

Hesperia
Community
Schools



Year Ended
June 30, 2022

Financial
Statements

Rehmann

HESPERIA COMMUNITY SCHOOLS

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INDEPENDENT AUDITORS' REPORT

November 1, 2022

Board of Education
Hesperia Community Schools
Hesperia, Michigan

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Hesperia Community Schools** (the "District"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2022, and the respective changes in financial position thereof, and the budgetary comparison for the general fund and the major special revenue fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Independent Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

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

Required Supplementary Information

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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated November 1, 2022, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

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, 2022.

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 \$21,023,876.
- The District's total net position increased by \$2,560,041.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,433,867, an increase of \$877,222 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 \$1,664,251 or 14.8% 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, 2022.

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 the student/school activity special revenue fund and 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 for the major funds have been provided herein to demonstrate compliance with those budgets.

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

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

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 \$21,023,876 at June 30, 2022. 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	
	2022	2021
Assets		
Current and other assets	\$ 5,683,798	\$ 2,583,942
Capital assets, net	13,933,375	14,114,837
Total assets	<u>19,617,173</u>	<u>16,698,779</u>
Deferred outflows of resources	<u>4,824,002</u>	<u>6,007,380</u>
Liabilities		
Current and other liabilities	17,397,439	22,830,716
Long-term debt	20,034,337	20,574,877
Total liabilities	<u>37,431,776</u>	<u>43,405,593</u>
Deferred inflows of resources	<u>8,033,275</u>	<u>2,884,483</u>
Net position		
Net investment in capital assets	3,104,813	2,306,979
Restricted	434,574	227,874
Unrestricted (deficit)	(24,563,263)	(26,118,770)
Total net position	<u>\$ (21,023,876)</u>	<u>\$ (23,583,917)</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

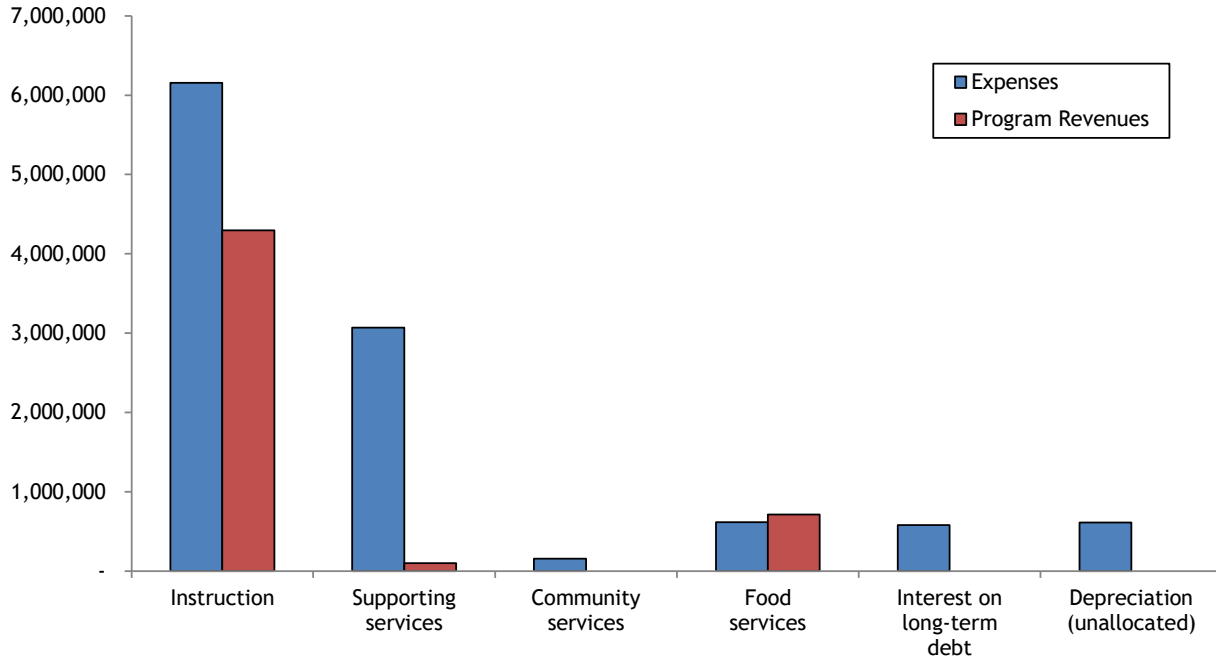
	Change in Net Position	
	2022	2021
Revenues		
Program revenues:		
Charges for services	\$ 418,476	\$ 31,311
Operating grants and contributions	5,004,541	3,596,975
General revenues:		
Property taxes - operations	973,733	933,420
Property taxes - debt service	1,141,435	1,104,768
Grants and contributions not restricted to specific programs	6,438,891	6,340,571
Unrestricted investment earnings	950	1,945
Other revenues	71,166	73,547
Total revenues	<u>14,049,192</u>	<u>12,082,537</u>
Expenses		
Instruction	6,153,827	7,343,453
Supporting services	3,070,414	2,981,890
Community services	156,751	135,791
Food services	616,604	579,086
Student/school activity	299,625	52,148
Interest on long-term debt	580,207	610,406
Unallocated depreciation	611,723	555,493
Total expenses	<u>11,489,151</u>	<u>12,258,267</u>
Change in net position	2,560,041	(175,730)
Net position, beginning of year	<u>(23,583,917)</u>	<u>(23,408,187)</u>
Net position, end of year	<u>\$ (21,023,876)</u>	<u>\$ (23,583,917)</u>

Governmental Activities. Net position increased by \$2,560,041 compared to a decrease of \$175,730 in the prior year. The current increase can be attributed to COVID-19 federal grant funding and the change in liabilities reported for pension and OPEB.

