

**HERITAGE SOUTHWEST INTERMEDIATE
SCHOOL DISTRICT**

**REPORT ON FINANCIAL STATEMENTS
(with required and additional
supplementary information)**

YEAR ENDED JUNE 30, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Heritage Southwest Intermediate School District

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Heritage Southwest Intermediate School District, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Heritage Southwest Intermediate School District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Heritage Southwest Intermediate School District, as of June 30, 2023, and the respective changes in financial position, thereof 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 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Heritage Southwest Intermediate School 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 Heritage Southwest Intermediate School 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.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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 generally accepted auditing standards 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 Heritage Southwest Intermediate School 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 Heritage Southwest Intermediate School 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 other required supplementary information, as identified 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 Heritage Southwest Intermediate School District's basic financial statements. The accompanying additional supplementary information, as identified in the table of contents, including the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 additional supplementary information, including the schedule of expenditures of federal awards 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 our report dated October 10, 2023 on our consideration of Heritage Southwest Intermediate School 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 Heritage Southwest Intermediate School 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 Heritage Southwest Intermediate School District's internal control over financial reporting and compliance.

Maney Costeiran PC

October 10, 2023

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Heritage Southwest Intermediate School District’s (the District) annual financial report presents our discussion and analysis of the District’s financial performance during the fiscal year that ended June 30, 2023. Please read it in conjunction with the District’s financial statements, which immediately follow this section. A comparative analysis with the prior year has been provided.

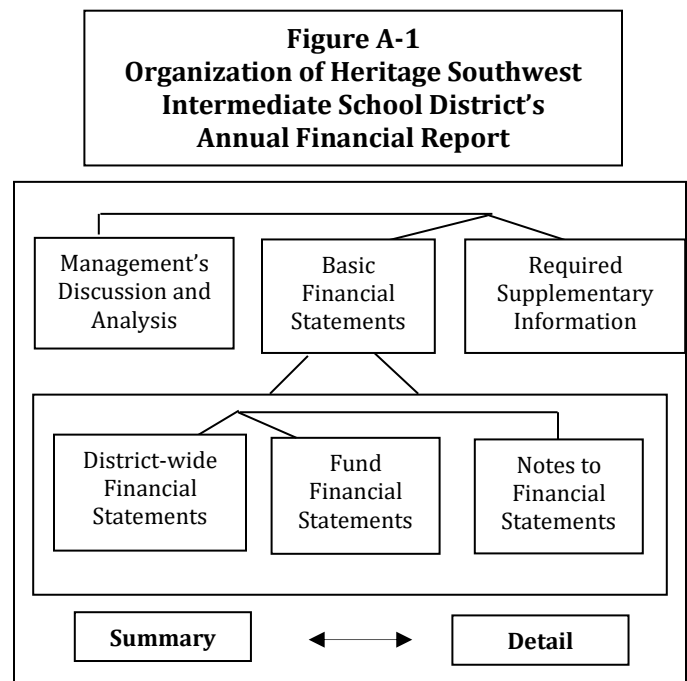
FINANCIAL HIGHLIGHTS

- Total **General Education Fund** revenues and other financing sources were \$6.90 million and expenditures and other financing uses were \$6.32 million. At June 30, 2023, the fund balance in the general fund was \$2,412,444. This is an increase of \$586,040 from the 2021-2022 fiscal year.
- Total **Special Education Fund** revenues and other financing sources were \$13.82 million and expenditures and other financing uses were \$12.05 million. At June 30, 2023, the fund balance in the special education fund was \$8,202,156. This is an increase of \$1,772,323 from the 2021-2022 fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management’s discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements* that provide both *short-term* and *long-term* information about the District’s *overall* financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District’s operations in more detail than the District-wide statements.
- The *governmental funds* statements tell how basic services like general and special education were financed in the short-term as well as what remains for future spending.



MANAGEMENT’S DISCUSSION AND ANALYSIS

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District’s budgets for the year and pension and other postemployment benefit related information. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-2 Major Features of District-wide and Fund Financial Statements		
	<u>District-wide Statements</u>	<u>Fund Financial Statements Governmental Funds</u>
Scope	Entire district (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary: General, Special Education, and Student Activities Funds
Required financial statements	* Statement of net position * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resource focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable

Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

DISTRICT-WIDE STATEMENTS

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private sector companies. The statements of net position include *all* of the District's assets, deferred inflows, deferred outflows, and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two District-wide statements report on the District's *net position* and how they have changed. Net position - the difference between the District's assets, deferred outflows, deferred inflows, and liabilities - is one way to measure the District's overall financial health or *position*.

- Over time, increases or decreases in the District's net position are indicators of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the District-wide financial statements, the District's activities:

- Governmental Activities - Most of the District's basic services are included here, such as general, special education, and student activities. Property taxes, state aid, and federal grants finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law.
- The District establishes other funds to control and manage money for particular purposes (like its capital projects funds) or to show that it is properly using certain revenues (like student/school activities).

The District has one type of fund:

- Governmental Funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Table A-3		
Heritage Southwest Intermediate School District		
	<u>2023</u>	<u>2022</u>
ASSETS		
Current and other assets	\$ 14,847,727	\$ 11,877,161
Capital assets	<u>6,150,589</u>	<u>6,158,793</u>
TOTAL ASSETS	<u>20,998,316</u>	<u>18,035,954</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>11,549,442</u>	<u>4,783,112</u>
LIABILITIES		
Other liabilities	3,977,296	3,428,820
Noncurrent liabilities	370,891	224,718
Net pension liability	24,843,485	14,348,176
Net other postemployment benefits liability	<u>1,482,954</u>	<u>949,915</u>
TOTAL LIABILITIES	<u>30,674,626</u>	<u>18,951,629</u>
DEFERRED INFLOWS OF RESOURCES	<u>5,055,083</u>	<u>9,258,064</u>
NET POSITION		
Net investment in capital assets	6,243,945	6,144,543
Unrestricted	<u>(9,425,896)</u>	<u>(11,535,170)</u>
TOTAL NET POSITION	<u>\$ (3,181,951)</u>	<u>\$ (5,390,627)</u>

MANAGEMENT’S DISCUSSION AND ANALYSIS

Table A-4		
Heritage Southwest Intermediate School District		
	2023	2022
REVENUES		
Program revenues		
Charges for services	\$ 633,036	\$ 675,319
Operating grants and contributions	13,368,338	10,793,195
General revenues		
Property taxes	4,503,838	4,296,237
State sources - unrestricted	364,174	346,158
Other	607,595	243,600
TOTAL REVENUES	19,476,981	16,354,509
EXPENSES		
Instruction	5,179,464	3,836,205
Support services	11,209,808	9,420,645
Food services	-	2,877
Community services	153,231	125,718
Interdistrict transactions	317,519	286,103
Student/school activities	15,882	-
Depreciation/ amortization expense	392,401	372,880
TOTAL EXPENSES	17,268,305	14,044,428
Change in net position	\$ 2,208,676	\$ 2,310,081

District Governmental Activities:

The following factors have positively influenced Heritage Southwest ISD’s financial status at June 30, 2023.

