336 to account for prior year grant expenditures not reported on the prior year Schedule. This adjustment has been recorded as revenue on the current year Schedule and the financial statements.

Notes to Schedule of Expenditures of Federal Awards

4. 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
NC	Newaygo County
NCRESA	Newaygo County RESA

■ ■ ■ ■ ■

This page intentionally left blank.

Rehmann

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*

November 29, 2023

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, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 29, 2023.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, as items 2023-001, -002, -003, and -004 that we consider to be material weaknesses.

WE ARE AN INDEPENDENT MEMBER OF THE GLOBAL ADVISORY AND ACCOUNTING NETWORK

2330 East Paris Ave SE, Grand Rapids, MI 49546 616.975.4100

Report on Compliance and Other Matters

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

Hesperia Community Schools' Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's responses to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Robson LLC

Rehmann

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

November 29, 2023

Board of Education
Hesperia Community Schools
Hesperia, Michigan

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited the compliance of the ***Hesperia Community Schools*** (the "District") with the types of compliance requirements identified as subject to audit 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, 2023. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

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, 2023.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Independent Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

HLB WE ARE AN INDEPENDENT MEMBER OF THE GLOBAL ADVISORY AND ACCOUNTING NETWORK

2330 East Paris Ave SE, Grand Rapids, MI 49546 616.975.4100

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the District's federal programs.

Independent Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards,* and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards,* and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.

- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2023-005 and -006. Our opinion on the major federal program is not modified with respect to these matters.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Independent Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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 a combination of deficiencies, in internal control over compliance such that there is 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-006 to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-005 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards require the auditor to perform limited procedures on the District's responses to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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.

Rehmann Robson LLC

HESPERIA COMMUNITY SCHOOLS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2023

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	X yes	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?	X yes	no
Significant deficiency(ies) identified?	yes	X none reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	X yes	no

Identification of major programs and type of auditors' report issued on compliance for each major program:

Assistance Listing Number	Name of Federal Program or Cluster	Type of Report
84.425	Education Stabilization Fund	Qualified

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000	
Auditee qualified as low-risk auditee?	yes	X no

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2023

SECTION II – FINANCIAL STATEMENT FINDINGS

2023-001 - Material Audit Adjustments (Repeat Finding)

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition. We identified and proposed material audit adjustments to record receivables for state aid and federal grants, to reclassify current year activity to the student activity fund from the trust and agency fund, reclassify property taxes collected to the correct revenue accounts, adjust health insurance related balance sheet accounts, reclassify ESSER III expenditures to proper grant expenditure accounts, reclassify payroll liability ACH amounts from cash to the appropriate liability accounts, accrued additional ORS expenditures for employees not reported to the ORS system for the year and to reclassify state aid revenue to the appropriate revenue account.

Cause. This condition was the result of internal controls not detecting all adjustments necessary to properly state year-end balances.

Effect. As a result of this condition, the District's accounting records were initially misstated by amounts material to the financial statements.

Recommendation. Management has already taken appropriate corrective action by posting correcting journal entries. However, we recommend that the District prepare, review, and reconcile all year-end balances as well as the schedules that are used in financial reporting prior to audit fieldwork.

View of Responsible Officials. We concur with the audit assessment regarding this matter.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2023

2023-002 - Review and Approval of Transactions and Bank Reconciliations (Repeat Finding)

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the District's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Condition. During the review of journal entries and the cash receipts walkthrough testing, we noted there was no process set for the reviewal of journal entries and bank reconciliations. For journal entry testing, there were emails to the Superintendent approving changes that had to be made and some approvals from the board, but there was no process in place for the reviewal of the journal entries as a whole. For the cash receipts walkthrough, we noted that there is no formal process in place for the review of bank reconciliations. Furthermore, bank reconciliations were not prepared or not prepared timely for the entire fiscal year. We recommend that the District implements a process for reviewing journal entries and bank reconciliations, and sign off on the documents following their review and to develop a process whereby, all bank accounts are reconciled monthly on a timely basis.

Cause. This condition is a result of the District's limited resources, and the small size of its accounting staff, turnover of key personnel and lack of attention to doing reconciliations in a timely matter.