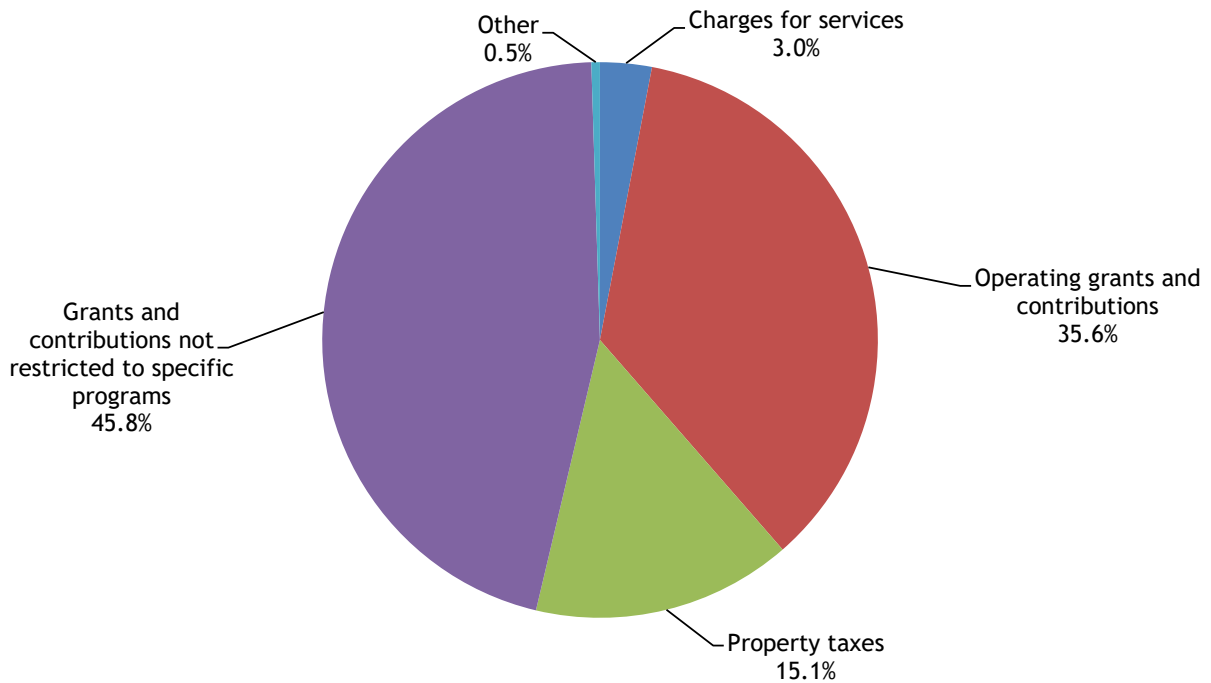
HESPERIA COMMUNITY SCHOOLS

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 \$1,664,241, while the total fund balance was \$1,827,108. 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 14.8% and 16.3%, respectively, of total general fund expenditures.

The fund balance of the District's general fund increased by \$664,773, or 57.2% from the prior year. The reason for the increase in the fund balance was attributed an increase in federal COVID-19 funding. Additionally, the District monitored the budget closely with the intent of reducing expenditures where it reasonably could.

The fund balance of the District's food service fund increased by \$49,340 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 \$635,615 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 \$93,468 from amended budget to actual. The reason for the decrease was largely attributed to less than expected 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, 2022 amounted to \$13,933,375 (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)	
	2022	2021
Land	\$ 75,012	\$ 75,012
Buildings and improvements	12,626,112	13,234,278
Furniture and equipment	1,176,829	707,590
Vehicles	55,422	97,957
Total capital assets, net	\$ 13,933,375	\$ 14,114,837

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 \$20,034,337. The District's total debt decreased by \$540,540 during the current fiscal year as a result of principal payments on long-term debt offset by additional draws from the Michigan Bond Loan Fund.

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 2022-2023 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, 2023 was adopted in June 2022 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, 2022

	Governmental Activities
Assets	
Cash and investments	\$ 3,912,231
Receivables	1,735,983
Other assets	35,584
Capital assets not being depreciated	75,012
Capital assets being depreciated, net	<u>13,858,363</u>
Total assets	<u>19,617,173</u>
Deferred outflows of resources	
Deferred charge on advance bond refundings	567,768
Deferred pension amounts	3,004,577
Deferred other postemployment benefit amounts	<u>1,251,657</u>
Total deferred outflows of resources	<u>4,824,002</u>
Liabilities	
Accounts payable, accrued liabilities and notes payable	3,325,816
Unearned revenue	7,592
Long-term debt:	
Due within one year	2,016,401
Due in more than one year	18,017,936
Net pension liability (due in more than one year)	13,191,994
Net other postemployment benefit liability (due in more than one year)	<u>872,037</u>
Total liabilities	<u>37,431,776</u>
Deferred inflows of resources	
Deferred pension amounts	4,635,748
Deferred other postemployment benefit amounts	<u>3,397,527</u>
Total deferred inflows of resources	<u>8,033,275</u>
Net position	
Net investment in capital assets	3,104,813
Restricted for:	
Food service operations	236,299
Debt service	198,275
Unrestricted deficit	<u>(24,563,263)</u>
Total net position	<u>\$ (21,023,876)</u>

