

Hesperia
Community
Schools



Year Ended
June 30, 2021

Financial
Statements

Rehmann

HESPERIA COMMUNITY SCHOOLS

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INDEPENDENT AUDITORS' REPORT

September 27, 2021

Board of Education
Hesperia Community Schools
Hesperia, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Hesperia Community Schools** (the "District"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hesperia Community Schools as of June 30, 2021, and the respective changes in financial position, thereof and the respective budgetary comparison of the general fund and the major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated September 27, 2021 on our consideration of Hesperia Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Rehmann Lobson LLC". The signature is written in a cursive, flowing style.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

HESPERIA COMMUNITY SCHOOLS

Management's Discussion and Analysis

As management of Hesperia Community Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2021.

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 \$23,583,917.
- The District's total net position decreased by \$175,730.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,556,645, a decrease of \$69,324 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 \$1,128,219 or 10.8% 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, 2021.

HESPERIA COMMUNITY SCHOOLS

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 numerous 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. These funds include several debt service funds. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

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

Notes to Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management's discussion and analysis and the schedules for the MPSERS pension and other postemployment benefit plans immediately following the notes to the financial statements. The combining statements referred to earlier in connection with nonmajor governmental funds and General Fund detailed schedule of revenues, expenditures, and changes in fund balance - budget to actual are presented immediately following the required supplementary information.

HESPERIA COMMUNITY SCHOOLS

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 \$23,583,917 at June 30, 2021. 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	
	2021	2020
Assets		
Current and other assets	\$ 2,583,942	\$ 2,583,720
Capital assets, net	14,114,837	14,551,941
Total assets	<u>16,698,779</u>	<u>17,135,661</u>
Deferred outflows of resources	<u>6,007,380</u>	<u>6,956,008</u>
Liabilities		
Current and other liabilities	22,830,716	23,376,942
Long-term liabilities	20,574,877	21,204,342
Total liabilities	<u>43,405,593</u>	<u>44,581,284</u>
Deferred inflows of resources	<u>2,884,483</u>	<u>2,918,572</u>
Net position		
Net investment in capital assets	2,306,979	2,875,251
Restricted	227,874	236,209
Unrestricted (deficit)	(26,118,770)	(26,519,647)
Total net position	<u>\$ (23,583,917)</u>	<u>\$ (23,408,187)</u>

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

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

HESPERIA COMMUNITY SCHOOLS

Management's Discussion and Analysis

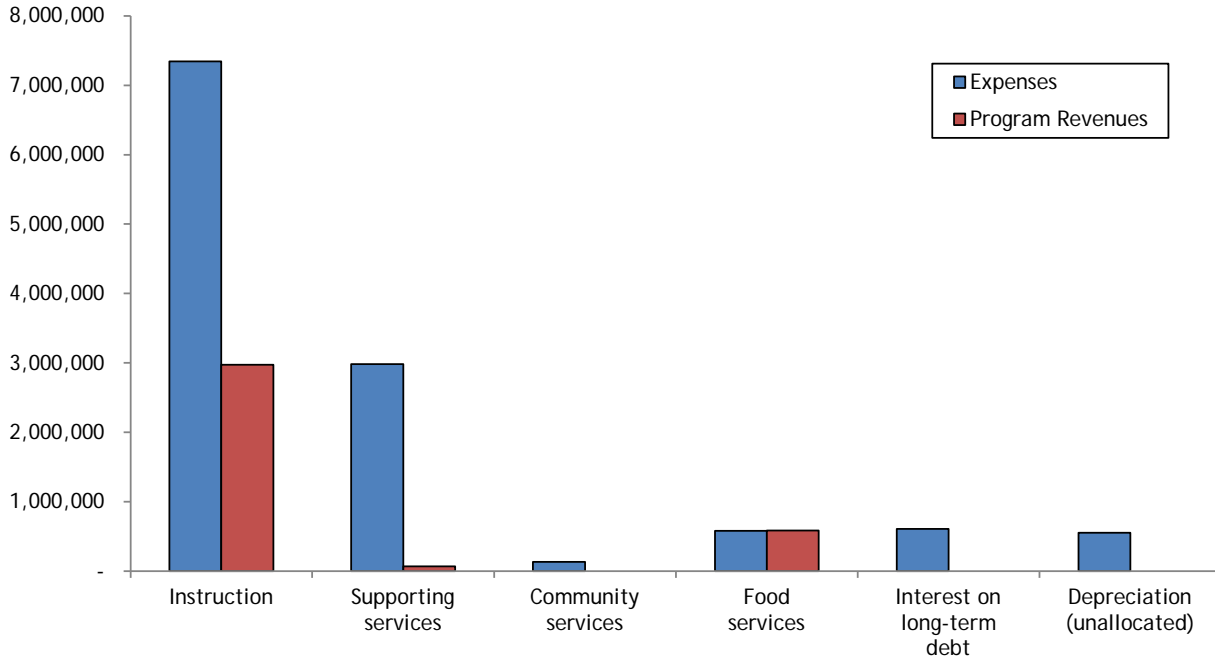
	Change in Net Position	
	2021	2020
Revenues		
Program revenues:		
Charges for services	\$ 31,311	\$ 73,284
Operating grants and contributions	3,596,975	3,329,096
General revenues:		
Property taxes - operations	933,420	930,911
Property taxes - debt service	1,104,768	1,072,395
Grants and contributions not restricted to specific programs	6,340,571	6,136,802
Unrestricted investment earnings	1,945	3,885
Other revenues	73,547	92,802
Total revenues	<u>12,082,537</u>	<u>11,639,175</u>
Expenses		
Instruction	7,343,453	7,230,634
Supporting services	2,981,890	2,916,186
Community services	135,791	143,762
Food services	579,086	614,208
Student/school activity	52,148	-
Interest on long-term debt	610,406	741,245
Unallocated depreciation	555,493	597,898
Total expenses	<u>12,258,267</u>	<u>12,243,933</u>
Change in net position	(175,730)	(604,758)
Net position, beginning of year	(23,408,187)	(22,869,382)
Restatement - GASB 84	-	65,953
Net position, end of year	<u>\$ (23,583,917)</u>	<u>\$ (23,408,187)</u>

Governmental Activities. Net position decreased by \$175,730 compared to a decrease of \$604,758 in the prior year. Expenses increased largely attributed to changes in staffing and wage increases. Staff retirements have resulted in an increase for training wages as well as paying the termination benefits.