Effect. As a result of this condition, the District was exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management on a timely basis.

Recommendation. While there are no easy answers to the challenge of balancing the costs and benefits of internal control and segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation and approval of accounting functions by qualified members of management as possible. We also recommend that a schedule is established that mandates that all bank accounts are reconciled monthly in a timely matter and that the Superintendent monitor that schedule and validate that the reconciliations have been completed in accordance with the agreed-upon completion schedule.

View of Responsible Officials. We concur with the audit assessment regarding this matter.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2023

2023-003 - Controls over Payroll Reporting

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the District's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Condition. We noted several control issues while testing the payroll expenditure cycle. The issues included: (1) Approval and payment of overtime built into administrative employment contracts. Documentation provided by the District indicates that overtime amounts were paid, possibly in excess of amounts approved in the administrative contract. It also appears that some amounts may not have been appropriately approved by the immediate supervisor. (2) Five employees were identified as not being reported to the ORS for the entire school year due to improper setup in the SDS accounting system. The amount due to ORS when these employees are corrected within the ORS system was estimated in excess of $40,000 and was accrued at year end via audit journal entry. (3) The District does not have a reconciliation process in place to verify that employees and amounts to be remitted to the ORS for employee and employer contributions. Due to this lack of control process the District had overpaid and underpaid the defined contribution and defined benefit contributions throughout the year. At year end there was a substantial overpayment. (4) Audit procedure performed related to the general fund bank reconciliations discovered payments for a federal payroll tax deposit, and ORS contribution remittance and Michigan withholding remittance were created in the SDS accounting system but not actually remitted to the various authorities. This issue also caused misreporting in the June 2023 quarterly employer tax reporting (form 941) that reported the amount of tax deposits for the quarter incorrectly. (5) Due to responses received on our standards fraud inquiries and related follow-up, we noted that there is a lack of monitoring of administrative contracts.

Cause. This condition is a result of the District's limited resources, and the small size of its accounting staff and lack of proper training.

Effect. As a result of this condition, the District is exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management on a timely basis.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2023

2023-003 - Controls over Payroll Reporting (Concluded)

Recommendation. We recommend that the District review its current payroll practices and develop controls, checklists, and reconciliation processes related to payroll to avoid duplication of these issues in the future. We also recommend that the District work with its software vendor to fully utilize the features available in the software related to payroll. We also recommend that a process is put in place to monitor all elements of compensation related to administrative contracts. We also recommend that the District arranges for proper training related to the payroll function and the use of the District's payroll accounting software.

View of Responsible Officials. We concur with the audit assessment regarding this matter.

2023-004 - Preparation of the Schedule of Expenditures of Federal Awards (Repeat Finding)

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. The Uniform Guidance requires that the District identify in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the assistance listing number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any. In addition, the District is required to "prepare appropriate financial statements, included the schedule of expenditures of Federal awards."

Condition. Management was unable to provide a complete schedule of expenditures of federal awards (Schedule) during the audit fieldwork, and the Schedule had to be adjusted by amounts material to the financial statements for incorrect amounts as a result of not recording due from other government accruals.

Cause. This condition was the result of errors in the correct accounting for certain grant programs on the Schedule along with errors in adjusting due from other government accruals.

Effect. As a result of this condition, the schedule of expenditures of federal awards was initially misstated by a material amount.

Recommendation. We recommend that the District evaluate its processes to ensure that all federal programs, and the required information related to those programs, are appropriately included on the Schedule. In addition, grant tie outs should be completed and reviewed to verify that expenditures, revenues, and the related receivables for grants are properly recorded.

View of Responsible Officials. We concur with the audit assessment regarding this matter.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2023

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2023-005 - Documentation of Payroll Charged to Federal Programs

Finding Type. Immaterial Noncompliance/Significant Deficiency in Internal Controls over Compliance (Allowable Costs/Cost Principles).

Program. Education Stabilization Fund; U.S. Department of Education; Assistance Listing Number 84.425; Passed through Michigan Department of Education (MDE); Project numbers 213782-2223 and 213713-2122.