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

HESPERIA COMMUNITY SCHOOLS

Statement of Activities

For the Year Ended June 30, 2022

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 6,153,827	\$ -	\$ 4,294,503	\$ (1,859,324)
Supporting services	3,070,414	49,147	51,303	(2,969,964)
Community services	156,751	-	-	(156,751)
Food services	616,604	54,787	658,735	96,918
Student/school activity	299,625	314,542	-	14,917
Interest on long-term debt	580,207	-	-	(580,207)
Unallocated depreciation	611,723	-	-	(611,723)
Total governmental activities	<u>\$ 11,489,151</u>	<u>\$ 418,476</u>	<u>\$ 5,004,541</u>	<u>(6,066,134)</u>
General revenues				
Property taxes - operations				973,733
Property taxes - debt service				1,141,435
Grants and contributions not restricted to specific programs				6,438,891
Unrestricted investment earnings				950
Other revenues				71,166
Total general revenues				<u>8,626,175</u>
Change in net position				2,560,041
Net position, beginning of year				<u>(23,583,917)</u>
Net position, end of year				<u><u>\$ (21,023,876)</u></u>

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

HESPERIA COMMUNITY SCHOOLS

Balance Sheet

Governmental Funds

June 30, 2022

	General Fund	Food Service	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and investments	\$ 3,112,001	\$ 430,374	\$ 369,856	\$ 3,912,231
Due from other governments	1,715,258	20,725	-	1,735,983
Due from other funds	198,944	-	177,605	376,549
Inventory	29,297	6,287	-	35,584
Total assets	<u>\$ 5,055,500</u>	<u>\$ 457,386</u>	<u>\$ 547,461</u>	<u>\$ 6,060,347</u>
Liabilities				
Accounts payable	\$ 403,742	\$ 22,673	\$ -	\$ 426,415
Accrued liabilities	915,878	46	-	915,924
Due to other funds	1,180	198,368	177,001	376,549
State aid note payable	1,900,000	-	-	1,900,000
Unearned revenue	7,592	-	-	7,592
Total liabilities	<u>3,228,392</u>	<u>221,087</u>	<u>177,001</u>	<u>3,626,480</u>
Fund balances				
Nonspendable	29,297	6,287	-	35,584
Restricted	-	230,012	281,752	511,764
Committed	-	-	88,708	88,708
Assigned	133,560	-	-	133,560
Unassigned	1,664,251	-	-	1,664,251
Total fund balances	<u>1,827,108</u>	<u>236,299</u>	<u>370,460</u>	<u>2,433,867</u>
Total liabilities and fund balances	<u>\$ 5,055,500</u>	<u>\$ 457,386</u>	<u>\$ 547,461</u>	<u>\$ 6,060,347</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, 2022

Fund balances - total governmental funds \$ 2,433,867

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

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

Capital assets not being depreciated	75,012
Capital assets being depreciated, net	13,858,363

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	(19,063,267)
Compensated absences	(143,098)
Unamortized bond premiums	(842,511)
Unamortized bond discounts	14,539
Unamortized deferred charge on advance bond refunding	567,768
Accrued interest on bonds payable	(83,477)

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

Net pension liability	(13,191,994)
Deferred outflows related to the net pension liability	3,004,577
Deferred inflows related to the net pension liability	(4,635,748)
Net other postemployment benefit liability	(872,037)
Deferred outflows related to the net other postemployment benefit liability	1,251,657
Deferred inflows related to the net other postemployment benefit liability	<u>(3,397,527)</u>

Net position of governmental activities \$ (21,023,876)

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, 2022

	General Fund	Food Service	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Local sources	\$ 1,432,221	\$ 54,802	\$ 1,456,119	\$ 2,943,142
Interdistrict sources	103,310	-	-	103,310
State sources	8,432,124	19,695	-	8,451,819
Federal sources	1,911,881	639,040	-	2,550,921
Total revenues	11,879,536	713,537	1,456,119	14,049,192
Expenditures				
Current:				
Instruction	7,155,487	-	-	7,155,487
Supporting services	3,849,717	-	-	3,849,717
Community services	159,186	-	-	159,186
Food services	-	655,297	-	655,297
Student/school activity	-	-	299,625	299,625
Debt service:				
Principal	59,273	-	1,835,000	1,894,273
Interest	-	-	555,870	555,870
Total expenditures	11,223,663	655,297	2,690,495	14,569,455
Revenues over (under) expenditures	655,873	58,240	(1,234,376)	(520,263)
Other financing sources (uses)				
Transfers in	8,900	-	84,262	93,162
Transfers out	-	(8,900)	(84,262)	(93,162)
Issuance of long-term debt	-	-	1,397,485	1,397,485
Total other financing sources (uses)	8,900	(8,900)	1,397,485	1,397,485
Net change in fund balances	664,773	49,340	163,109	877,222
Fund balances, beginning of year	1,162,335	186,959	207,351	1,556,645
Fund balances, end of year	\$ 1,827,108	\$ 236,299	\$ 370,460	\$ 2,433,867