- The General Fund experienced an increase in fund balance of \$586,040.
- The General Fund experienced in 2022-2023 a 36% increase in revenue.
- The Special Education Fund experienced in 2022-2023 a 21% increase in revenue.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Heritage Southwest ISD completed the year with its governmental funds reporting *combined* fund balances of \$10,644,633 which is \$2,354,898 more than last year's combined ending fund balance of \$8,289,735. The changes in fund balances are as follows:

Table A-5				
Heritage Southwest Intermediate School District				
	<u>General Fund</u>	<u>Special Education</u>	<u>Nonmajor Fund</u>	<u>Total Governmental Funds</u>
Fund balance, beginning of year	\$ 1,826,404	\$ 6,429,833	\$ 33,498	\$ 8,289,735
Increase (decrease)	586,040	1,772,323	(3,465)	2,354,898
Fund balance, end of year	2,412,444	8,202,156	30,033	10,644,633

Budget Highlights:

Over the course of the year, Heritage Southwest ISD revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. Two budget amendments were made throughout the current fiscal year.

General Fund:

- The general fund actual revenues were \$6,862,212, which is more than the original budget estimate of \$4,645,000 and less than the final amended budget of \$7,059,478. The variance of \$197,266 is within 2.79% of the final budgeted amount.
- Actual general fund expenditures were \$6,316,694, which is more than the original budget estimate of \$4,698,461 and less than the final amended budget of \$6,800,000. The variance of \$483,306 is within 7.11% of the final budgeted amount.

Special Education Fund:

- The special education fund actual revenues were \$13,698,670, which is more than the original budget estimate of \$11,140,000 and less than the final amended budget of \$13,700,000. The variance of \$1,753 is within 0.01% of the final budgeted amount.
- Actual special education fund expenditures were \$12,047,491 which is less than the original budget estimate of \$12,406,000 and less than the final amended budget of \$12,469,000. The variance of \$421,509 is within 3.38% of the final budgeted amount.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's capital assets as of June 30 are as follows:

	2023	2022
Land	\$ 60,000	\$ 60,000
Construction in progress	93,356	-
Buildings and improvements	8,408,901	8,347,260
Furniture and equipment	841,999	795,269
Transportation equipment	1,694,385	1,418,559
Right to use - leased equipment	162,089	-
Total	11,260,730	10,621,088
Less accumulated depreciation/amortization	4,854,696	4,462,295
Net capital assets	<u>\$ 6,406,034</u>	<u>\$ 6,158,793</u>

Debt

As of June 30, 2023, the District had \$400,538 in obligations made up of accumulated compensated absences and direct borrowings and direct placements. More detailed information about these other long-term liabilities are presented in Note 6 of the financial statements.

FACTORS BEARING ON THE DISTRICT'S FUTURE

Our Board and administration considered many factors when setting the District's 2023-2024 fiscal year budget. The most important factors affecting the operating budget are the economic condition of the State and new legislation. The 2023-2024 budget was adopted based on an estimate of property tax revenue, state aid and grant funding. State law requires the School to amend the budget if actual School District resources are not sufficient to fund original appropriations. The District used budget assumptions based upon the most recent information to build the budget.

Also, as stated above, legislative changes can greatly impact the State's School Aid fund. The actual revenue received by the District depends on the State's ability to collect revenue to fund its appropriations to public schools and intermediate school districts. Worsening economic conditions along with legislative changes have the potential to further impact state revenues. School funding appears to be favorable for the 2023-2024 fiscal year.

In addition, our Board must also consider the ever-increasing cost of employee benefits and retirement. Estimating what those costs will be for the upcoming year is always a challenge. Despite these challenges, the District remains committed to find the most cost-effective ways to make efficient use of the resources provided while fulfilling its mission of delivering service to local districts and educational opportunities for all learners.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact Andy Hubbard, Superintendent, Heritage Southwest Intermediate School District, 61682 Dailey Rd., Cassopolis, Michigan 49031.

BASIC FINANCIAL STATEMENTS

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2023**

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 11,444,488
Intergovernmental receivables	3,093,453
Prepays	54,341
Capital assets not being depreciated	153,356
Capital assets, net of accumulated depreciation/amortization	<u>6,252,678</u>
TOTAL ASSETS	<u>20,998,316</u>
DEFERRED OUTFLOWS OF RESOURCES	
Related to other postemployment benefits	2,470,843
Related to pension	<u>9,078,599</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>11,549,442</u>
LIABILITIES	
Accounts payable	434,857
Accrued salaries and related items	871,250
Accrued retirement	503,635
Unearned revenue	2,137,907
Noncurrent liabilities	
Due within one year	29,647
Due in more than one year	370,891
Net pension liability	24,843,485
Net other postemployment benefits liability	<u>1,482,954</u>
TOTAL LIABILITIES	<u>30,674,626</u>
DEFERRED INFLOWS OF RESOURCES	
Related to other postemployment benefits	3,033,353
Related to pension	111,275
Related to state aid funding for pension	<u>1,910,455</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>5,055,083</u>
NET POSITION	
Net investment in capital assets	6,243,945
Unrestricted	<u>(9,425,896)</u>
TOTAL NET POSITION	<u>\$ (3,181,951)</u>

See notes to financial statements.

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023**

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental activities				
Instruction	\$ 5,179,464	\$ 626,536	\$ 3,875,101	\$ (677,827)
Support services	11,209,808	6,500	9,347,194	(1,856,114)
Community services	153,231	-	133,626	(19,605)
Interdistrict transactions	317,519	-	-	(317,519)
Student/school activities	15,882	-	12,417	(3,465)
Unallocated depreciation/amortization	392,401	-	-	(392,401)
Total governmental activities	\$ 17,268,305	\$ 633,036	\$ 13,368,338	(3,266,931)
General revenues				
Property taxes, levied for general purposes				408,614
Property taxes, levied for special education				4,095,224
Investment earnings				272,298
State sources - unrestricted				364,174
Other				335,297
Total general revenues				5,475,607
CHANGE IN NET POSITION				2,208,676
NET POSITION, beginning of year				(5,390,627)
NET POSITION, end of year				\$ (3,181,951)

See notes to financial statements.

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2023**

	General Fund	Special Education	Nonmajor (Student/School Activities Fund)	Total Governmental Funds
ASSETS				
Cash and investments	\$ 3,754,358	\$ 7,660,097	\$ 30,033	\$ 11,444,488
Intergovernmental receivables	1,318,577	1,774,876	-	3,093,453
Prepays	14,899	39,442	-	54,341
TOTAL ASSETS	\$ 5,087,834	\$ 9,474,415	\$ 30,033	\$ 14,592,282
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 189,452	\$ 245,405	\$ -	\$ 434,857
Accrued salaries and related items	212,306	658,944	-	871,250
Accrued retirement	135,725	367,910	-	503,635
Unearned revenue	2,137,907	-	-	2,137,907
TOTAL LIABILITIES	2,675,390	1,272,259	-	3,947,649
FUND BALANCES				
Nonspendable				
Prepays	14,899	39,442	-	54,341
Restricted for				
Special education - general	-	5,162,714	-	5,162,714
Special education - capital projects	-	3,000,000	-	3,000,000
Committed for student/school activities	-	-	30,033	30,033
Unassigned				
General fund	2,397,545	-	-	2,397,545
TOTAL FUND BALANCES	2,412,444	8,202,156	30,033	10,644,633
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,087,834	\$ 9,474,415	\$ 30,033	\$ 14,592,282
Total governmental fund balances				\$ 10,644,633
Amounts reported for governmental activities in the statement of net position are different because:				
Deferred outflows of resources - related to pension			\$ 9,078,599	
Deferred outflows of resources - related to other postemployment benefits			2,470,843	
Deferred inflows of resources - related to pension			(111,275)	
Deferred inflows of resources - related to other postemployment benefits			(3,033,353)	
Deferred inflows of resources - related to state funding for pension			(1,910,455)	
				6,494,359
Capital assets used in governmental activities are not financial resources and are not reported in the funds:				
The cost of the capital assets is			11,260,730	
Accumulated depreciation/ amortization is			(4,854,696)	
				6,406,034
Long-term obligations are not due and payable in the current period and are not reported in the funds:				
Notes from direct borrowings and direct placements				(162,089)
Compensated absences				(238,449)
Net other postemployment benefit liability				(1,482,954)
Net pension liability				(24,843,485)
Net position of governmental activities				\$ (3,181,951)

See notes to financial statements.