Criteria. Section 200.430(i)(1) of the Uniform Grant Guidance states that; Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must: (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated; (ii) Be incorporated into the official records of the non-Federal entity; (iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities; (iv) Encompass both federally assisted and all other activities compensated by the non-Federal entity on an integrated basis, but may include the use of subsidiary records as defined in the non-Federal entity's written policy; (v) Comply with the established accounting policies and practices of the non-Federal entity; and (vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

Condition. During testing of payroll disbursements, it was noted that: 1) no documentation was found to support the $50.00 per run summer bus driver rate or the $500 stipend bonus paid to summer bus drivers, and 2) Two of the contracts selected were pro-rated for late start (total hours expected) and for number of pay periods spread). The amounts were eventually recalculated with available documents, but the initial calculation of the pro-ration was not retained by management.

Cause. The cause of this condition appears to be that the former business manager did not take due care in making sure that documentation existed to support the salaries and wages being charged to the program.

Effect. Certain of the District's federal expenditures were not documented in accordance with the Uniform Guidance.

Questioned Costs. No costs were required to be questioned based on our testing.

Recommendation. We recommend that the District staff in charge of payroll administration familiarize themselves with the documentation requirements of the Uniform Guidance and retain supporting documentation to support the payroll costs charged to federal awards.

View of Responsible Officials. We concur with the audit assessment regarding this matter.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2023

2023-006 - Documentation of Retirement Costs Charged to Federal Programs

Finding Type. Immaterial Noncompliance/Material Weakness in Internal Controls over Compliance (Allowable Costs/Cost Principles).

Program. Education Stabilization Fund; U.S. Department of Education; Assistance Listing Number 84.425; Passed through Michigan Department of Education (MDE); Project numbers 213782-2223 and 213713-2122.

Criteria. Section 200.431(g) of the Uniform Grant Guidance states that; Pension plan costs which are incurred in accordance with the established policies of the non-Federal entity are allowable, provided that: (1) Such policies meet the test of reasonableness. (2) The methods of cost allocation are not discriminatory. (3) For entities using accrual based accounting, the cost assigned to each fiscal year is determined in accordance with GAAP.

Condition. During testing of fringe benefit rates, as a percentage of total salaries and wages, we noted that the rate of retirement costs was significantly greater than the rate noted at the District-wide level. Management did not have a supporting calculation for the amount of retirement costs charge to the federal program.

Cause. The cause of this condition appears to be that the former business manager did not take due care in making sure that documentation existed to support the fringe benefit costs being charged to the program.

Effect. Certain of the District's federal expenditures were not documented in accordance with the Uniform Guidance.

Questioned Costs. The amount charged to the program exceeded the estimated allowable cost by $36,019.

Recommendation. We recommend that the District staff in charge of payroll administration familiarize themselves with the documentation requirements of the Uniform Guidance and retain supporting documentation to support the fringe benefit costs charged to federal awards.

View of Responsible Officials. We concur with the audit assessment regarding this matter.

Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2023

Finding 2022-001 – Material Audit Adjustments

Finding Type. Material Weakness in Internal Control over Financial Reporting.

The auditors identified and proposed material audit adjustments related to due from other governments, accounts payable, accrued liabilities, unearned revenue, and federal revenue.. This matter was repeated as finding 2023-001.

2022-002 - Preparation of the Schedule of Expenditures of Federal Awards

Finding Type. Material Weakness in Internal Control over Financial Reporting.

The District was unable to provide a complete schedule of expenditures of federal awards (Schedule) during the audit fieldwork, and the Schedule had to be adjusted by amounts material to the financial statements for incorrect amounts as a result of not recording due from other government accruals. This matter was repeated as finding 2023-004.

2022-003 Segregation of Incompatible Duties

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Various areas were noted that lacked segregation of duties as follows: No independent review and approval of bank reconciliations and no review and approval of journal entries. This matter was repeated as finding 2023-002, Review and Approval of Transactions and Bank Reconciliations.

■ ■ ■ ■ ■

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

Corrective Action Plan

Certain matters were brought to our attention as a result of the audit process. These are described more fully in the Schedule of Findings and Questioned Costs. We evaluated the matters as noted below and have described our planned actions as a result.