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, 2022

Net change in fund balances - total governmental funds \$ 877,222

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	430,261
Depreciation expense	(611,723)

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	1,894,273
Issuance of long-term debt	(1,397,485)
Accrued interest on School Loan Fund added to principal	(66,783)
Amortization of bond premiums and discounts, net	71,580
Amortization of deferred charge on advance bond refunding	(38,302)

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	447,751
Change in the net other postemployment benefit liability and related deferred amounts	905,124
Change in accrued interest payable on bonds	9,168
Change in compensated absences payable	38,955

Change in net position of governmental activities \$ 2,560,041

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, 2022

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Local sources	\$ 1,354,361	\$ 1,422,560	\$ 1,432,221	\$ 9,661
Interdistrict sources	550,010	117,274	103,310	(13,964)
State sources	7,733,907	8,477,311	8,432,124	(45,187)
Federal sources	803,184	1,955,859	1,911,881	(43,978)
Total revenues	<u>10,441,462</u>	<u>11,973,004</u>	<u>11,879,536</u>	<u>(93,468)</u>
Expenditures				
Current:				
Instruction	7,515,339	7,608,238	7,155,487	(452,751)
Supporting services	3,617,088	4,032,765	3,849,717	(183,048)
Community services	138,164	158,940	159,186	246
Debt service:				
Principal	57,478	59,273	59,273	-
Capital outlay	62	62	-	(62)
Total expenditures	<u>11,328,131</u>	<u>11,859,278</u>	<u>11,223,663</u>	<u>(635,615)</u>
Revenues over (under) expenditures	(886,669)	113,726	655,873	542,147
Other financing sources				
Transfers in	8,900	8,900	8,900	-
Net change in fund balance	<u>(877,769)</u>	<u>122,626</u>	<u>664,773</u>	<u>542,147</u>
Fund balance, beginning of year	<u>1,162,335</u>	<u>1,162,335</u>	<u>1,162,335</u>	<u>-</u>
Fund balance, end of year	<u>\$ 284,566</u>	<u>\$ 1,284,961</u>	<u>\$ 1,827,108</u>	<u>\$ 542,147</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, 2022

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Local sources:				
Lunch sales	\$ 1,230	\$ 4,593	\$ 4,993	\$ 400
Other	5,035	47,017	49,809	2,792
Total local sources	<u>6,265</u>	<u>51,610</u>	<u>54,802</u>	<u>3,192</u>
State sources - State School Aid	<u>23,870</u>	<u>47,263</u>	<u>19,695</u>	<u>(27,568)</u>
Federal sources:				
Federal aid received through the State	521,490	582,676	604,411	21,735
USDA donated commodities	35,354	37,885	34,629	(3,256)
Total federal sources	<u>556,844</u>	<u>620,561</u>	<u>639,040</u>	<u>18,479</u>
Total revenues	586,979	719,434	713,537	(5,897)
Expenditures				
Current - food services	<u>628,325</u>	<u>697,335</u>	<u>655,297</u>	<u>(42,038)</u>
Revenues over (under) expenditures	(41,346)	22,099	58,240	36,141
Other financing uses				
Transfers out	<u>(8,900)</u>	<u>(8,900)</u>	<u>(8,900)</u>	<u>-</u>
Net change in fund balance	(50,246)	13,199	49,340	36,141
Fund balance, beginning of year	<u>186,959</u>	<u>186,959</u>	<u>186,959</u>	<u>-</u>
Fund balance, end of year	<u>\$ 136,713</u>	<u>\$ 200,158</u>	<u>\$ 236,299</u>	<u>\$ 36,141</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, 2022.

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/School 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, 2022. 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 2021 levy amounts are recognized as current property tax revenue to the extent that they are collected during the year or within 60 days after year-end. Collections of delinquent taxes in subsequent years are recognized as property tax revenues in the year collected. Property taxes are levied December 1 on the assessed valuation of property located in the District as of the preceding December 31, the lien date. Assessed values are established annually by the various governmental units within the District and are equalized by the State of Michigan.

Cash and Cash Equivalents

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

Investments

State 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 9140 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

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

Deferred Outflows of Resources

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

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

Salaries Payable and Accrued Employee Benefits

A liability is recorded at June 30, 2022 for those amounts owed to teachers and other employees of the District who do not work during the summer when school is not in session but have elected to have their salaries paid over an entire year. This has the effect of properly charging their salaries to expenditures in the fiscal year in which their services are received, even though they are not paid until July and August of the following fiscal year.

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

Compensated Absences

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

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District reported deferred inflows at June 30, 2022 for amounts related to pension and other postemployment benefit costs in the government-wide statement of net position.

Long-term Obligations

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

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

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

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.

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.

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

2. ACCOUNTABILITY AND BUDGETARY COMPLIANCE

Budgets and Budgetary Accounting

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

1. The Superintendent submits to the Board a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all governmental funds.
5. Adoption and amendments of all budgets used by the District are governed by Public Act 621, which was followed for the year ended June 30, 2022. Expenditures may not exceed appropriations at the function code level. The appropriations resolutions are based on the projected expenditures budget of the department heads of the District. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the Board of Education.