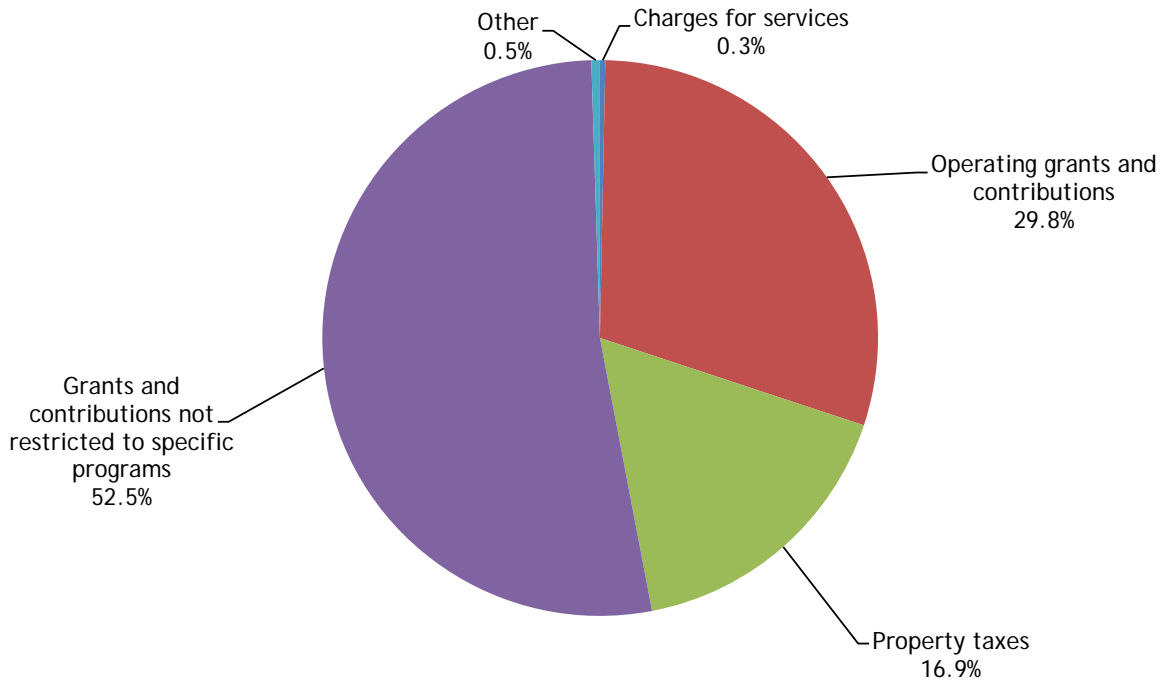
HESPERIA COMMUNITY SCHOOLS

Management's Discussion and Analysis

Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities



HESPERIA COMMUNITY SCHOOLS

Management's Discussion and Analysis

Financial Analysis of the Government's Funds

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

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

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,128,219, while the total fund balance was \$1,162,335. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance and total fund balance represent 10.8% and 11.2%, respectively, of total general fund expenditures.

The fund balance of the District's general fund decreased by \$48,467, or 4.0% from the prior year. The reason for the decrease in the fund balance was attributed to less than expected federal revenue. Additionally, the District monitored the budget closely with the intent of reducing expenditures when it reasonably could.

The fund balance of the District's food service fund increased by \$3,870 from the prior year. The reason for the increase was attributed to an increase in federal revenue.

General Fund Budgetary Highlights

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

- The budget for federal revenue sources increased based on an increase in grants. 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 decreased in total by \$940,013 from amended budget to actual. The reason for the decrease was attributed to decreases in spending at the various function levels resulting from staffing changes, less spending for professional development, grant carryovers, less utility expenditures than estimated, less in transportation costs than estimated, and overall budget monitoring with the intent of reducing expenditures where the District could.

HESPERIA COMMUNITY SCHOOLS

Management's Discussion and Analysis

- General fund total revenues decreased by \$167,710 from amended budget to actual. The reason for the decrease was largely attributed to less than expected federal grants and At Risk Funds.

Capital Asset and Debt Administration

Capital Assets. The District's investment in capital assets for its governmental activities as of June 30, 2021 amounted to \$14,114,837 (net of accumulated depreciation). Significant additions included renovations and additions to the District's facilities funded through voter-approved bond issues. Capital assets at year-end included the following:

	Capital Assets (Net of Depreciation)	
	2021	2020
Land	\$ 75,012	\$ 75,012
Buildings and improvements	13,234,278	13,590,906
Furniture and equipment	707,590	732,272
Vehicles	97,957	153,751
Total capital assets, net	\$ 14,114,837	\$ 14,551,941

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

Long-term Debt. At the end of the current fiscal year, the District had total long-term debt outstanding of \$20,574,877. The District's total debt decreased by \$629,465 during the current fiscal year as a result of principal payments on long-term debt.

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

Factors Bearing on the District's Future

The following factors were considered in preparing the District's budget for the 2021-2022 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.

HESPERIA COMMUNITY SCHOOLS

Management's Discussion and Analysis

- The budget for the year ended June 30, 2022 was adopted in June 2021 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

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BASIC FINANCIAL STATEMENTS

HESPERIA COMMUNITY SCHOOLS

Statement of Net Position

June 30, 2021

	Governmental Activities
Assets	
Cash and investments	\$ 904,056
Receivables	1,637,427
Other assets	42,459
Capital assets not being depreciated	75,012
Capital assets being depreciated, net	<u>14,039,825</u>
Total assets	<u>16,698,779</u>
Deferred outflows of resources	
Deferred charge on advance bond refundings	606,070
Deferred pension amounts	4,026,968
Deferred other postemployment benefit amounts	<u>1,374,342</u>
Total deferred outflows of resources	<u>6,007,380</u>
Liabilities	
Accounts payable and accrued liabilities	1,079,811
Unearned revenue	40,131
Long-term debt:	
Due within one year	2,019,343
Due in more than one year	18,555,534
Net pension liability (due in more than one year)	18,783,295
Net other postemployment benefit liability (due in more than one year)	<u>2,927,479</u>
Total liabilities	<u>43,405,593</u>
Deferred inflows of resources	
Deferred pension amounts	514,589
Deferred other postemployment benefit amounts	<u>2,369,894</u>
Total deferred inflows of resources	<u>2,884,483</u>
Net position	
Net investment in capital assets	2,306,979
Restricted for:	
Food service operations	186,959
Debt service	40,915
Unrestricted deficit	<u>(26,118,770)</u>
Total net position	<u>\$ (23,583,917)</u>