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2023**

	General Fund	Special Education	Nonmajor (Student/ School Activities Fund)	Total Governmental Funds
REVENUES				
Local sources	\$ 713,790	\$ 5,344,370	\$ -	\$ 6,058,160
State sources	5,558,998	5,046,942	-	10,605,940
Federal sources	577,574	2,680,399	-	3,257,973
Interdistrict sources	11,850	626,536	-	638,386
Student/school activities	-	-	12,417	12,417
TOTAL REVENUES	6,862,212	13,698,247	12,417	20,572,876
EXPENDITURES				
Current				
Instruction	1,894,464	3,376,670	-	5,271,134
Supporting services	4,095,013	7,844,351	-	11,939,364
Community services	148,759	1,943	-	150,702
Interdistrict transactions	90,841	226,678	-	317,519
Student/school activities	-	-	15,882	15,882
Capital outlay	84,054	587,162	-	671,216
Debt service				
Principal	3,563	10,687	-	14,250
TOTAL EXPENDITURES	6,316,694	12,047,491	15,882	18,380,067
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	545,518	1,650,756	(3,465)	2,192,809
OTHER FINANCING SOURCES (USES)				
Proceeds from leases	40,522	121,567	-	162,089
NET CHANGE IN FUND BALANCES	586,040	1,772,323	(3,465)	2,354,898
FUND BALANCES				
Beginning of year	1,826,404	6,429,833	33,498	8,289,735
End of year	\$ 2,412,444	\$ 8,202,156	\$ 30,033	\$ 10,644,633

See notes to financial statements.

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023**

Net change in fund balances total governmental funds **\$ 2,354,898**

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

Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation/amortization:

Depreciation/amortization expense	(392,401)
Capital outlay	639,642

The issuance of long-term obligations (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term obligations consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items and are as follows:

Proceeds from lease obligation	(162,089)
Payments on obligations	14,250

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Deferred inflows of resources - unavailable revenue, beginning of the year	(172,856)
Deferred inflows of resources - unavailable revenue, end of the year	-

Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Compensated absences, beginning of the year	224,718
Compensated absences, end of the year	(238,449)

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 governmental funds:

Other postemployment benefits related items	1,077,744
Pension related items	(213,742)

Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to section 147c pension contributions subsequent to the measurement period:

Pension related items, beginning of year	987,416
Pension related items, end of year	<u>(1,910,455)</u>

Change in net position of governmental activities **\$ 2,208,676**

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2023**

	<u>Private Purpose Trust Fund</u>
ASSETS	
Cash and investments	<u>\$ 33,442</u>
NET POSITION	
Unrestricted	<u><u>\$ 33,442</u></u>

See notes to financial statements.

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2023**

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Investment earnings	<u>\$ 3,641</u>
DEDUCTIONS	
Distributions	1,292
Administrative fees	<u>370</u>
TOTAL DEDUCTIONS	<u>1,662</u>
NET INCREASE IN NET POSITION	1,979
NET POSITION, beginning of year	<u>31,463</u>
NET POSITION, end of year	<u><u>\$ 33,442</u></u>

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Government-wide 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 District. *Governmental activities* normally are supported by taxes, and intergovernmental revenues.

Reporting Entity

Heritage Southwest Intermediate School District (the "District") is governed by the Heritage Southwest Intermediate School District Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board (GASB) Statements.

Basis of Presentation - Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the District's funds. Separate statements for each fund category are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following *Major Governmental Funds*:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *Special Education Fund* is a special revenue fund and is the District's fund for those activities involved in operating the programs necessary to provide for the education of students identified as needing special education services. The fund's revenue sources include property taxes, federal and state sources, and intergovernmental reimbursements.

The District reports the following *Other Nonmajor Fund*:

The *Special Revenue Fund* accounts for revenue sources that are legally restricted or committed to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its student activities in the nonmajor special revenue fund.

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation - Fund Financial Statements (continued)

During the course of operations, the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Fiduciary Funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide financial statements.

The *Private Purpose Trust Fund* is accounted for using the accrual method of accounting. Private purpose trust funds account for assets where interest payments may be spent for student scholarships. These funds are not included in the District's government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

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

The 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 generally collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under leases are reported as other financing sources.

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting (continued)

Property taxes, state and federal aid, 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. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end).

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the current year ended, the foundation allowance was based on pupil membership counts.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by Non-PRE property taxes which may be levied at a rate of up to 18 mills as well as 6 mills for Commercial Personal Property Tax. The state revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as an intergovernmental receivable.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received and accrued, which are not expended by the close of the fiscal year are recorded as unearned revenue.

All other revenue items are generally considered to be measurable and available only when cash is received by the District.

The private-purpose trust fund is reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

Budgetary Information

Budgetary Basis of Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, special education fund, and student activities fund. Other funds do not have appropriated budgets.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods or services (i.e., purchase orders, contracts, and commitments). The District does not utilize encumbrance accounting.

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgetary Information (continued)

Budgetary Basis of Accounting (continued)

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
- d. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
- e. The budget was amended during the year with supplemental appropriations, the last one approved prior to year ended June 30, 2023. The District does not consider these amendments to be significant.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash

The District's cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

- a. In accordance with Michigan Compiled Laws, the District is authorized to invest in the following investment vehicles:
- b. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- c. The United States government or federal agency obligations repurchase agreements.
- d. Bankers' acceptances of United States banks.
- e. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Investments (continued)

- f. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration (NCUA), but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
- g. Commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services, and which matures not more than 270 days after the date of purchase.

Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital Assets

Capital assets, which include land, construction in progress, building and additions, land improvements, computer and office equipment, outdoor equipment, and transportation equipment are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Group purchases are evaluated on a case-by-case basis. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

Land and construction in progress, if any, are not depreciated. Right to use assets of the District are amortized using the straight-line method over the shorter of the lease/subscription period or the estimated useful lives. The other capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

Capital Asset Classes	Lives
Buildings and improvements	5 - 50
Furniture and equipment	5 - 20
Transportation equipment	5 - 10
Right to use - leased equipment	5

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Defined Benefit Plans

For purposes of measuring the net pension and other postemployment benefit liability, deferred outflows of resources and deferred inflows of resources related to pensions and other postemployment benefits, and pension and other postemployment benefits expense, information about the fiduciary net position of the Michigan Public Employees' Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. 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.

Deferred Outflows

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The District has two items that qualify for reporting in this category. They are the pension and other postemployment benefits related items reported in the government-wide statement of net position. A deferred outflow is recognized for pension and other postemployment benefit related items. These amounts are expensed in the plan year in which they apply.

Deferred Inflows

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has three items that qualify for reporting in this category. The first is restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension contributions subsequent to the measurement period. The second and third items are future resources yet to be recognized in relation to the pension and other postemployment benefit actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension and other postemployment benefit liability and the actual results. The amounts are amortized over a period determined by the actuary.

Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance(continued)

Fund Balance Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board of Education is the highest level of decision-making authority for the District that can, by adoption of a board action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the board action remains in place until a similar action is taken (the adoption of another board action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

The fund balance policy prescribes the minimum fund balance as 10 percent of the preceding year's expenditures in the general fund. This is deemed to be prudent amount to maintain the District's ability to meet obligations as they come due throughout the year.

Leases

Lessee: The District is a lessee for a noncancelable lease. The District recognizes a lease liability and an intangible right-to-use lease asset in the government-wide financial statements. The District recognizes a lease liability and an intangible right-to-use lease asset in the government-wide financial statements.

At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance(continued)

Leases (continued)

Key estimates and judgements related to leases included how the District determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for leases.

The lease term includes the noncancelable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term obligations on the statement of net position.

Revenues and Expenditures/Expenses

Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants 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 requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Property taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2023, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General fund	
General education	0.1999
Special revenue funds	
Special education	2.0028

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues and Expenditures/Expenses (continued)

Compensated Absences

The District's policy permits employees to accumulate earned but unused vacation and sick leave benefits, which are eligible for payment upon separation from service. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary and related benefits, where applicable.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method over the term of the related debt. Bond issuance costs are reported as expenditures in the year in which they are incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE 2 - DEPOSITS AND INVESTMENTS

As of June 30, 2023, the District had deposits and investments subject to the following risk.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2023, \$1,919,078 of the District's bank balance of \$2,169,079 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying value on the books for deposits at the end of the year was \$2,325,066. The District does not have a deposit policy for custodial credit risk.

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

Interest Rate Risk

In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Investment Type	Fair Value	Weighted Average Maturity (Years)
MILAF External Investment pool - Max	\$ 8,389,250	N/A
Michigan Class Investment Pool	730,172	0.1215
Total fair value	\$ 9,119,422	
Portfolio weighted average maturity		0.0097

One day maturity equals 0.0027, one year equals 1.00.

Concentration of Credit Risk

The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

Investment Type	Fair Value	Rating	Rating Agency
MILAF External Investment pool - Max	\$ 8,389,250	AAAm	Standard & Poor's
Michigan Class Investment Pool	730,172	AAAm	Standard & Poor's
	\$ 9,119,422		

Foreign Currency Risk

The District is not authorized to invest in investments which have this type of risk.

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

Fair Value Measurement

The District is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1: Quoted prices in active markets for identical securities.
- Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.
- Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The District does not have any investments subject to the fair value measurement.

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF funds are considered external investment pools as defined by the GASB and as such are recorded at amortized cost which approximate fair value. The MILAF (MAX Class) fund requires notification of redemptions prior to 14 days to avoid penalties. These funds are not subject to the fair value disclosures.

	<u>Amortized Cost</u>
MILAF External Investment pool - Max	<u>\$ 8,389,250</u>

Investments in Entities that Calculate Net Asset Value per share

The District holds shares or interests in the Michigan CLASS investment pool where the fair value of the investments is measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

Investments in Entities that Calculate Net Asset Value per share (continued)

The Michigan CLASS investment pool invest in U.S. Treasury obligations, federal agency obligations of the U.S. government, high-grade commercial paper (rated "A1" or better), collateralized bank deposits, repurchase agreements (collateralized at 102 percent by treasuries and agencies), and approved money market funds. The program is designed to meet the needs of Michigan public sector investors. It purchases securities that are legally permissible under state statutes and are available for investment by Michigan counties, cities, townships, school districts, authorities, and other public agencies.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency if Eligible</u>	<u>Redemption Notice Period</u>
Michigan Class Investment Pool	<u>\$ 730,172</u>	<u>\$ -</u>	No restrictions	None

The cash and investments referred to above have been reported in cash and cash equivalents on the financial statements, based upon criteria disclosed in Note 1.

NOTE 3 - ASSETS HELD AT COMMUNITY FOUNDATION

As of June 30, 2023, the District held \$33,442 at Michigan Gateway Community Foundation (MGCF) under an agency endowment fund. The District has granted variance power to the MGCF, and the Community Foundation has ultimate authority and control over the Fund and income derived therefrom. Upon request by the District, income from the fund representing an annual return may be distributed to Heritage Southwest Intermediate School District or to another suggested beneficiary subject to the approval of the MGCF. This amount is included within the private purpose trust fund.

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	Balance July 1, 2022	Additions	Deletions	Balance June 30, 2023
Governmental activities				
Capital assets, not being depreciated/amortized				
Land	\$ 60,000	\$ -	\$ -	\$ 60,000
Construction in progress	-	93,356	-	93,356
Total assets not being depreciated/amortized	<u>60,000</u>	<u>93,356</u>	<u>-</u>	<u>153,356</u>
Capital assets, being depreciated/amortized				
Buildings and improvements	8,347,260	61,641	-	8,408,901
Furniture and equipment	795,269	46,730	-	841,999
Transportation equipment	1,418,559	275,826	-	1,694,385
Right to use - leased equipment	-	162,089	-	162,089
Total capital assets, being depreciated/amortized	<u>10,561,088</u>	<u>546,286</u>	<u>-</u>	<u>11,107,374</u>
Accumulated depreciation/amortization:				
Buildings and improvements	2,751,566	232,210	-	2,983,776
Furniture and equipment	656,939	35,925	-	692,864
Transportation equipment	1,053,790	118,863	-	1,172,653
Right to use - leased equipment	-	5,403	-	5,403
Total accumulated depreciation/amortization	<u>4,462,295</u>	<u>392,401</u>	<u>-</u>	<u>4,854,696</u>
Net capital assets being depreciated/amortized	<u>6,098,793</u>	<u>153,885</u>	<u>-</u>	<u>6,252,678</u>
Net governmental capital assets	<u>\$ 6,158,793</u>	<u>\$ 153,885</u>	<u>\$ -</u>	<u>\$ 6,406,034</u>

Depreciation/amortization for the fiscal year ended June 30, 2023 amounted to \$392,401. The District determined that it was impractical to allocate depreciation/amortization to the various governmental activities as the assets serve multiple functions.

NOTE 5 - INTERGOVERNMENTAL RECEIVABLES

Amounts due from other governmental units at June 30, 2023 consist of the following:

Other governmental units	
State aid	\$ 1,806,267
Federal grants	878,288
Other	<u>408,898</u>
	<u>\$ 3,093,453</u>

No allowance for doubtful accounts is considered necessary.

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM OBLIGATIONS

The following is a summary of long-term obligations for the District for the year ended June 30, 2023:

	Compensated Absences	Notes from Direct Borrowings and Direct Placements	Total
Balance, July 1, 2022	\$ 224,718	\$ 14,250	\$ 238,968
Additions	13,731	162,089	175,820
Deletions	-	14,250	14,250
Balance, June 30, 2023	238,449	162,089	400,538
Due within one year	-	29,647	29,647
Due in more than one year	\$ 238,449	\$ 132,442	\$ 370,891

Long-term obligations at June 30, 2023 are comprised of the following:

Notes from Direct Borrowings and Direct Placements

Financed purchase agreement due in quarterly installments of \$9,211 with 5.00% imputed interest, through May 2028.	\$ 162,089
Total notes from direct borrowings and direct placements	162,089
Compensated absences	238,449
Total general long-term obligations	\$ 400,538

The District's outstanding notes from direct borrowings and direct placements related to governmental activities of \$162,089 contains provisions that in an event of default, either by (1) unable to make principal or interest payments (2) false or misrepresentation is made to the lender (3) become insolvent or make an assignment for the benefit of its creditors (4) if the lender at any time in good faith believes that the prospect of payment of any indebtedness is impaired. Upon the occurrence of any default event, the outstanding amounts, including accrued interest become immediately due and payable.