Excess of Expenditures Over Appropriations

During the year ended June 30, 2022, the District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	Total Appropriations	Amount of Expenditures	Budget Variance
General Fund			
Community services	\$ 158,940	\$ 159,186	\$ 246

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 71% of the District's general fund revenue during the 2022 fiscal year.

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

4. DEPOSITS AND INVESTMENTS

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

	Governmental Activities
Cash and investments	<u>\$ 3,912,231</u>
Cash and investments are comprised of the following at year-end:	
Checking and savings accounts	\$ 3,912,131
Cash on hand	<u>100</u>
Total	<u><u>\$ 3,912,231</u></u>

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.

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.

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.

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, \$3,713,669 of the District's bank balance of \$3,980,659 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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.

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

5. RECEIVABLES AND PAYABLES

Receivables in the government-wide financial statements at June 30, 2022 are as follows:

	Governmental Activities
Due from other governments	\$ <u>1,735,983</u>

Accounts payable, accrued liabilities and note payable in the government-wide financial statements at June 30, 2022 are as follows:

	Governmental Activities
Accounts payable	\$ 426,415
Accrued liabilities	915,924
Note payable	1,900,000
Interest payable on long-term debt	<u>83,477</u>
Totals	<u>\$ 3,325,816</u>

6. INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS

At June 30, 2022, interfund receivables and payables consisted of the following:

	Due From	Due To
General fund	\$ 198,944	\$ 1,180
Food Service fund	-	198,368
Nonmajor governmental funds	<u>177,605</u>	<u>177,001</u>
	<u>\$ 376,549</u>	<u>\$ 376,549</u>

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

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

Transfer Out	Transfers In	
	General Fund	Nonmajor Governmental Funds
Food Service fund	\$ 8,900	\$ -
Nonmajor governmental funds	-	84,262
	<u>\$ 8,900</u>	<u>\$ 84,262</u>

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

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

7. CAPITAL ASSETS

A summary of changes in capital assets activity for the year ended June 30, 2022 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	19,803,198	-	-	(1,393,689)	18,409,509
Furniture and equipment	3,186,353	430,261	-	1,393,689	5,010,303
Vehicles	643,432	-	-	-	643,432
	<u>23,632,983</u>	<u>430,261</u>	<u>-</u>	<u>-</u>	<u>24,063,244</u>
Less accumulated depreciation for:					
Buildings and improvements	(6,568,920)	(327,785)	-	1,113,308	(5,783,397)
Furniture and equipment	(2,478,763)	(241,403)	-	(1,113,308)	(3,833,474)
Vehicles	(545,475)	(42,535)	-	-	(588,010)
	<u>(9,593,158)</u>	<u>(611,723)</u>	<u>-</u>	<u>-</u>	<u>(10,204,881)</u>
Total capital assets being depreciated, net	<u>14,039,825</u>	<u>(181,462)</u>	<u>-</u>	<u>-</u>	<u>13,858,363</u>
Governmental activities capital assets, net	<u>\$ 14,114,837</u>	<u>\$ (181,462)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,933,375</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, 2022:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental activities					
General obligation bonds	\$ 17,005,000	\$ -	\$ (1,835,000)	\$ 15,170,000	\$ 1,875,000
Notes from direct borrowings and direct placements	88,092	-	(59,273)	28,819	28,819
Total	17,093,092	-	(1,894,273)	15,198,819	1,903,819
Unamortized premiums	915,836	-	(73,325)	842,511	73,325
Unamortized discounts	(16,284)	-	1,745	(14,539)	(1,745)
School Revolving Loan	2,400,180	1,464,268	-	3,864,448	-
Compensated absences	182,053	17,638	(56,593)	143,098	41,002
Total governmental activities	\$ 20,574,877	\$ 1,481,906	\$ (2,022,446)	\$ 20,034,337	\$ 2,016,401

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.	\$ 885,000	\$ 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.	975,000	975,000
2016 refunding bonds due in amounts ranging from \$290,000 to \$355,000 plus interest at 4.00% through 2038.	5,795,000	340,000
2017 refunding bonds due in amounts ranging from \$215,000 to \$290,000 plus interest at 3.00% through 2038.	3,845,000	255,000
2016 IPA installment purchase agreement due in amounts ranging from \$25,487 to \$29,338 plus interest of 2.5% through 2023.	28,819	28,819
Total	\$ 15,198,819	\$ 1,903,819

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

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

Year Ended June 30,	Principal	Interest	Total
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	1,175,000	329,236	1,504,236
2028-2032	5,670,000	1,083,319	6,753,319
2033-2037	2,925,000	365,900	3,290,900
2038	570,000	10,325	580,325
Totals	\$ 15,170,000	\$ 3,459,944	\$ 18,629,944

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

Year Ended June 30,	Principal	Interest	Total
2023	\$ 28,819	\$ 399	\$ 29,218

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, 2022, are as follows:

	School Loan Revolving Fund		Total
	Principal	Interest	
Beginning balance	\$ 2,400,180	\$ -	\$ 2,400,180
Additions	1,397,485	66,783	1,464,268
Ending balance	\$ 3,797,665	\$ 66,783	\$ 3,864,448

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 installment purchase agreements are expected to be liquidated by the general fund.