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

HESPERIA COMMUNITY SCHOOLS

Statement of Activities

For the Year Ended June 30, 2021

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 7,343,453	\$ -	\$ 2,972,906	\$ (4,370,547)
Supporting services	2,981,890	22,996	47,105	(2,911,789)
Community services	135,791	-	-	(135,791)
Food services	579,086	8,315	576,964	6,193
Student/school activity	52,148	-	-	(52,148)
Interest on long-term debt	610,406	-	-	(610,406)
Unallocated depreciation	555,493	-	-	(555,493)
Total governmental activities	<u>\$ 12,258,267</u>	<u>\$ 31,311</u>	<u>\$ 3,596,975</u>	<u>(8,629,981)</u>
General revenues				
Property taxes - operations				933,420
Property taxes - debt service				1,104,768
Grants and contributions not restricted to specific programs				6,340,571
Unrestricted investment earnings				1,945
Other revenues				73,547
Total general revenues				<u>8,454,251</u>
Change in net position				(175,730)
Net position, beginning of year				<u>(23,408,187)</u>
Net position, end of year				<u><u>\$ (23,583,917)</u></u>

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

HESPERIA COMMUNITY SCHOOLS

Balance Sheet

Governmental Funds

June 30, 2021

	General Fund	Food Service	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and investments	\$ 678,717	\$ 16,488	\$ 208,851	\$ 904,056
Due from other governments	1,614,038	23,389	-	1,637,427
Due from other funds	1,500	143,593	203,509	348,602
Inventory	34,116	8,343	-	42,459
Total assets	<u>\$ 2,328,371</u>	<u>\$ 191,813</u>	<u>\$ 412,360</u>	<u>\$ 2,932,544</u>
Liabilities				
Accounts payable	\$ 169,533	\$ 4,854	\$ -	\$ 174,387
Accrued liabilities	812,779	-	-	812,779
Due to other funds	143,593	-	205,009	348,602
Unearned revenue	40,131	-	-	40,131
Total liabilities	<u>1,166,036</u>	<u>4,854</u>	<u>205,009</u>	<u>1,375,899</u>
Fund balances				
Nonspendable	34,116	8,343	-	42,459
Restricted	-	178,616	133,560	312,176
Committed	-	-	73,791	73,791
Unassigned	1,128,219	-	-	1,128,219
Total fund balances	<u>1,162,335</u>	<u>186,959</u>	<u>207,351</u>	<u>1,556,645</u>
Total liabilities and fund balances	<u>\$ 2,328,371</u>	<u>\$ 191,813</u>	<u>\$ 412,360</u>	<u>\$ 2,932,544</u>

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

HESPERIA COMMUNITY SCHOOLS

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2021

Fund balances - total governmental funds \$ 1,556,645

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	14,039,825

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 loans payable	(19,493,272)
Compensated absences	(182,053)
Unamortized bond premiums	(915,836)
Unamortized bond discounts	16,284
Unamortized deferred charge on advance bond refunding	606,070
Accrued interest on bonds payable	(92,645)

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

Net pension liability	(18,783,295)
Deferred outflows related to the net pension liability	4,026,968
Deferred inflows related to the net pension liability	(514,589)
Net other postemployment benefit liability	(2,927,479)
Deferred outflows related to the net other postemployment benefit liability	1,374,342
Deferred inflows related to the net other postemployment benefit liability	(2,369,894)

Net position of governmental activities \$ (23,583,917)

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, 2021

	General Fund	Food Service	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Local sources	\$ 1,258,618	\$ 8,333	\$ 1,153,190	\$ 2,420,141
Interdistrict sources	112,597	-	-	112,597
State sources	8,014,362	38,661	-	8,053,023
Federal sources	958,473	538,303	-	1,496,776
Total revenues	10,344,050	585,297	1,153,190	12,082,537
Expenditures				
Current:				
Instruction	7,161,036	-	-	7,161,036
Supporting services	3,047,452	-	-	3,047,452
Community services	135,452	-	-	135,452
Food services	-	572,527	-	572,527
Student/school activity	-	-	52,147	52,147
Debt service:				
Principal	57,477	-	1,775,000	1,832,477
Interest	-	-	607,445	607,445
Agent fees and other	-	-	2,429	2,429
Total expenditures	10,401,417	572,527	2,437,021	13,410,965
Revenues over (under) expenditures	(57,367)	12,770	(1,283,831)	(1,328,428)
Other financing sources (uses)				
Transfers in	8,900	-	120,598	129,498
Transfers out	-	(8,900)	(120,598)	(129,498)
Issuance of long-term debt	-	-	1,259,104	1,259,104
Total other financing sources (uses)	8,900	(8,900)	1,259,104	1,259,104
Net change in fund balances	(48,467)	3,870	(24,727)	(69,324)
Fund balances, beginning of year	1,210,802	183,089	232,078	1,625,969
Fund balances, end of year	\$ 1,162,335	\$ 186,959	\$ 207,351	\$ 1,556,645

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

HESPERIA COMMUNITY SCHOOLS

Reconciliation

Net Change in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended June 30, 2021

Net change in fund balances - total governmental funds \$ (69,324)

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	118,389
Depreciation expense	(555,493)

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

Principal payments on long-term debt	1,832,477
Issuance of long-term debt	(1,259,104)
Accrued interest on School Loan Fund added to principal	(42,407)
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	(770,182)
Change in the net other postemployment benefit liability and related deferred amounts	501,120
Change in accrued interest payable on bonds	8,596
Change in compensated absences payable	26,919

Change in net position of governmental activities \$ (175,730)

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, 2021

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Local sources	\$ 1,149,415	\$ 1,354,361	\$ 1,258,618	\$ (95,743)
Interdistrict sources	117,307	123,140	112,597	(10,543)
State sources	7,323,353	7,899,800	8,014,362	114,562
Federal sources	584,989	1,134,459	958,473	(175,986)
Total revenues	<u>9,175,064</u>	<u>10,511,760</u>	<u>10,344,050</u>	<u>(167,710)</u>
Expenditures				
Current:				
Instruction	6,706,545	7,515,339	7,161,036	(354,303)
Supporting services	2,876,499	3,630,388	3,047,452	(582,936)
Community services	144,105	138,163	135,452	(2,711)
Debt service:				
Principal	56,244	57,478	57,477	(1)
Capital outlay	562	62	-	(62)
Total expenditures	<u>9,783,955</u>	<u>11,341,430</u>	<u>10,401,417</u>	<u>(940,013)</u>
Revenues over (under) expenditures	<u>(608,891)</u>	<u>(829,670)</u>	<u>(57,367)</u>	<u>772,303</u>
Other financing sources				
Transfers in	8,900	8,900	8,900	-
Issuance of long-term debt	-	426,870	-	(426,870)
Total other financing sources	<u>8,900</u>	<u>435,770</u>	<u>8,900</u>	<u>(426,870)</u>
Net change in fund balance	<u>(599,991)</u>	<u>(393,900)</u>	<u>(48,467)</u>	<u>345,433</u>
Fund balance, beginning of year	<u>1,210,802</u>	<u>1,210,802</u>	<u>1,210,802</u>	<u>-</u>
Fund balance, end of year	<u>\$ 610,811</u>	<u>\$ 816,902</u>	<u>\$ 1,162,335</u>	<u>\$ 345,433</u>