The annual requirement to amortize long-term obligations outstanding as of June 30, 2023, are as follows:

Year Ending June 30,	Direct Borrowings and Direct Placements		Compensated Absences	Total Payment
	Principal	Interest		
2024	\$ 29,647	\$ 7,196	-	\$ 36,843
2025	31,158	5,685	-	36,843
2026	32,745	4,098	-	36,843
2027	34,413	2,430	-	36,843
2028	34,126	677	-	34,803
	162,089	20,086	-	182,175
Compensated absences	-	-	238,449	-
	\$ 162,089	\$ 20,086	\$ 238,449	\$ 182,175

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) (System) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (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. MPSERS issues a publicly available Annual Comprehensive Financial Report that can be obtained at www.michigan.gov/orsschools.

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 option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act.

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 of Michigan Investment Board serves as the investment fiduciary and custodian for the System.

Benefits Provided - Overall

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the plans offered by MPSERS is as follows:

<u>Plan Name</u>	<u>Plan Type</u>	<u>Plan Status</u>
Basic	Defined Benefit	Closed
Member Investment Plan (MIP)	Defined Benefit	Closed
Pension Plus	Hybrid	Closed
Pension Plus 2	Hybrid	Open
Defined Contribution	Defined Contribution	Open

Benefits Provided - Pension

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. Retirement benefits for DB plan members are determined by final average compensation and years of service. 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.

Prior to Pension reform of 2010 there were two plans commonly referred to as Basic and the Member Investment Plan (MIP). Basic Plan member's contributions range from 0% - 4%. On January 1, 1987, the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990, or later including Pension Plus Plan members, contribute at various graduated permanently fixed contribution rates from 3.0% - 7.0%.

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employees' Retirement System (MPERS) who became a member of MPERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and 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 pension. Any changes to a member's pension 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 the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

An amount determined by the member's election of Option 1, 2, 3, or 4 described below:

Option 1 - Members voluntarily elected to increase their contributions to the pension fund as noted below and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they terminate public school employment.

- Basic plan members: 4% contribution
- Member Investment Plan (MIP)-Fixed, MIP-Graded, and MIP-Plus members: a flat 7% contribution

Option 2 - Members voluntarily elected to increase their contribution to the pension fund as stated in Option 1 and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they reach 30 years of service. If and when they reach 30 years of service, their contribution rates will return to the previous level in place as of the day before their transition date (0% for Basic plan members, 3.9% for MIP-Fixed, up to 4.3% for MIP-Graded, or up to 6.4% for MIP-Plus). The pension formula for any service thereafter would include a 1.25% pension factor.

Option 3 - Members voluntarily elected not to increase their contribution to the pension fund and maintain their current level of contribution to the pension fund. The pension formula for their years of service as of the day before their transition date will include a 1.5% pension factor. The pension formula for any service thereafter will include a 1.25% pension factor.

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Pension Reform 2012 continued)

Option 4 - Members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the Defined Contribution plan for future service as of their transition date. As a DC participant they receive a 4% employer contribution to the tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS to a 457 account. They vest in employer contributions and related earnings in their 401(k)-account based on the following schedule: 50% at 2 years, 75% at 3 years, and 100% at 4 years of service. They are 100% vested in any personal contributions and related earnings in their 457 account. Upon retirement, if they meet age and service requirements (including their total years of service), they would also receive a pension (calculated based on years of service and final average compensation as of the day before their transition date and a 1.5% pension factor).

Members who did not make an election before the deadline defaulted to Option 3 as described above. Deferred or nonvested public school employees on September 3, 2012, who return to public school employment on or after September 4, 2012, will be considered as if they had elected Option 3 above. Returning members who made the retirement plan election will retain whichever option they chose.

Employees who first work on or after September 4, 2012 choose between two retirement plans: The Pension Plus Plan and a Defined Contribution that provides a 50% employer match up to 3% of salary on employee contributions.

Final Average Compensation (FAC) - Average of highest 60 consecutive months for Basic Plan members and Pension Plus members (36 months for MIP members). FAC is calculated as of the last day worked unless the member elected Option 4, in which case the FAC is calculated at the transition date.

Pension Reform of 2017

On July 13, 2017, the Governor signed Public Act 92 of 2017 into law. The legislation closed the Pension Plus Plan to newly hired employees as of February 1, 2018 and created a new, optional Pension Plus 2 Plan with similar plan benefit calculations but containing a 50/50 cost share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the Pension Plus 2 Plan is 6%. Further, under certain adverse actuarial conditions, the Pension Plus 2 Plan will close to new employees if the actuarial funded ratio falls below 85% for two consecutive years. The law included other provisions to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

Benefits Provided - Other Postemployment Benefit (OPEB)

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 health care 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.

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Retiree Healthcare Reform of 2012

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 will be deposited into their 401(k) accounts.

Regular Retirement (no reduction factor for age)

Eligibility - A Basic plan member may retire at age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, age 46 with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through their 60th birthday and has credited service in each of the last 5 years. For Pension Plus Plan (PPP) members, age 60 with 10 years of credited service.

Annual Amount - The annual pension is paid monthly for the lifetime of a retiree. The calculation of a member's pension is determined by their pension election under PA 300 of 2012.

Member Contributions

Depending on the plan selected, member contributions range from 0% - 7% for pension and 0% - 3% for other postemployment benefits. Plan members electing the Defined Contribution plan are not required to make additional contributions.

Employer Contributions

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of pension benefits and OPEB. 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 normal cost is the annual cost assigned under the actuarial funding method, to the current and subsequent plan years. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis.

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Employer Contributions (continued)

Pension and OPEB contributions made in the fiscal year ending September 30, 2022 were determined as of the September 30, 2019 actuarial valuations. The pension and OPEB benefits, the unfunded (overfunded) actuarial accrued liabilities as of September 30, 2019 are amortized over an 17-year period beginning October 1, 2021 and ending September 30, 2038.

School districts' contributions are determined based on employee elections. There are several different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by the ORS. The range of rates is as follows:

	Pension	Other Postemployment Benefits
October 1, 2021 - September 30, 2022	13.73% - 20.14%	7.23% - 8.09%
October 1, 2022 - September 30, 2023	13.75% - 20.16%	7.21% - 8.07%

The District's pension contributions for the year ended June 30, 2023 were equal to the required contribution total. Total pension contributions were approximately \$3,425,000. Of the total pension contributions approximately \$3,270,000 was contributed to fund the Defined Benefit Plan and approximately \$155,000 was contributed to fund the Defined Contribution Plan.

The District's OPEB contributions for the year ended June 30, 2023 were equal to the required contribution total. Total OPEB contributions were approximately \$677,000. Of the total OPEB contributions approximately \$602,000 was contributed to fund the Defined Benefit Plan and approximately \$75,000 was contributed to fund the Defined Contribution Plan.

These amounts, for both pension and OPEB benefit, include contributions funded from State Revenue Section 147c(1) and Section 147c(2) restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (100% for pension and 0% for OPEB).

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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

Pension Liabilities

The net pension liability was measured as of September 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2021 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined.