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

9. STATE AID ANTICIPATION NOTE

On July 7, 2021, the District received proceeds of a State Aid Anticipation Note in the amount of \$1,900,000 with an interest rate at June 30, 2022 of 0.29%. A summary of changes in state aid note payable activity for the year ended June 30, 2022 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Note payable	\$ -	\$ 1,900,000	\$ -	\$ 1,900,000

10. PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS

Plan Description

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

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

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

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

Pension Benefits Provided

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

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

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

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

Other Postemployment Benefits Provided

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

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

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

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

Contributions

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2020 valuation will be amortized over an 18-year period beginning October 1, 2020 and ending September 30, 2038.

The table below summarizes pension contribution rates in effect for fiscal year 2022:

Benefit Structure	Member Rates	Employer Rates
Basic	0.00% - 4.00%	19.78% - 20.14%
Member Investment Plan (MIP)	3.00% - 7.00%	19.78% - 20.14%
Pension Plus	3.00% - 6.40%	16.82% - 17.22%
Pension Plus 2	6.20%	19.59% - 19.93%
Defined Contribution	0.00%	13.39% - 13.73%

For the year ended June 30, 2022, required and actual contributions from the District to the pension plan were \$1,826,367, which included \$857,592, the amount received from the State and remitted to the System to fund the MPSERS unfunded actuarial accrued liability ("UAAL") stabilization rate.

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

The table below summarizes OPEB contribution rates in effect for fiscal year 2022:

Benefit Structure	Member Rates	Employer Rates
Premium Subsidy	3.00%	8.09% - 8.43%
Personal Healthcare Fund (PHF)	0.00%	7.23% - 7.57%

For the year ended June 30, 2022, required and actual contributions from the District to the OPEB plan were \$406,382.

The table below summarizes defined contribution rates in effect for fiscal year 2022:

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

For the year ended June 30, 2022, required and actual contributions from the District for those members with a defined contribution benefit were \$46,696.

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

At June 30, 2022, the District reported a liability of \$13,191,994 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2020. 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, 2021, the District's proportion was 0.05572%, which was an increase of 0.00104% from its proportion measured as of September 30, 2020.

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Notes to Financial Statements

For the year ended June 30, 2022, the District recognized pension expense of \$1,336,904. At June 30, 2022, 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	\$ 204,350	\$ 77,685	\$ 126,665
Changes in assumptions	831,576	-	831,576
Net difference between projected and actual earnings on pension plan investments	-	4,241,184	(4,241,184)
Changes in proportion and differences between employer contributions and proportionate share of contributions	241,237	316,879	(75,642)
	<u>1,277,163</u>	<u>4,635,748</u>	<u>(3,358,585)</u>
District contributions subsequent to the measurement date	1,727,414	-	1,727,414
	<u>1,727,414</u>	<u>-</u>	<u>1,727,414</u>
Total	<u>\$ 3,004,577</u>	<u>\$ 4,635,748</u>	<u>\$ (1,631,171)</u>

The \$1,727,414 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, 2023. 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
2023	\$ (476,493)
2024	(772,541)
2025	(989,931)
2026	<u>(1,119,620)</u>
Total	<u>\$ (3,358,585)</u>

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

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

At June 30, 2022, the District reported a liability of \$872,037 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2020. 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, 2021, the District's proportion was 0.05713% which was an increase of 0.00248% from its proportion measured as of September 30, 2020.

For the year ended June 30, 2022, the District recognized OPEB expense of \$(514,903). At June 30, 2022, 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	\$ -	\$ 2,489,167	\$ (2,489,167)
Changes in assumptions	728,980	109,083	619,897
Net difference between projected and actual earnings on OPEB plan investments	-	657,270	(657,270)
Changes in proportion and differences between employer contributions and proportionate share of contributions	160,681	142,007	18,674
	<u>889,661</u>	<u>3,397,527</u>	<u>(2,507,866)</u>
District contributions subsequent to the measurement date	361,996	-	361,996
Total	<u>\$ 1,251,657</u>	<u>\$ 3,397,527</u>	<u>\$ (2,145,870)</u>

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

The \$361,996 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, 2023. 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
2023	\$ (684,676)
2024	(616,522)
2025	(543,040)
2026	(494,607)
2027	(149,418)
Thereafter	<u>(19,603)</u>
Total	\$ <u>(2,507,866)</u>

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The total pension and OPEB liabilities in the September 30, 2020 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	7.75% 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.