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

HESPERIA COMMUNITY SCHOOLS

Statement of Revenues, Expenditures and Change in Fund Balance

Budget and Actual - Food Service Fund

For the Year Ended June 30, 2021

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Local sources:				
Lunch sales	\$ 4,120	\$ 890	\$ 1,020	\$ 130
Other	38,965	5,035	7,313	2,278
Total local sources	<u>43,085</u>	<u>5,925</u>	<u>8,333</u>	<u>2,408</u>
State sources - State School Aid	<u>20,379</u>	<u>36,141</u>	<u>38,661</u>	<u>2,520</u>
Federal sources:				
Federal aid received through the State	492,805	578,507	508,711	(69,796)
USDA donated commodities	34,637	35,354	29,592	(5,762)
Total federal sources	<u>527,442</u>	<u>613,861</u>	<u>538,303</u>	<u>(75,558)</u>
Total revenues	590,906	655,927	585,297	(70,630)
Expenditures				
Current - food services	<u>610,929</u>	<u>628,324</u>	<u>572,527</u>	<u>(55,797)</u>
Revenues over (under) expenditures	(20,023)	27,603	12,770	(14,833)
Other financing uses				
Transfers out	<u>(8,900)</u>	<u>(8,900)</u>	<u>(8,900)</u>	<u>-</u>
Net change in fund balance	(28,923)	18,703	3,870	(14,833)
Fund balance, beginning of year	<u>183,089</u>	<u>183,089</u>	<u>183,089</u>	<u>-</u>
Fund balance, end of year	<u>\$ 154,166</u>	<u>\$ 201,792</u>	<u>\$ 186,959</u>	<u>\$ (14,833)</u>

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

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NOTES TO FINANCIAL STATEMENTS

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Reporting Entity

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

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended June 30, 2021.

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.

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

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

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

The District reports the following major governmental funds:

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

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

Additionally, the District reports the following fund types:

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. The District's has one special revenue fund, which is the Student Activity fund.

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, 2021. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes, unrestricted grants and interest income.

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

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

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

Property Taxes

Property taxes are recognized as revenue in the general and debt service funds on a levy year basis. The 2020 levy amounts are recognized as current property tax revenue to the extent that they are collected during the year or within 60 days after year-end. Collections of delinquent taxes in subsequent years are recognized as property tax revenues in the year collected. Property taxes are levied December 1 on the assessed valuation of property located in the District as of the preceding December 31, the lien date. Assessed values are established annually by the various governmental units within the District and are equalized by the State of Michigan.

Cash and Cash Equivalents

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

Investments

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

State statutes authorize the District to invest in:

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

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

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

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

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

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

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

Deferred Outflows of Resources

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

Salaries Payable and Accrued Employee Benefits

A liability is recorded at June 30, 2021 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 position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District reported deferred inflows at June 30, 2021 for amounts related to pension and other postemployment benefit costs in the government-wide statement of net position.

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

Long-term Obligations

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

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

Fund Equity

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the Board of Education. A formal resolution of the Board of Education is required to establish, modify, or rescind a fund balance commitment. The District reports assigned fund balance for amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Assignments are made by the Board of Education and this authority has not been delegated. Unassigned fund balance is the residual classification for the general fund.

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.

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

Pensions and Other Postemployment Benefits

For purposes of measuring the net pension and other postemployment benefit liabilities, deferred outflows of resources and deferred inflows of resources related to pension and other postemployment benefits, and pension other postemployment benefits expense, information about the fiduciary net position of the plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Use of Estimates

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

2. ACCOUNTABILITY AND BUDGETARY COMPLIANCE

Budgets and Budgetary Accounting

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

1. The Superintendent submits to the Board a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all governmental funds.
5. Adoption and amendments of all budgets used by the District are governed by Public Act 621, which was followed for the year ended June 30, 2021. 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.

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

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 77% of the District's general fund revenue during the 2021 fiscal year.

4. DEPOSITS AND INVESTMENTS

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

	Governmental Activities
Cash and investments	\$ 904,056
Cash and investments are comprised of the following at year-end:	
Checking and savings accounts	\$ 900,224
Investments	3,737
Cash on hand	95
Total	\$ 904,056

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

The District chooses to disclose its investments by specifically identifying each. As of year-end, the District had investments in the Michigan Liquid Asset Fund Plus (MILAF+) Max and management series in the amount of \$3,737. Investments in MILAF+ are carried at amortized cost, in accordance with GASB Statements 72 and 79.

Investment and Deposit Risk

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

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

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

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District minimizes this risk by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors to be in compliance with the requirements set forth in the District's investment policy. As of year-end, \$849,266 of the District's bank balance of \$1,118,745 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

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

5. RECEIVABLES AND PAYABLES

Receivables in the government-wide financial statements at June 30, 2021 are as follows:

	Governmental Activities
Due from other governments	<u>\$ 1,637,427</u>

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

Accounts payable and accrued liabilities in the government-wide financial statements at June 30, 2021 are as follows:

	Governmental Activities
Accounts payable	\$ 174,387
Accrued liabilities	812,779
Interest payable on long-term debt	<u>92,645</u>
Totals	<u><u>\$ 1,079,811</u></u>

6. INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS

At June 30, 2021, interfund receivables and payables consisted of the following:

	Due From	Due To
General fund	\$ 1,500	\$ 143,593
Food Service fund	143,593	-
Nonmajor governmental funds	<u>203,509</u>	<u>205,009</u>
	<u><u>\$ 348,602</u></u>	<u><u>\$ 348,602</u></u>

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

Transfer Out	Transfers In	
	General Fund	Nonmajor governmental funds
Food Service fund	\$ 8,900	\$ -
Nonmajor governmental funds	<u>-</u>	<u>120,598</u>
	<u><u>\$ 8,900</u></u>	<u><u>\$ 120,598</u></u>

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

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.