<u>MPERS (Plan) Non-university Employers</u>	<u>September 30, 2022</u>	<u>September 30, 2021</u>
Total pension liability	\$ 95,876,795,620	\$ 86,392,473,395
Plan fiduciary net position	\$ 58,268,076,344	\$ 62,717,060,920
Net pension liability	\$ 37,608,719,276	\$ 23,675,412,475
Proportionate share	0.06606%	0.06060%
Net pension liability for the District	\$ 24,843,485	\$ 14,348,176

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

For the year ended June 30, 2023, the District recognized pension expense of \$3,483,903.

At June 30, 2023, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in proportion and differences between employer contributions and proportionate share of contributions	\$ 1,449,363	\$ (55,728)
Differences between expected and actual experience	248,522	(55,547)
Changes of assumptions	4,269,001	-
Net difference between projected and actual plan investments earnings	58,258	-
Reporting Unit's contributions subsequent to the measurement date	<u>3,053,455</u>	<u>-</u>
	<u>\$ 9,078,599</u>	<u>\$ (111,275)</u>

\$3,053,455, reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

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 September 30,	Amount
2023	\$ 1,741,798
2024	1,394,126
2025	1,212,239
2026	1,565,706

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

OPEB Liabilities

The net OPEB liability was measured as of September 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2021 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined.

<u>MPERS (Plan) Non-university Employers</u>	<u>September 30, 2022</u>	<u>September 30, 2021</u>
Total other postemployment benefits liability	\$ 12,522,713,324	\$ 12,046,393,511
Plan fiduciary net position	\$ 10,404,650,683	\$ 10,520,015,621
Net other postemployment benefits liability	\$ 2,118,062,641	\$ 1,526,377,890
Proportionate share	0.07001%	0.06223%
Net other postemployment benefits liability for the District	\$ 1,482,954	\$ 949,915

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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

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

For the year ended June 30, 2023, the District recognized OPEB benefit of \$475,274.

At June 30, 2023, the Reporting Unit 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
Changes in proportion and differences between employer contributions and proportionate share of contributions	\$ 521,596	\$ (21,185)
Differences between expected and actual experience	-	(2,904,539)
Changes of assumptions	1,321,804	(107,629)
Net difference between projected and actual plan investments earnings	115,905	-
Reporting Unit's contributions subsequent to the measurement date	511,538	-
	\$ 2,470,843	\$ (3,033,353)

\$511,538, reported as deferred outflows of resources related to OPEB resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year.

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 September 30,	Amount
2023	\$ (437,639)
2024	(397,990)
2025	(356,126)
2026	55,530
2027	46,078
2028	16,099

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Assumptions

Investment Rate of Return for Pension - 6.00% a year, compounded annually net of investment and administrative expenses for the MIP, Basic, Pension Plus, and Pension Plus 2 plan groups.

Investment Rate of Return for OPEB - 6.00% a year, compounded annually net of investment and administrative expenses.

Salary Increases - The rate of pay increase used for individual members is 2.75% - 11.55%, including wage inflation at 2.75%.

Inflation - 3.0%.

Mortality Assumptions -

Retirees: RP-2014 Male and Female Healthy Annuitant Mortality Tables scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Active: RP-2014 Male and Female Employee Annuitant Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Disabled Retirees: RP-2014 Male and Female Disabled Annuitant Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Experience Study - The annual actuarial valuation report of the System used for these statements is dated September 30, 2021. Assumption changes as a result of an experience study for the periods 2012 through 2017 have been adopted by the System for use in the determination of the total pension and OPEB liability beginning with the September 30, 2018 valuation.

The Long-Term Expected Rate of Return on Pension and Other Postemployment Benefit Plan Investments - The pension rate was 6.00% (MIP, Basic, Pension Plus, and Pension Plus 2 Plan) and the other postemployment benefit rate was 6.00%, net of investment and administrative expenses was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension and 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.

Cost of Living Pension Adjustments - 3.0% annual non-compounded for MIP members.

Healthcare Cost Trend Rate for Other Postemployment Benefit - Pre 65, 7.75% for year one and graded to 3.5% in year fifteen. Post 65, 5.25% for year one and graded to 3.5% in year fifteen.

Additional Assumptions for Other Postemployment Benefit Only - Applies to Individuals Hired Before September 4, 2012:

Opt Out Assumption - 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.

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Assumptions (continued)

Survivor Coverage - 80% of male retirees and 67% of female retirees are assumed to have coverage 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.

The target asset allocation at September 30, 2022 and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return*</u>
Domestic Equity Pools	25.0%	5.1%
International Equity Pools	15.0%	6.7%
Private Equity Pools	16.0%	8.7%
Real Estate and Infrastructure Pools	10.0%	5.3%
Fixed Income Pools	13.0%	-0.2%
Absolute Return Pools	9.0%	2.7%
Real Return/Opportunistic Pools	10.0%	5.8%
Short Term Investment Pools	2.0%	-0.5%
	<u>100.0%</u>	

* Long-term rates of return are net of administrative expenses and 2.2% inflation.

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

Pension Discount Rate - A single discount rate of 6.00% was used to measure the total pension liability. This discount rate was based on the expected rate of return on pension plan investments of 6.00%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions from school districts will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension 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 plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Assumptions (continued)

OPEB Discount Rate - A single discount rate of 6.00% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 6.00%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that school districts contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the Reporting Unit's proportionate share of the net pension liability calculated using a single discount rate of 6.00%, as well as what the Reporting Unit'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 than the current rate:

	Pension		
	1% Decrease	Discount Rate	1% Increase
Reporting Unit's proportionate share of the net pension liability	\$ 32,784,171	\$ 24,843,485	\$ 18,300,002

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate - The following presents the Reporting Unit's proportionate share of the net OPEB liability calculated using a single discount rate of 6.00%, as well as what the Reporting Unit'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 than the current rate:

	Other Postemployment Benefits		
	1% Decrease	Discount Rate	1% Increase
Reporting Unit's proportionate share of the net other postemployment benefits liability	\$ 2,487,513	\$ 1,482,954	\$ 636,991

Sensitivity to the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates - The following presents the Reporting Unit's proportionate share of the net other postemployment benefit liability calculated using the healthcare cost trend rate, as well as what the Reporting Unit's proportionate share of the net other postemployment benefit liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Other Postemployment Benefits		
	Current		
	Healthcare Cost		
	1% Decrease	Trend Rates	1% Increase
Reporting Unit's proportionate share of the net other postemployment benefits liability	\$ 620,990	\$ 1,482,954	\$ 2,450,525

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Pension and OPEB Plan Fiduciary Net Position

Detailed information about the pension and OPEB's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2022 Annual Comprehensive Financial Report.

Payable to the Pension and OPEB Plan - At year end the School District is current on all required pension and other postemployment benefit plan payments. Amounts accrued at year end for accounting purposes are separately stated in the financial statements as a liability titled accrued retirement. These amounts represent current payments for June paid in July, accruals for summer pay primarily for teachers, and the contributions due from State Revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL).

NOTE 8 - CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustments by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including property and casualty errors and omissions, fleet and employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2023 or any of the prior three years.

NOTE 10 - TRANSFERS AND INTERFUND RECEIVABLES AND PAYABLES

There were no transfers or interfund payable or receivable balances at June 30, 2023.

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 11 - TAX ABATEMENTS

The District is required to disclose significant tax abatements as required by GASB Statement No. 77, *Tax Abatements*.

The District receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions, Brownfield Redevelopment Agreements, and Payments in Lieu of Taxes (PILOT) granted by cities, villages and townships. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities; Brownfield Redevelopment Agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties; PILOT programs apply to multiple unit housing for citizens of low income and the elderly.