2023-001 - Material Audit Adjustments (Repeat Finding)

Auditor Description of Condition and Effect: We identified and proposed material audit adjustments to record receivables for state aid and federal grants, to reclassify current year activity to the student activity fund from the trust and agency fund, reclassify property taxes collected to the correct revenue accounts, adjust health insurance related balance sheet accounts, reclassify ESSER III expenditures to proper grant expenditure accounts, reclassify payroll liability ACH amounts from cash to the appropriate liability accounts, accrued additional ORS expenditures for employees not reported to the ORS system for the year and to reclassify state aid revenue to the appropriate revenue account. As a result of this condition, the District's accounting records were initially misstated by amounts material to the financial statements.

Auditor Recommendation: Management has already taken appropriate corrective action by posting correcting journal entries. However, we recommend that the District prepare, review, and reconcile all year-end balances as well as the schedules that are used in financial reporting prior to audit fieldwork.

Management Assessment. We concur with the audit assessment regarding this matter.

Planned Corrective Action. The District will follow the Auditor's Recommendation.

Responsible Party. Bryan Mey, Superintendent, and Patricia Budde, Interim Business Manager

Date of Planned Corrective Action. June 30, 2024

2023-002 - Review and Approval of Transactions and Bank Reconciliations (Repeat Finding)

Auditor Description of Condition and Effect: During the review of journal entries and the cash receipts walkthrough testing, we noted there was no process set for the review of journal entries and bank reconciliations. For journal entry testing, there were emails to the Superintendent approving changes that had to be made and some approvals from the board, but there was no process in place for the review of the journal entries as a whole. For the cash receipts walkthrough, we noted that there is no formal process in place for the review of bank reconciliations. Furthermore, bank reconciliations were not prepared or not prepared timely for the entire fiscal year. We recommend that the District implements a process for reviewing journal entries and bank reconciliations, and sign off on the documents following their review and to develop a process whereby, all bank accounts are reconciled monthly on a timely basis. As a result of this condition, the District was exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management on a timely basis.

Auditor Recommendation: While there are no easy answers to the challenge of balancing the costs and benefits of internal control and segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation and approval of accounting functions by qualified members of management as possible. We also recommend that a schedule is established that mandates that all bank accounts are reconciled monthly in a timely matter and that the Superintendent monitor that schedule and validate that the reconciliations have been completed in accordance with the agreed-upon completion schedule.

Management Assessment. We concur with the audit assessment regarding this matter.

Planned Corrective Action. The District will follow the Auditor's Recommendation.

Responsible Party. Bryan Mey, Superintendent, and Patricia Budde, Interim Business Manager

Date of Planned Corrective Action. June 30, 2024

2023-003 - Controls over Payroll Reporting

Auditor Description of Condition and Effect: We noted several control issues while testing the payroll expenditure cycle. The issues included: (1) Approval and payment of overtime built into administrative employment contracts. Documentation provided by the District indicates that overtime amounts were paid, possibly in excess of amounts approved in the administrative contract. It also appears that some amounts may not have been appropriately approved by the immediate supervisor. (2) Five employees were identified as not being reported to the ORS for the entire school year due to improper setup in the SDS accounting system. The amount due to ORS when these employees are corrected within the ORS system was estimated in excess of $40,000 and was accrued at year end via audit journal entry. (3) The District does not have a reconciliation process in place to verify that employees and amounts to be remitted to the ORS for employee and employer contributions. Due to this lack of control process the District had overpaid and underpaid the defined contribution and defined benefit contributions throughout the year. At year end there was a substantial overpayment. (4) Audit procedure performed related to the general fund bank reconciliations discovered payments for a federal payroll tax deposit, and ORS contribution remittance and Michigan withholding remittance were created in the SDS accounting system but not actually remitted to the various authorities. This issue also caused misreporting in the June 2023 quarterly employer tax reporting (form 941) that reported the amount of tax deposits for the quarter incorrectly. (5) Due to responses received on our standards fraud inquiries and related follow-up, we noted that there is a lack of monitoring of administrative contracts. As a result of this condition, the District is exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management on a timely basis.