7. CAPITAL ASSETS

A summary of changes in capital assets activity for the year ended June 30, 2021 was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental activities					
Capital assets, not being depreciated:					
Land	\$ 75,012	\$ -	\$ -	\$ -	\$ 75,012
Capital assets, being depreciated:					
Buildings and improvements	19,801,476	1,722	-	-	19,803,198
Furniture and equipment	3,069,686	116,667	-	-	3,186,353
Vehicles	643,432	-	-	-	643,432
	<u>23,514,594</u>	<u>118,389</u>	<u>-</u>	<u>-</u>	<u>23,632,983</u>
Less accumulated depreciation for:					
Buildings and improvements	(6,210,570)	(358,350)	-	-	(6,568,920)
Furniture and equipment	(2,337,414)	(141,349)	-	-	(2,478,763)
Vehicles	(489,681)	(55,794)	-	-	(545,475)
	<u>(9,037,665)</u>	<u>(555,493)</u>	<u>-</u>	<u>-</u>	<u>(9,593,158)</u>
Total capital assets being depreciated, net	<u>14,476,929</u>	<u>(437,104)</u>	<u>-</u>	<u>-</u>	<u>14,039,825</u>
Governmental activities capital assets, net	<u>\$ 14,551,941</u>	<u>\$ (437,104)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,114,837</u>

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

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

8. LONG-TERM DEBT

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

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental activities					
General obligation bonds	\$ 18,780,000	\$ -	\$ (1,775,000)	\$ 17,005,000	\$ 1,835,000
Notes from direct borrowings and direct placements	145,569	-	(57,477)	88,092	59,180
Total	18,925,569	-	(1,832,477)	17,093,092	1,894,180
Unamortized premiums	989,161	-	(73,325)	915,836	73,325
Unamortized discounts	(18,029)	-	1,745	(16,284)	(1,745)
School Revolving Loan	1,098,669	1,301,511	-	2,400,180	-
Compensated absences	208,972	36,251	(63,170)	182,053	53,583
Total governmental activities	\$ 21,204,342	\$ 1,337,762	\$ (1,967,227)	\$ 20,574,877	\$ 2,019,343

The District's debt 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.	\$ 1,190,000	\$ 305,000
2020 refunding bonds series B due in amounts ranging from \$510,000 to \$715,000 plus interest at 2.39-2.71% through 2032.	3,670,000	-
2016 school bond loan refunding bonds due in amounts ranging from \$765,000 to \$975,000 plus interest at 1.49-2.53% through 2023.	1,925,000	950,000
2016 refunding bonds due in amounts ranging from \$290,000 to \$355,000 plus interest at 4.00% through 2038.	6,125,000	330,000
2017 refunding bonds due in amounts ranging from \$215,000 to \$290,000 plus interest at 3.00% through 2038.	4,095,000	250,000

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

	Ending Balance	Due Within One Year
2016 IPA installment purchase agreement due in amounts ranging from \$25,487 to \$29,338 plus interest of 2.5% through 2023.	\$ 57,527	\$ 28,615
2017 computer installment purchase agreement due in amounts ranging from \$27,663 to \$30,564 plus interest of 3.38% through 2022.	<u>30,565</u>	<u>30,565</u>
Total	<u><u>\$ 17,093,092</u></u>	<u><u>\$ 1,894,180</u></u>

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

Year Ended June 30,	Principal	Interest	Total
2022	\$ 1,835,000	\$ 534,472	\$ 2,369,472
2023	1,875,000	477,924	2,352,924
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
2027-2031	6,240,000	1,275,305	7,515,305
2032-2036	2,955,000	472,100	3,427,100
2037-2038	<u>1,145,000</u>	<u>41,375</u>	<u>1,186,375</u>
Totals	<u><u>\$ 17,005,000</u></u>	<u><u>\$ 3,994,416</u></u>	<u><u>\$ 20,999,416</u></u>

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

Year Ended June 30,	Principal	Interest	Total
2022	\$ 59,180	\$ 2,155	\$ 61,335
2023	<u>28,912</u>	<u>399</u>	<u>29,311</u>
Totals	<u><u>\$ 88,092</u></u>	<u><u>\$ 2,554</u></u>	<u><u>\$ 90,646</u></u>

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

The State of Michigan school loan funds represent amounts borrowed from the State of Michigan school bond loan program to supplement property tax revenue for making payments on the District's general obligation bonds. Although interest accrues each year, no payment is due until such time as the District's property tax revenue is sufficient to support the debt service requirements on the general obligation bonds. Changes to the school loan funds for the year ended June 30, 2021, are as follows:

	School Loan Revolving Fund		Total
	Principal	Interest	
Beginning balance	\$ 1,098,669	\$ -	\$ 1,098,669
Additions	1,259,104	42,407	1,301,511
Ending balance	\$ 2,357,773	\$ 42,407	\$ 2,400,180

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

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

On July 6, 2020, the District received proceeds of a State Aid Anticipation Note in the amount of \$2,072,000 which was repaid in full prior to year-end. The interest rate at June 30, 2021 was 1.1%.

	Beginning Balance	Additions	Deletions	Ending Balance
Note payable	\$ -	\$ 2,072,000	\$ (2,072,000)	\$ -

9. 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).

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

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.

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

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.

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

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, 2019 valuation will be amortized over a 19-year period beginning October 1, 2019 and ending September 30, 2038.

The table below summarizes pension contribution rates in effect for fiscal year 2021:

Benefit Structure	Member Rates	Employer Rates
Basic	0.00% - 4.00%	19.41% - 19.78%
Member Investment Plan (MIP)	3.00% - 7.00%	19.41% - 19.78%
Pension Plus	3.00% - 6.40%	16.46% - 16.82%
Pension Plus 2	6.20%	19.59%
Defined Contribution	0.00%	13.39%

For the year ended June 30, 2021, required and actual contributions from the District to the pension plan were \$1,654,542, which included \$705,909, the amount received from the State and remitted to the System to fund the MPSERS unfunded actuarial accrued liability ("UAAL") stabilization rate.

The table below summarizes OPEB contribution rates in effect for fiscal year 2021:

Benefit Structure	Member Rates	Employer Rates
Premium Subsidy	3.00%	8.09% - 8.43%
Personal Healthcare Fund (PHF)	0.00%	7.57%

For the year ended June 30, 2021, required and actual contributions from the District to the OPEB plan were \$413,283.

The table below summarizes defined contribution rates in effect for fiscal year 2021:

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%

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

For the year ended June 30, 2021, required and actual contributions from the District for those members with a defined contribution benefit were \$36,506.

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

At June 30, 2021, the District reported a liability of \$18,783,295 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2019. 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, 2020, the District's proportion was 0.05468%, which was a decrease of 0.00072% from its proportion measured as of September 30, 2019.