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

Other OPEB assumptions:

Opt-out assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt-out of the retiree health plan.
Survivor coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death.
Coverage election at retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension and OPEB valuations beginning with the September 30, 2017 valuation. The total pension and OPEB liabilities as of September 30, 2021, are based on the results of an actuarial valuation date of September 30, 2020, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 4.4367 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 6.1312 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, 2021, 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%	5.09%	1.27%
Private equity pools	16.00%	8.58%	1.37%
International equity pools	15.00%	7.08%	1.06%
Fixed income pools	10.50%	-0.73%	-0.08%
Real estate and infrastructure pools	10.00%	5.12%	0.51%
Absolute return pools	9.00%	2.42%	0.22%
Real return/opportunistic pools	12.50%	5.73%	0.72%
Short-term investment pools	2.00%	-1.29%	-0.03%
	<u>100.00%</u>		<u>5.04%</u>
Inflation			2.00%
Risk adjustment			<u>-0.24%</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, 2021, 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%	5.09%	1.27%
Private equity pools	16.00%	8.58%	1.37%
International equity pools	15.00%	7.08%	1.06%
Fixed income pools	10.50%	-0.73%	-0.08%
Real estate and infrastructure pools	10.00%	5.12%	0.51%
Absolute return pools	9.00%	2.42%	0.22%
Real return/opportunistic pools	12.50%	5.73%	0.72%
Short-term investment pools	2.00%	-1.29%	-0.03%
	<u>100.00%</u>		5.04%
Inflation			2.00%
Risk adjustment			<u>-0.09%</u>
Investment rate of return			<u><u>6.95%</u></u>

Rate of Return

For the fiscal year ended September 30, 2021, the annual money-weighted rate of return on pension and OPEB plan investments, net of pension and OPEB plan investment expense, was 27.30% and 27.14%, 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	\$ 18,860,974	\$ 13,191,994	\$ 8,492,038

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	\$ 1,620,402	\$ 872,037	\$ 236,942

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	\$ 212,247	\$ 872,037	\$ 1,614,380

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, 2022, the District reported a payable of \$271,851 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2022.

Payable to the OPEB Plan

At June 30, 2022, the District reported a payable of \$46,538 for the outstanding amount of OPEB contributions to the Plan required for the year ended June 30, 2022.

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

11. FUND BALANCES - GOVERNMENT FUNDS

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

	General Fund	Food Service Fund	Nonmajor Governmental Funds	Total
Nonspendable				
Inventory	\$ 29,297	\$ 6,287	\$ -	\$ 35,584
Restricted				
Debt service	-	-	281,752	281,752
Food service program	-	230,012	-	230,012
	-	230,012	281,752	511,764
Committed				
Student/school activity	-	-	88,708	88,708
Assigned				
Subsequent year expenditures	133,560	-	-	133,560
Unassigned				
	1,664,251	-	-	1,664,251
Total fund balances - governmental funds	\$ 1,827,108	\$ 236,299	\$ 370,460	\$ 2,433,867

12. NET INVESTMENT IN CAPITAL ASSETS

The composition of the District's net investment in capital assets as of June 30, 2022, was as follows:

	Governmental Activities
Capital assets:	
Capital assets not being depreciated	\$ 75,012
Capital assets being depreciated, net	13,858,363
	<u>13,933,375</u>
Related debt:	
Installment debt	15,198,819
Non capital-related debt	(4,645,000)
Premiums on bonds payable	842,511
Deferred charge on advance bond refundings, net	(567,768)
	<u>10,828,562</u>
Net investment in capital assets	\$ 3,104,813

HESPERIA COMMUNITY SCHOOLS

Notes to Financial Statements

13. CONTINGENCIES

Federal Grant Programs

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

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2022, the District carried commercial insurance and participated in a public entity risk pool. The District has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

14. RELATED PARTIES

During the year ended June 30, 2022, a member of the Board of Education owns a hardware store that the District uses for supplies. Expenditures incurred with this vendor were \$5,699 for the year ended June 30, 2022. Another member of the Board of Education owns an apple orchard market that the District uses for food purchases. Expenditures incurred with this vendor were \$1,278 for the year ended June 30, 2022.

15. SUBSEQUENT EVENTS

On July 6, 2022, the District received proceeds of \$2,100,000 from a State of Michigan School Aid anticipation note maturing on June 30, 2023. The note has an interest rate of 2.45%.

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. Over the past two years, the District has been awarded funds from various sources to be used to respond to the impacts of the COVID-19 pandemic. Of the amount awarded, approximately \$1,359,000 was expended and recognized as revenue during the current fiscal year. With these additional Federal resources, at this time management does not believe that the negative financial impact of the pandemic, if any, would be material to the District.



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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	0.06098%	0.06032%	0.05809%	0.05801%	0.05702%
District's covered payroll	\$ 5,101,036	\$ 4,827,765	\$ 4,885,092	\$ 4,905,524	\$ 4,775,495
District's proportionate share of the net pension liability as a percentage of its covered payroll	263.30%	305.17%	296.67%	306.42%	358.91%
Plan fiduciary net position as a percentage of the total pension liability	66.20%	63.17%	63.27%	64.21%	62.36%

See notes to required supplementary information.