Auditor Recommendation: We recommend that the District review its current payroll practices and develop controls, checklists, and reconciliation processes related to payroll to avoid duplication of these issues in the future. We also recommend that the District work with its software vendor to fully utilize the features available in the software related to payroll. We also recommend that a process is put in place to monitor all elements of compensation related to administrative contracts. We also recommend that the District arranges for proper training related to the payroll function and the use of the District's payroll accounting software.

Management Assessment. We concur with the audit assessment regarding this matter.

Planned Corrective Action. The District will follow the Auditor's Recommendation.

Responsible Party. Bryan Mey, Superintendent, and Patricia Budde, Interim Business Manager

Date of Planned Corrective Action. June 30, 2024

2023-004 - Preparation of the Schedule of Expenditures of Federal Awards (Repeat Finding)

Auditor Description of Condition and Effect: Management was unable to provide a complete schedule of expenditures of federal awards (Schedule) during the audit fieldwork, and the Schedule had to be adjusted by amounts material to the financial statements for incorrect amounts as a result of not recording due from other government accruals. As a result of this condition, the schedule of expenditures of federal awards was initially misstated by a material amount.

Auditor Recommendation: We recommend that the District evaluate its processes to ensure that all federal programs, and the required information related to those programs, are appropriately included on the Schedule. In addition, grant tie outs should be completed and reviewed to verify that expenditures, revenues, and the related receivables for grants are properly recorded.

Management Assessment. We concur with the audit assessment regarding this matter.

Planned Corrective Action. The District will follow the Auditor's Recommendation.

Responsible Party. Bryan Mey, Superintendent, and Patricia Budde, Interim Business Manager

Date of Planned Corrective Action. June 30, 2024

2023-005 - Documentation of Payroll Charged to Federal Programs

Auditor Description of Condition and Effect: During testing of payroll disbursements, it was noted that: 1) no documentation was found to support the $50.00 per run summer bus driver rate or the $500 stipend bonus paid to summer bus drivers, and 2) Two of the contracts selected were pro-rated for late start (total hours expected) and for number of pay periods spread). The amounts were eventually recalculated with available documents, but the initial calculation of the pro-ration was not retained by management. Certain of the District's federal expenditures were not documented in accordance with the Uniform Guidance.

Auditor Recommendation: We recommend that the District staff in charge of payroll administration familiarize themselves with the documentation requirements of the Uniform Guidance and retain supporting documentation to support the payroll costs charged to federal awards.

Management Assessment. We concur with the audit assessment regarding this matter.

Planned Corrective Action. The District will follow the Auditor's Recommendation.

Responsible Party. Bryan Mey, Superintendent, and Patricia Budde, Business Manager

Date of Planned Corrective Action. June 30, 2024

2023-006 - Documentation of Retirement Costs Charged to Federal Programs

Auditor Description of Condition and Effect: During testing of fringe benefit rates, as a percentage of total salaries and wages, we noted that the rate of retirement costs was significantly greater than the rate noted at the District-wide level. Management did not have a supporting calculation for the amount of retirement costs charge to the federal program. Certain of the District's federal expenditures were not documented in accordance with the Uniform Guidance.

Auditor Recommendation: We recommend that the District staff in charge of payroll administration familiarize themselves with the documentation requirements of the Uniform Guidance and retain supporting documentation to support the fringe benefit costs charged to federal awards.

Management Assessment. We concur with the audit assessment regarding this matter.

Planned Corrective Action. The District will follow the Auditor's Recommendation.

Responsible Party. Bryan Mey, Superintendent, and Patricia Budde, Business Manager

Date of Planned Corrective Action. June 30, 2024

Rehmann

INDEPENDENT AUDITORS' COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

November 29, 2023

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, 2023, and have issued our report thereon dated November 29, 2023. 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 18, 2023, 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 entity'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 November 29, 2023. In addition, we noted certain other matters which are included in Attachment A to this letter.

2330 East Paris Ave SE, Grand Rapids, MI 49546 616.975.4100

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.