For the year ended June 30, 2021, the District recognized pension expense of \$2,476,287. At June 30, 2021, 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	\$ 286,993	\$ 40,090	\$ 246,903
Changes in assumptions	2,081,370	-	2,081,370
Net difference between projected and actual earnings on pension plan investments	78,919	-	78,919
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	474,499	(474,499)
	<u>2,447,282</u>	<u>514,589</u>	<u>1,932,693</u>
District contributions subsequent to the measurement date	1,579,686	-	1,579,686
Total	<u>\$ 4,026,968</u>	<u>\$ 514,589</u>	<u>\$ 3,512,379</u>

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

The \$1,579,686 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022. 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
2022	\$ 905,450
2023	605,845
2024	316,724
2025	<u>104,674</u>
Total	<u>\$ 1,932,693</u>

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

At June 30, 2021, the District reported a liability of \$2,927,479 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2019. 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, 2020, the District's proportion was 0.05465% which was a decrease of 0.00070% from its proportion measured as of September 30, 2019.

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

For the year ended June 30, 2021, the District recognized OPEB expense of \$(137,010). At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ -	\$ 2,181,245	\$ (2,181,245)
Changes in assumptions	965,248	-	965,248
Net difference between projected and actual earnings on OPEB plan investments	24,433	-	24,433
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,853	188,649	(183,796)
	<u>994,534</u>	<u>2,369,894</u>	<u>(1,375,360)</u>
District contributions subsequent to the measurement date	<u>379,808</u>	<u>-</u>	<u>379,808</u>
Total	<u>\$ 1,374,342</u>	<u>\$ 2,369,894</u>	<u>\$ (995,552)</u>

The \$379,808 reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2022. 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
2022	\$ (379,645)
2023	(345,598)
2024	(279,850)
2025	(208,529)
2026	<u>(161,738)</u>
Total	<u>\$ (1,375,360)</u>

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

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, 2019 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)	6.80%
Pension Plus plan (hybrid)	6.80%
Pension Plus 2 plan (hybrid)	6.00%
OPEB plans	6.95%
Projected salary increases	2.75% - 11.55%, including wage inflation at 2.75%
Cost of living adjustments	3% annual non-compounded for MIP members
Healthcare cost trend rate	7.0% 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.

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

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, 2017 valuation. The total pension and OPEB liabilities as of September 30, 2020, are based on the results of an actuarial valuation date of September 30, 2019, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 4.4892 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 5.6018 years which is the average of the expected remaining service lives of all employees. The recognition period for assets is 5 years.

Long-term Expected Return on 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, 2020, 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%	5.29%	1.32%
Private equity pools	16.00%	8.78%	1.40%
International equity pools	15.00%	6.98%	1.05%
Fixed income pools	10.50%	0.47%	0.05%
Real estate and infrastructure pools	10.00%	4.62%	0.46%
Absolute return pools	9.00%	3.02%	0.27%
Real return/opportunistic pools	12.50%	6.23%	0.78%
Short-term investment pools	2.00%	-0.09%	0.00%
	<u>100.00%</u>		5.33%
Inflation			2.10%
Risk adjustment			<u>-0.63%</u>
Investment rate of return			<u><u>6.80%</u></u>

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

Long-term Expected Return on OPEB Plan Assets

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2020, 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%	5.29%	1.32%
Private equity pools	16.00%	8.78%	1.40%
International equity pools	15.00%	6.98%	1.05%
Fixed income pools	10.50%	0.47%	0.05%
Real estate and infrastructure pools	10.00%	4.62%	0.46%
Absolute return pools	9.00%	3.02%	0.27%
Real return/opportunistic pools	12.50%	6.23%	0.78%
Short-term investment pools	2.00%	-0.09%	0.00%
	<u>100.00%</u>		5.33%
Inflation			2.10%
Risk adjustment			<u>-0.48%</u>
Investment rate of return			<u><u>6.95%</u></u>

Rate of Return

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

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

Discount Rate

A discount rate of 6.80% was used to measure the total pension liability (6.80% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan, both of which are hybrid plans provided through non-university employers only) and a discount rate of 6.95% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on pension and OPEB plan investments of 6.80% (6.80% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan) and 6.95%, respectively. The projection of cash flows used to determine these discount rates assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension and OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liabilities.

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

	1% Decrease (5.80% / 5.80% / 5.00%)	Current Discount Rate (6.80% / 6.80% / 6.00%)	1% Increase (7.80% / 7.80% / 7.00%)
District's proportionate share of the net pension liability	\$ 24,311,789	\$ 18,783,295	\$ 14,201,406

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 6.95%, 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 (5.95%)	Current Discount Rate (6.95%)	1% Increase (7.95%)
District's proportionate share of the net OPEB liability	\$ 3,760,679	\$ 2,927,479	\$ 2,225,994

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

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 (6.00%)	Current Healthcare Cost Trend Rate (7.00%)	1% Increase (8.00%)
District's proportionate share of the net OPEB liability	\$ 2,199,135	\$ 2,927,479	\$ 3,755,879

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, 2021, the District reported a payable of \$230,041 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2021.

Payable to the OPEB Plan

At June 30, 2021, the District reported a payable of \$43,316 for the outstanding amount of OPEB contributions to the Plan required for the year ended June 30, 2021.

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

10. 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	Food Service Fund	Nonmajor Governmental Funds	Total
Nonspendable				
Inventory	\$ 34,116	\$ 8,343	\$ -	\$ 42,459
Restricted				
Debt service	-	-	133,560	133,560
Food service program	-	178,616	-	178,616
	-	178,616	133,560	312,176
Committed				
Student/school activity	-	-	73,791	73,791
Unassigned	1,128,219	-	-	1,128,219
Total fund balances - governmental funds	<u>\$ 1,162,335</u>	<u>\$ 186,959</u>	<u>\$ 207,351</u>	<u>\$ 1,556,645</u>

11. NET INVESTMENT IN CAPITAL ASSETS

The composition of the District's net investment in capital assets as of June 30, 2021, was as follows:

	Governmental Activities
Capital assets:	
Capital assets not being depreciated	\$ 75,012
Capital assets being depreciated, net	14,039,825
	<u>14,114,837</u>
Related debt:	
Installment debt	11,498,092
Premiums on bonds payable	915,836
Deferred charge on advance bond refundings, net	(606,070)
	<u>11,807,858</u>
Net investment in capital assets	<u>\$ 2,306,979</u>

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

12. CONTINGENCIES

Federal Grant Programs

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

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2021, the District carried commercial insurance and participated in a public entity risk pool. The District has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

13. OPERATING LEASE

The District leases nine buses under an operating lease. Operating lease expense for the year ended June 30, 2021 was \$559,089, which includes the previous operating lease balloon payment of \$426,870. Future minimum operating lease payments on noncancelable lease terms having initial or remaining lease terms of one year or more are as follows for the years subsequent to June 30, 2021:

Year Ending June 30,	Amount
2022	\$ 132,219
2023	<u>132,219</u>
Total	<u>\$ 264,438</u>

14. RELATED PARTIES

During the year ended June 30, 2021, a member of the Board of Education owns a hardware store that the District uses for supplies. Expenditures incurred with this vendor were \$4,906 for the year ended June 30, 2021.