Year Ended June 30,		
2020	2021	2022
\$ 18,345,336	\$ 18,783,295	\$ 13,191,994
0.05540%	0.05468%	0.05572%
\$ 4,816,125	\$ 4,810,710	\$ 5,107,790
380.91%	390.45%	258.27%
60.31%	59.72%	72.60%

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,		
2018	2021	2022
\$ 1,452,309	\$ 1,654,542	\$ 1,826,367
<u>(1,452,309)</u>	<u>(1,654,542)</u>	<u>(1,826,367)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 4,854,096	\$ 5,002,454	\$ 5,076,856
29.92%	33.07%	35.97%

HESPERIA COMMUNITY SCHOOLS

Required Supplementary Information

MPSERS Cost-Sharing Multiple-Employer Plan

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

	Year Ended June 30,				
	2018	2019	2020	2021	2022
District's proportionate share of the net OPEB liability	\$ 5,156,123	\$ 4,471,672	\$ 3,972,614	\$ 2,927,479	\$ 872,037
District's proportion of the net OPEB liability	0.05823%	0.05625%	0.05535%	0.05465%	0.05713%
District's covered payroll	\$ 4,905,524	\$ 4,775,495	\$ 4,816,125	\$ 4,810,710	\$ 5,107,790
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	105.11%	93.64%	82.49%	60.85%	17.07%
Plan fiduciary net position as a percentage of the total OPEB liability	36.39%	42.95%	48.46%	59.44%	87.33%

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	2022
Statutorily required contribution	\$ 356,670	\$ 377,610	\$ 439,138	\$ 413,283	\$ 406,382
Contributions in relation to the statutorily required contribution	<u>(356,670)</u>	<u>(377,610)</u>	<u>(439,138)</u>	<u>(413,283)</u>	<u>(406,382)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 4,769,706	\$ 4,825,335	\$ 4,854,096	\$ 5,002,454	\$ 5,076,856
Contributions as a percentage of covered payroll	7.48%	7.83%	9.05%	8.26%	8.00%

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 data will be presented.

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

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

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

OPEB Information

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

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

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

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

**COMBINING FUND
FINANCIAL STATEMENTS**

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NONMAJOR GOVERNMENTAL FUNDS

HESPERIA COMMUNITY SCHOOLS

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2022

	Special Revenue	Debt Service	
	Student/school Activity	2020 Refunding	2017B Refunding
Assets			
Cash and investments	\$ 88,708	\$ 4,017	\$ 24,414
Due from other funds	-	84,262	-
Total assets	<u>\$ 88,708</u>	<u>\$ 88,279</u>	<u>\$ 24,414</u>
Liabilities			
Due to other funds	\$ -	\$ 88,279	\$ -
Fund balances			
Restricted	-	-	24,414
Committed	88,708	-	-
Total fund balances	<u>88,708</u>	<u>-</u>	<u>24,414</u>
Total liabilities and fund balances	<u>\$ 88,708</u>	<u>\$ 88,279</u>	<u>\$ 24,414</u>



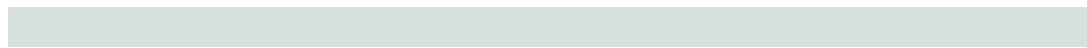
Debt Service				
2016B Refunding	2016 Refunding	2009 Refunding	2009 Bonds	Total
\$ 37,885	\$ 23,416	\$ 191,416	\$ -	\$ 369,856
-	-	92,163	1,180	177,605
<u>\$ 37,885</u>	<u>\$ 23,416</u>	<u>\$ 283,579</u>	<u>\$ 1,180</u>	<u>\$ 547,461</u>
\$ 3,460	\$ 1,000	\$ 84,262	\$ -	\$ 177,001
34,425	22,416	199,317	1,180	281,752
-	-	-	-	88,708
<u>34,425</u>	<u>22,416</u>	<u>199,317</u>	<u>1,180</u>	<u>370,460</u>
<u>\$ 37,885</u>	<u>\$ 23,416</u>	<u>\$ 283,579</u>	<u>\$ 1,180</u>	<u>\$ 547,461</u>

HESPERIA COMMUNITY SCHOOLS

Combining Statement of Revenues, Expenditures and Change in Fund Balances

Nonmajor Governmental Funds
For the Year Ended June 30, 2022

	Special Revenue	Debt Service	
	Student Activity	2020 Refunding	2017B Refunding
Revenues			
Local sources	\$ 314,542	\$ 30,724	\$ 295,945
Expenditures			
Student/school activity	299,625	-	-
Debt service:			
Principal	-	305,000	250,000
Interest	-	70,640	122,851
Total expenditures	299,625	375,640	372,851
Revenues over (under) expenditures	14,917	(344,916)	(76,906)
Other financing sources (uses)			
Transfers in	-	84,262	-
Transfers out	-	-	-
Issuance of long-term debt	-	227,194	81,618
Total other financing sources (uses)	-	311,456	81,618
Net change in fund balances	14,917	(33,460)	4,712
Fund balances, beginning of year	73,791	33,460	19,702
Fund balances, end of year	\$ 88,708	\$ -	\$ 24,414



Debt Service				
2016B Refunding	2016 Refunding	2009 Refunding	2009 Bonds	Total
\$ 418,219	\$ 158,935	\$ 237,754	\$ -	\$ 1,456,119
-	-	-	-	299,625
330,000	950,000	-	-	1,835,000
245,000	46,745	70,634	-	555,870
575,000	996,745	70,634	-	2,690,495
(156,781)	(837,810)	167,120	-	(1,234,376)
-	-	-	-	84,262
-	-	(84,262)	-	(84,262)
155,554	816,660	116,459	-	1,397,485
155,554	816,660	32,197	-	1,397,485
(1,227)	(21,150)	199,317	-	163,109
35,652	43,566	-	1,180	207,351
\$ 34,425	\$ 22,416	\$ 199,317	\$ 1,180	\$ 370,460