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.

Significant Risks Identified

We have identified the risks of management override of internal control, improper revenue recognition, and the completeness of subscription-based information technology arrangements (SBITAs) as significant risks, and have obtained an understanding of the District's related controls, including control activities, relevant to such risks.

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

The timing of our audit procedures was delayed from the schedule agreed upon during the planning stages of our engagement. This was due to the delays in receiving a reasonably adjusted trial balance and accurate supporting documentation in the expected timeframe.

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. The material misstatements detected as a result of audit procedures and corrected by management are described in the Schedule of Findings and Questioned Costs issued in connection with the Single Audit.

The schedule of adjustments passed is included with management's written representations in Attachment C to this letter, and summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each applicable opinion unit.

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,

Rehmann Robson LLC

HESPERIA COMMUNITY SCHOOLS

Attachment A - Comments and Recommendations

For the June 30, 2023 Audit

During our audit, we became aware of certain other matters that are opportunities for strengthening internal control and/or improving operating efficiency. This memorandum summarizes our comments and recommendations regarding those matters. Our consideration of the District's internal control over financial reporting is described in our report, dated November 29, 2023, issued in accordance with *Government Auditing Standards.* This memorandum does not affect that report or our report dated November 29, 2023, on the financial statements of the Hesperia Community Schools.

Transparency Reporting

During our review of the District's required transparency reporting on its website, we noted that the final amended budgets for the general fund and its special revenue funds were not present. We recommend that the transparency reporting website be reviewed periodically in order to assure that required information is posted.

Fidelity Bond Coverage

According to the Association of Certified Fraud Examiners (ACFE), the average loss due to fraud in a government organization is $1,812,000. During our review of the District's fidelity bond coverage, we noted the District's coverage amount is $200,000. We suggest, based upon industry knowledge that the District consider increasing that coverage amount in conjunction with discussions with its insurance provider.

Salary Accrual Documentation

Contracts were not available for three of thirteen teachers selected for salary accrual testing; we relied on internal payroll reporting for these contract amounts. Per our inquiries the selected teachers are employed by a local charter school and contracted to the District to teach certain extra-curricular classes. In the past, there have been formal agreements regarding the amount these teachers are paid, but formal agreements were not prepared for the 2022-23 school year. We recommend that all contracted employee pay be documented and agreed upon before the beginning of their tenure and that such agreement would be in writing and signed by the parties to the arrangement.

■ ■ ■ ■ ■

Attachment B - Upcoming Changes in Accounting Standards / Regulations

For the June 30, 2023 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 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 100 ■ Accounting Changes and Error Corrections

Effective 06/15/2024 (your FY 2024)

This standard clarifies the presentation and disclosure requirements for prior period adjustments to beginning net position. We do not expect this standard to have any significant effect on the District.

GASB 101 ■ Compensated Absences

Effective 12/15/2024 (your FY 2025)

This standard revises the liability governments record for compensated absences payable to include any sick, vacation, personal time, or other PTO reasonably expected to be used by employees or paid out to them at termination.

■ ■ ■ ■ ■

HESPERIA COMMUNITY SCHOOLS

Attachment C - Management Representations

For the June 30, 2023 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

November 29, 2023

Rehmann Robson LLC
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, 2023, 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 respective financial position, results of operations, and the budgetary comparison for the general 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 November 29, 2023:

Financial Statements

We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated July 18, 2023, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP.

The financial statements referred to above have been fairly presented in accordance with U.S. GAAP, and include all properly classified funds, required supplementary information, and notes to the basic financial statements.

We have reviewed and approved the various adjusting journal entries that were proposed by you for recording in our books and records and reflected in the financial statements.

With respect to the nonattest services provided, which include any assistance you provided in drafting the financial statements and related notes, we have performed the following:

a. Made all management decisions and performed all management functions;
b. Assigned a competent individual to oversee the services;
c. Evaluated the adequacy of the services performed;
d. Evaluated and accepted responsibility for the result of the service performed; and

e. Established and maintained internal controls, including monitoring ongoing activities.