15. SUBSEQUENT EVENTS

On July 7, 2021, the District received proceeds of \$1,900,000 from a State of Michigan School Aid anticipation note maturing on June 30, 2022. The note has an interest rate of 0.29%.

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

16. 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. The District received over \$472,000 during 2021 from various funding sources to be used to respond to the impacts of the COVID-19 pandemic through the CARES Act and other funding sources. This funding was used to purchase personal protection equipment (PPE), cleaning and sanitizing materials, and supplies, as well as for activities to support remote learning for students. 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.



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REQUIRED SUPPLEMENTARY INFORMATION

HESPERIA COMMUNITY SCHOOLS

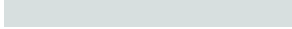
Required Supplementary Information

MPSERS Cost-Sharing Multiple-Employer Plan

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

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

See notes to required supplementary information.



Year Ended June 30,	
2020	2021

\$ 18,345,336 \$ 18,783,295

0.05539613% 0.05468035%

\$ 4,816,125 \$ 4,810,710

380.91% 390.45%

60.31% 59.72%

HESPERIA COMMUNITY SCHOOLS

Required Supplementary Information

MPSERS Cost-Sharing Multiple-Employer Plan
Schedule of District Pension Contributions

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

See notes to required supplementary information.



Year Ended June 30,	
2020	2021
\$ 1,452,309	\$ 1,654,542
<u>(1,452,309)</u>	<u>(1,654,542)</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 4,854,096	\$ 5,002,454
29.92%	33.07%

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
District's proportionate share of the net OPEB liability	\$ 5,156,123	\$ 4,471,672	\$ 3,972,614	\$ 2,927,479
District's proportion of the net OPEB liability	0.05822528%	0.05625487%	0.05534625%	0.05464500%
District's covered payroll	\$ 4,905,524	\$ 4,775,495	\$ 4,816,125	\$ 4,810,710
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	105.11%	93.64%	82.49%	60.85%
Plan fiduciary net position as a percentage of the total OPEB liability	36.39%	42.95%	48.46%	59.44%

See notes to required supplementary information.

HESPERIA COMMUNITY SCHOOLS

Required Supplementary Information

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

	Year Ended June 30,			
	2018	2019	2020	2021
Statutorily required contribution	\$ 356,670	\$ 377,610	\$ 439,138	\$ 413,283
Contributions in relation to the statutorily required contribution	<u>(356,670)</u>	<u>(377,610)</u>	<u>(439,138)</u>	<u>(413,283)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 4,769,706	\$ 4,825,335	\$ 4,854,096	\$ 5,002,454
Contributions as a percentage of covered payroll	7.48%	7.83%	9.05%	8.26%

See notes to required supplementary information.

HESPERIA COMMUNITY SCHOOLS

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 date 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:

- 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:

- 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 AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

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GENERAL FUND

HESPERIA COMMUNITY SCHOOLS

Detail Schedule of Revenues, Expenditures and Change in Fund Balance

Budget and Actual - By Activity - General Fund
For the Year Ended June 30, 2021

	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues			
Local sources:			
Property taxes	\$ 933,406	\$ 933,420	\$ 14
Contributions from private sources	371,913	275,150	(96,763)
Earnings on investments	1,650	1,727	77
Athletics	22,565	22,995	430
Other	24,827	25,326	499
Total local sources	1,354,361	1,258,618	(95,743)
Interdistrict sources:			
ISD	108,140	97,597	(10,543)
GSRP reimbursements	15,000	15,000	-
Total interdistrict sources	123,140	112,597	(10,543)
State sources:			
State aid - unrestricted	6,261,927	6,340,571	78,644
Special education	349,126	299,987	(49,139)
At risk	471,601	451,897	(19,704)
Early Literacy	-	1,896	1,896
MPSERS	739,559	843,278	103,719
MPSERS offset	64,838	64,838	-
Other	12,749	11,895	(854)
Total state sources	7,899,800	8,014,362	114,562
Federal sources:			
IDEA	140,520	140,520	-
Covid Relief	331,275	331,275	-
ESSER	121,030	118,832	(2,198)
Title I A	303,768	290,063	(13,705)
Title IV A	179,331	40,797	(138,534)
Title II A	26,537	23,817	(2,720)
Title VI B	28,136	13,155	(14,981)
Schools and roads	3,862	14	(3,848)
Total federal sources	1,134,459	958,473	(175,986)
Total revenues	10,511,760	10,344,050	(167,710)

continued...

HESPERIA COMMUNITY SCHOOLS

Detail Schedule of Revenues, Expenditures and Change in Fund Balance

Budget and Actual - By Activity - General Fund

For the Year Ended June 30, 2021

	Final Budget	Actual	Actual Over (Under) Final Budget
Expenditures			
Instruction:			
Basic programs:			
Elementary	\$ 2,888,947	\$ 2,852,810	\$ (36,137)
Middle school	1,312,266	1,161,078	(151,188)
High school	1,497,847	1,449,854	(47,993)
Total basic programs	<u>5,699,060</u>	<u>5,463,742</u>	<u>(235,318)</u>
Added needs:			
Special education	1,117,671	1,057,284	(60,387)
Compensatory education	698,608	640,010	(58,598)
Total added needs	<u>1,816,279</u>	<u>1,697,294</u>	<u>(118,985)</u>
Total instruction	<u>7,515,339</u>	<u>7,161,036</u>	<u>(354,303)</u>
Supporting services:			
Pupil services:			
Guidance services	165,694	147,501	(18,193)
Health services	50,022	50,015	(7)
Social work services	91,535	91,001	(534)
Total pupil services	<u>307,251</u>	<u>288,517</u>	<u>(18,734)</u>
Instructional staff:			
Improvement of instruction	35,540	15,036	(20,504)
Educational media services	13,221	12,756	(465)
Supervision and direction of instruction	28,316	27,534	(782)
Total instructional staff	<u>77,077</u>	<u>55,326</u>	<u>(21,751)</u>
General administration:			
Board of Education	49,288	49,021	(267)
Executive administration	232,307	221,574	(10,733)
Principal's office	389,184	380,549	(8,635)
School administration	2,000	1,972	(28)
Total general administration	<u>672,779</u>	<u>653,116</u>	<u>(19,663)</u>

continued...