The property taxes abated for all funds by municipality under these programs are as follows:

<u>Municipality</u>	<u>Taxes Abated</u> <u>IFT/CFT</u>
Cass County	\$ <u>5,734</u>

The District is considered to be an “in-formula” district. The property tax revenue that is abated for the career technical education millage is considered when the State of Michigan determines the District’s funding under Section 62 of the State School Aid Act.

There are no abatements made by the District.

NOTE 12 - CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2023, the District implemented the following new pronouncement: GASB Statement No. 96, *Subscription-based Information Technology Arrangements*.

Summary:

Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-based Information Technology Arrangements* was issued in May 2020. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

There was no material impact on the District’s financial statements after the adoption of GASB Statement No. 96.

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 13 - UPCOMING ACCOUNTING PRONOUNCEMENTS

In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections - an amendment of GASB Statement No. 62*. This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the 2023-2024 fiscal year.

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the 2024-2025 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2023**

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Local sources	\$ 520,582	\$ 706,220	\$ 713,790	\$ 7,570
State sources	3,975,371	5,735,283	5,558,998	(176,285)
Federal sources	144,247	612,625	577,574	(35,051)
Interdistrict sources and other	4,800	5,350	11,850	6,500
TOTAL REVENUES	4,645,000	7,059,478	6,862,212	(197,266)
EXPENDITURES				
Current				
Instruction				
Basic programs	1,590,479	1,923,223	1,894,464	28,759
Supporting services				
Pupil	1,083,138	1,878,099	1,795,127	82,972
Instructional staff	1,009,071	1,414,992	1,198,448	216,544
General administration	354,391	340,208	327,368	12,840
Business	223,533	460,211	416,263	43,948
Operation and maintenance	128,310	138,287	118,536	19,751
Pupil transportation	53,148	68,034	68,034	-
Information Management	70,988	182,515	171,237	11,278
Total supporting services	2,922,579	4,482,346	4,095,013	387,333
Community services	158,956	196,317	148,759	47,558
Interdistrict transactions	26,447	109,059	90,841	18,218
Capital outlay	-	85,492	84,054	1,438
Debt service				
Principal	-	3,563	3,563	-
TOTAL EXPENDITURES	4,698,461	6,800,000	6,316,694	483,306
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(53,461)	259,478	545,518	286,040
OTHER FINANCING SOURCES (USES)				
Proceeds from leases	-	40,522	40,522	-
NET CHANGE IN FUND BALANCE	\$ (53,461)	\$ 300,000	586,040	\$ 286,040
FUND BALANCE				
Beginning of year			1,826,404	
End of year			\$ 2,412,444	

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
SPECIAL EDUCATION FUND
YEAR ENDED JUNE 30, 2023**

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Local sources	\$ 4,792,284	\$ 5,293,523	\$ 5,344,370	\$ 50,847
State sources	3,300,134	5,013,737	5,046,942	33,205
Federal sources	2,441,582	2,665,173	2,680,399	15,226
Other	606,000	606,000	626,536	20,536
TOTAL REVENUES	11,140,000	13,578,433	13,698,247	119,814
EXPENDITURES				
Current				
Instruction				
Basic programs	3,261,352	3,378,517	3,376,670	1,847
Supporting services				
Pupil	3,753,507	3,572,580	3,564,370	8,210
Program Administration	677,811	690,942	686,799	4,143
General administration	178,831	167,522	146,662	20,860
Building Administration	122,663	129,995	128,336	1,659
Business Services	500,259	992,021	888,224	103,797
Operation and maintenance	589,069	702,417	551,124	151,293
Pupil transportation	1,506,597	1,518,746	1,470,591	48,155
Central Services	332,181	424,485	408,245	16,240
Total supporting services	7,660,918	8,198,708	7,844,351	354,357
Community services	-	1,943	1,943	-
Interdistrict transactions	123,000	230,557	226,678	3,879
Capital outlay	1,360,730	648,588	587,162	61,426
Debt service				
Principal	-	10,687	10,687	-
TOTAL EXPENDITURES	12,406,000	12,469,000	12,047,491	421,509
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,266,000)	1,109,433	1,650,756	541,323
OTHER FINANCING SOURCES				
Proceeds from leases	-	121,567	121,567	-
NET CHANGE IN FUND BALANCE	\$ (1,266,000)	\$ 1,231,000	1,772,323	\$ 541,323
FUND BALANCE				
Beginning of year			6,429,833	
End of year			<u>\$ 8,202,156</u>	

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT PLAN
LAST TEN FISCAL YEARS (DETERMINED AS OF PLAN YEAR ENDED SEPTEMBER 30)**

	2022	2021	2020	2019	2018	2017	2016	2015	2014
Reporting Unit's proportion of net pension liability (%)	0.06606%	0.06060%	0.05943%	0.05944%	0.05906%	0.05785%	0.05590%	0.05707%	0.05041%
Reporting Unit's proportionate share of net pension liability	\$ 24,843,485	\$ 14,348,176	\$ 20,414,377	\$ 19,684,632	\$ 17,754,499	\$ 14,991,008	\$ 13,942,643	\$ 13,939,392	\$ 11,767,633
Reporting Unit's covered-employee payroll	\$ 6,873,685	\$ 5,682,117	\$ 5,373,500	\$ 5,289,187	\$ 5,107,168	\$ 4,973,542	\$ 4,686,930	\$ 4,721,120	\$ 4,520,410
Reporting Unit's proportionate share of net pension liability as a percentage of its covered-employee payroll (%)	361.43%	252.51%	379.91%	372.17%	347.64%	301.42%	297.48%	295.26%	260.32%
Plan fiduciary net position as a percentage of total pension liability (Non-university employers)	60.77%	72.32%	59.49%	62.12%	62.12%	63.96%	63.01%	62.92%	66.15%

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, reporting units should present information for those years for which information is available.

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF THE REPORTING UNIT'S PENSION CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT PLAN
LAST TEN FISCAL YEARS (DETERMINED AS OF THE YEAR ENDED JUNE 30)**

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 3,270,161	\$ 2,252,468	\$ 1,870,299	\$ 1,689,717	\$ 1,594,034	\$ 1,477,097	\$ 954,183	\$ 1,312,550	\$ 949,212
Contributions in relation to statutorily required contributions	<u>3,270,161</u>	<u>2,252,468</u>	<u>1,870,299</u>	<u>1,689,717</u>	<u>1,594,034</u>	<u>1,477,097</u>	<u>954,183</u>	<u>1,312,550</u>	<u>949,212</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reporting Unit's covered-employee payroll	\$ 7,412,733	\$ 6,370,540	\$ 5,556,735	\$ 5,399,873	\$ 5,169,206	\$ 5,053,643	\$ 5,112,956	\$ 4,531,649	\$ 4,768,740
Contributions as a percentage of covered-employee payroll	44.12%	35.36%	33.66%	31.29%	30.84%	29.23%	18.66%	28.96%	19.90%

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, reporting units should present information for those years for which information is available.