5. 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.
6. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
7. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
8. 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.
9. 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.
10. The effects of uncorrected misstatements summarized in the attached schedule and aggregated by you during the current engagement are immaterial, both individually and in the aggregate, to the applicable opinion units and to the financial statements as a whole.
11. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
12. 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.
13. All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
14. All funds and activities are properly classified.
15. 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.
16. All components of net position and fund balance classifications have been properly reported.
17. 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.
18. 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.
19. All interfund and intra-entity transactions and balances have been properly classified and reported.

20. Deposit and investment risks have been properly and fully disclosed.
21. Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
22. All required supplementary information is measured and presented within the prescribed guidelines.
23. We believe that the actuarial assumptions and methods used to measure pension and other postemployment benefit liabilities and costs for financial accounting purposes are appropriate in the circumstances.
24. We are responsible for the fair presentation of the District's proportionate share of the net pension and other postemployment liabilities of the Michigan Public School Employees Retirement System (MPSERS) and related amounts. We provided MPSERS with complete and accurate information regarding the District's participation in the plan, and have reviewed the information provided by MPSERS for inclusion in the District's financial statements.
25. In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. While the pandemic has resulted in an increase in the demands on the District to deliver education to students in a safe environment, the Federal Government has also provided significant resources to help mitigate the impacts of COVID-19. Over the past several years, the District has been awarded funds from various sources to be used to respond to the impacts of the COVID-19 pandemic. Of the amount awarded, approximately $1.2 million was expended and recognized as revenue during the current fiscal year. With these additional Federal resources, at this time management does not believe that the negative financial impact of the pandemic, if any, would be material to the District.

Information Provided

26. 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.
27. All transactions have been recorded in the accounting records and are reflected in the financial statements.
28. 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.
29. 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.

30. We have no knowledge of any instances, that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance, whether communicated by employees, former employees, vendors (contractors), regulators, or others.
31. We have no knowledge of any instances that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that has a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
32. We have no knowledge of any instances that have occurred or are likely to have occurred of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
33. We have a process to track the status of audit findings and recommendations.
34. We have identified for you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
35. We have provided views on your reported audit findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
36. 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.
37. 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.
38. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
39. The District has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
40. We have disclosed to you all guarantees, whether written or oral, under which the District is contingently liable.
41. 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.
42. 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 Statement No. 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 Statement No. 62.
43. The District 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.

44. 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.
45. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 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

46. 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

47. 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)

48. 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. We have identified and disclosed all of our government programs and related activities subject to the Uniform Guidance compliance audit.
h. 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.
i. 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.
j. 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.
k. We have provided to you our interpretations of any compliance requirements that have varying interpretations.
l. 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.
m. 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.
n. We have received no requests from a federal agency to audit one or more specific programs as a major program.
o. 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.

p. 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.

q. 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.

r. 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).

s. 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.

t. 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.

u. 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.

v. 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.

w. The reporting package does not contain protected personally identifiable information.

x. 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.

y. We have reviewed, approved, and taken responsibility for the financial statements and related notes.

z. 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.

Patricia Budde, Interim Business Manager

Bryan Mey (Nov 29, 2023 11:19 EST)

Bryan Mey, Superintendent

HESPERIA COMMUNITY SCHOOLS

Schedule of Adjustments Passed (SOAP)

For the June 30, 2023 Audit

In accordance with generally accepted auditing standards, we have prepared the following schedule of proposed audit adjustments, which we believe are immaterial both individually and in the aggregate. We are providing this schedule to both management and those charged with governance to receive their assurance that they agree that the amounts listed below are not material to the financial statements, either individually or in the aggregate, and do not need to be recorded.

	Effect of Passed Adjustment - Over(Under)Statement				
	Assets	Liabilities	Beginning Equity	Revenues	Expenses/ Expenditures
Governmental activities					
Understated salary accrual	$ -	$ (6,991)	$ -	$ -	$ (6,991)
Unreported prepaid item	(10,033)	-	-	-	10,033
	$ (10,033)	$ (6,991)	$ -	$ -	$ 3,042
Misstatement as a percentage of total liabilities - governmental activities	-0.02%	-0.02%	0.00%	0.00%	0.01%