HESPERIA COMMUNITY SCHOOLS

Detail Schedule of Revenues, Expenditures and Change in Fund Balance

Budget and Actual - By Activity - General Fund

For the Year Ended June 30, 2021

	Final Budget	Actual	Actual Over (Under) Final Budget
Expenditures (continued)			
Supporting services (concluded):			
Business services:			
Fiscal services	\$ 181,188	\$ 174,334	\$ (6,854)
Other business services	104,370	101,562	(2,808)
Total business services	<u>285,558</u>	<u>275,896</u>	<u>(9,662)</u>
Operation and maintenance:			
Operating and buildings services	737,592	688,375	(49,217)
Security services	455	453	(2)
Total operation and maintenance	<u>738,047</u>	<u>688,828</u>	<u>(49,219)</u>
Transportation	<u>950,690</u>	<u>509,011</u>	<u>(441,679)</u>
Information management:			
Staff/personnel services	244	244	-
Information management services	323,687	313,185	(10,502)
Other central services	17,550	17,550	-
Total operation and maintenance	<u>341,481</u>	<u>330,979</u>	<u>(10,502)</u>
Athletics	<u>257,505</u>	<u>245,779</u>	<u>(11,726)</u>
Total supporting services	<u>3,630,388</u>	<u>3,047,452</u>	<u>(582,936)</u>
Community services:			
Community recreation	1,311	315	(996)
Community activities	2,000	770	(1,230)
Other community services	134,852	134,367	(485)
Total community services	<u>138,163</u>	<u>135,452</u>	<u>(2,711)</u>
Debt service:			
Principal	<u>57,478</u>	<u>57,477</u>	<u>(1)</u>
Capital outlay	<u>62</u>	<u>-</u>	<u>(62)</u>
Total expenditures	<u>11,341,430</u>	<u>10,401,417</u>	<u>(940,013)</u>
Revenues over (under) expenditures	<u>(829,670)</u>	<u>(57,367)</u>	<u>772,303</u>

continued...

HESPERIA COMMUNITY SCHOOLS

Detail Schedule of Revenues, Expenditures and Change in Fund Balance

Budget and Actual - By Activity - General Fund

For the Year Ended June 30, 2021

	Final Budget	Actual	Actual Over (Under) Final Budget
Other financing sources			
Transfers in	\$ 8,900	\$ 8,900	\$ -
Issuance of long-term debt	426,870	-	(426,870)
Total other financing sources	<u>435,770</u>	<u>8,900</u>	<u>(426,870)</u>
Net change in fund balances	(393,900)	(48,467)	345,433
Fund balances, beginning of year	<u>1,210,802</u>	<u>1,210,802</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 816,902</u></u>	<u><u>\$ 1,162,335</u></u>	<u><u>\$ 345,433</u></u>

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NONMAJOR GOVERNMENTAL FUNDS

HESPERIA COMMUNITY SCHOOLS

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2021

	Special Revenue	Debt Service	
	Student/school Activity	2020 Refunding	2017B Refunding
Assets			
Cash and investments	\$ 73,791	\$ 6,009	\$ 19,702
Due from other funds	-	115,730	-
Total assets	<u>\$ 73,791</u>	<u>\$ 121,739</u>	<u>\$ 19,702</u>
Liabilities			
Due to other funds	\$ -	\$ 88,279	\$ -
Fund balances			
Restricted	-	33,460	19,702
Committed	73,791	-	-
Total fund balances	<u>73,791</u>	<u>33,460</u>	<u>19,702</u>
Total liabilities and fund balances	<u>\$ 73,791</u>	<u>\$ 121,739</u>	<u>\$ 19,702</u>



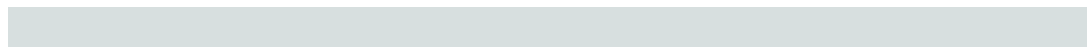
Debt Service				
2016B Refunding	2016 Refunding	2009 Refunding	2009 Bonds	Total
\$ 39,112	\$ 44,566	\$ 24,491	\$ 1,180	\$ 208,851
-	-	87,779	-	203,509
<u>\$ 39,112</u>	<u>\$ 44,566</u>	<u>\$ 112,270</u>	<u>\$ 1,180</u>	<u>\$ 412,360</u>
\$ 3,460	\$ 1,000	\$ 112,270	\$ -	\$ 205,009
35,652	43,566	-	1,180	133,560
-	-	-	-	73,791
<u>35,652</u>	<u>43,566</u>	<u>-</u>	<u>1,180</u>	<u>207,351</u>
<u>\$ 39,112</u>	<u>\$ 44,566</u>	<u>\$ 112,270</u>	<u>\$ 1,180</u>	<u>\$ 412,360</u>

HESPERIA COMMUNITY SCHOOLS

Combining Statement of Revenues, Expenditures and Change in Fund Balances

Nonmajor Governmental Funds
For the Year Ended June 30, 2021

	Special Revenue	Debt Service	
	Student Activity	2020 Refunding	2017B Refunding
Revenues			
Local sources	\$ 48,221	\$ 43,639	\$ 162,134
Expenditures			
Student/school activity	52,147	-	-
Debt service:			
Principal	-	-	250,000
Interest	-	93,679	130,350
Agent fees and other	-	424	500
Total expenditures	<u>52,147</u>	<u>94,103</u>	<u>380,850</u>
Revenues over (under) expenditures	<u>(3,926)</u>	<u>(50,464)</u>	<u>(218,716)</u>
Other financing sources (uses)			
Transfers in	-	-	32,819
Transfers out	-	(87,779)	-
Issuance of long-term debt	-	166,268	182,308
Total other financing sources (uses)	<u>-</u>	<u>78,489</u>	<u>215,127</u>
Net change in fund balances	<u>(3,926)</u>	<u>28,025</u>	<u>(3,589)</u>
Fund balances, beginning of year	<u>77,717</u>	<u>5,435</u>	<u>23,291</u>
Fund balances, end of year	<u>\$ 73,791</u>	<u>\$ 33,460</u>	<u>\$ 19,702</u>



Debt Service				
2016B Refunding	2016 Refunding	2009 Refunding	2009 Bonds	Total
\$ 324,242	\$ 353,725	\$ 221,228	\$ 1	\$ 1,153,190
-	-	-	-	52,147
320,000	900,000	305,000	-	1,775,000
257,800	65,816	59,800	-	607,445
503	501	501	-	2,429
578,303	966,317	365,301	-	2,437,021
(254,061)	(612,592)	(144,073)	1	(1,283,831)
-	-	87,779	-	120,598
-	(32,819)	-	-	(120,598)
259,533	632,368	18,627	-	1,259,104
259,533	599,549	106,406	-	1,259,104
5,472	(13,043)	(37,667)	1	(24,727)
30,180	56,609	37,667	1,179	232,078
\$ 35,652	\$ 43,566	\$ -	\$ 1,180	\$ 207,351