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT PLAN
LAST TEN FISCAL YEARS (DETERMINED AS OF PLAN YEAR ENDED SEPTEMBER 30)**

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Reporting Unit's proportion of net OPEB liability (%)	0.07001%	0.06223%	0.06032%	0.06034%	0.05989%	0.05789%
Reporting unit's proportionate share of net OPEB liability	\$ 1,482,954	\$ 949,915	\$ 3,231,502	\$ 4,330,943	\$ 4,760,465	\$ 5,126,493
Reporting Unit's covered-employee payroll	\$ 6,873,685	\$ 5,682,117	\$ 5,373,500	\$ 5,289,187	\$ 5,107,168	\$ 4,973,542
Reporting Unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll (%)	21.57%	16.72%	60.14%	81.88%	93.21%	103.08%
Plan fiduciary net position as a percentage of total OPEB liability (Non-university employers)	83.09%	88.87%	59.76%	48.67%	43.10%	36.53%

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, reporting units should present information for those years for which information is available.

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF THE REPORTING UNIT'S OPEB CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT PLAN
LAST TEN FISCAL YEARS (DETERMINED AS OF THE YEAR ENDED JUNE 30)**

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily required OPEB contributions	\$ 602,470	\$ 519,148	\$ 462,418	\$ 433,912	\$ 406,042	\$ 362,315
OPEB contributions in relation to statutorily required contributions	<u>602,470</u>	<u>519,148</u>	<u>462,418</u>	<u>433,912</u>	<u>406,042</u>	<u>362,315</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reporting Unit's covered-employee payroll (OPEB)	\$ 7,412,733	\$ 6,370,540	\$ 5,566,735	\$ 5,399,873	\$ 5,169,206	\$ 5,053,643
OPEB contributions as a percentage of covered-employee payroll	8.13%	8.15%	8.31%	8.04%	7.86%	7.17%

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, reporting units should present information for those years for which information is available.

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2023**

NOTE 1 - PENSION INFORMATION

Benefit Changes - there were no changes of benefit terms in 2022.

Changes of Assumptions - the assumption changes for 2022 were:

- Discount rate for MIP, Basic, and Pension Plus plans decreased to 6.00% from 6.80%.

NOTE 2 - OPEB INFORMATION

Benefit Changes - there were no changes of benefit terms in 2022.

Changes of Assumptions - the assumption changes for 2022 were:

- Discount rate decreased to 6.00% from 6.95%.

ADDITIONAL SUPPLEMENTARY INFORMATION

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2023**

Federal Grantor/Program Title	Federal Assistance Listing Number	Pass-through Grantor's Number	Approved Grant Award Amount	Accrued (Unearned) Revenue at 7/1/2022	Prior Year Expenditures (Memo Only)	Adjustments	Current Year Expenditures	Current Year Cash Receipts	Accrued (Unearned) Revenue 6/30/2023	Current Year Cash Transferred to Subrecipients
<u>U.S. Department of Education</u>										
Passed through the Michigan Department of Education										
Special Education Cluster										
Special Education - Grants to States - IDEA, Part B	84.027A	210450-2021	\$ 1,692,869	\$ 524,220	\$ 1,692,869	\$ -	\$ -	\$ 524,220	\$ -	\$ -
Special Education - Grants to States - IDEA, Part B	84.027A	220450-2122	1,694,238	535,701	1,694,238	-	-	535,701	-	-
Special Education - Grants to States - IDEA, Part B	84.027A	220493-2122	132,000	9,706	130,561	-	-	9,706	-	-
Special Education - Grants to States - IDEA, Part B	84.027A	230450-2223	1,709,454	-	-	-	1,709,454	1,388,468	320,986	-
Special Education - Grants to States - IDEA, Part B	84.027A	230493-2223	145,200	-	-	-	143,928	135,205	8,723	-
COVID-19 Special Education - Grants to States - IDEA, Part B	84.027X	221280-2122	357,278	-	-	-	357,278	202,091	155,187	-
Passed through Marquette Alger RESA										
Tuition Grant 230470/2D33	84.027A		2,192	-	-	-	2,192	2,192	-	-
Total ALN 84.027			5,733,231	1,069,627	3,517,668	-	2,212,852	2,797,583	484,896	-
Special Education - Preschool Grants - IDEA Preschool	84.173A	220460-2122	51,131	9,542	51,131	-	-	9,542	-	-
Special Education - Preschool Grants - IDEA Preschool	84.173A	230460-2223	52,973	-	-	-	52,973	33,745	19,228	-
COVID-19 Special Education - Preschool Grants - IDEA Preschool	84.173X	221285-2122	27,852	-	-	-	27,852	27,852	-	-
Total ALN 84.173			131,956	9,542	51,131	-	80,825	71,139	19,228	-
Total Special Education Cluster			5,865,187	1,079,169	3,568,799	-	2,293,677	2,868,722	504,124	-
Special Education - Grants for Infants and Families	84.181A	221340-2122	69,915	20,129	69,915	-	-	20,129	-	-
Special Education - Grants for Infants and Families	84.181A	221340-2223	71,060	-	-	-	71,060	53,976	17,084	-
Special Education - Grants for Infants and Families	84.181X	221283-E0ARP	33,984	3,353	3,353	-	30,631	26,221	7,763	-
Total ALN 84.181			174,959	23,482	73,268	-	101,691	100,326	24,847	-
COVID-19 Pandemic-EBT Local Level Costs	10.649	210980-2022	628	-	-	-	628	628	-	-
Career & Technical Education - Basic Grants to States	84.048A	223480-221267	221,744	-	-	-	192,077	192,077	-	-
Career & Technical Education - Basic Grants to States	84.048A	223480-221312	60,000	-	-	-	60,000	60,000	-	-
Total ALN 84.048			281,744	-	-	-	252,077	252,077	-	-

The accompanying notes are an integral part of this schedule.

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2023**

Federal Grantor/Program Title	Federal Assistance Listing Number	Pass-through Grantor's Number	Approved Grant Award Amount	Accrued (Unearned) Revenue at 7/1/2022	Prior Year Expenditures (Memo Only)	Adjustments	Current Year Expenditures	Current Year Cash Receipts	Accrued (Unearned) Revenue 6/30/2023	Current Year Cash Transferred to Subrecipients
<u>U.S. Department of Education (continued)</u>										
Passed through Berrien RESA										
Career & Technical Education - Basic Grants to States	84.048A	213480-211251	\$ 118,344	\$ 27,822	\$ 118,344	\$ -	\$ -	\$ 27,822	\$ -	\$ -
Career & Technical Education - Basic Grants to States	84.048A	213480-211252	109,416	19,287	109,416	-	-	19,287	-	-
Career & Technical Education - Basic Grants to States	84.048A	223480-221266	22,425	20,271	20,271	-	2,154	22,425	-	-
Career & Technical Education - Basic Grants to States	84.048A	223480-222167	24,016	22,175	22,175	-	1,841	24,016	-	-
Career & Technical Education - Basic Grants to States	84.048A	2022-2023	125,303	-	-	-	125,303	99,810	25,493	-
Total ALN 84.048			399,504	89,555	270,206	-	129,298	193,360	25,493	-
Passed through the Western Michigan University										
High Impact Leadership 21-22	84.423A	N/A	27,525	24,600	24,600	-	2,925	27,525	-	-
Total U.S. Department of Education			6,749,547	1,216,806	3,936,873	-	2,780,296	3,442,638	554,464	-
<u>U.S. Department of Health and Human Services</u>										
Passed Through Michigan Department of Education										
PDG B-5 Trusted Advisors Grant	93.434	223910 3.622	32,500	-	-	-	3,949	-	3,949	-
Passed through School Readiness Consulting, LLC										
Coordinated Eligibility and Enrollment Community of Practice Grant	93.434	CEE 2022-2023	30,000	-	-	-	30,000	19,147	10,853	-
Total ALN 93.434			62,500	-	-	-	33,949	19,147	14,802	-
Passed through the Michigan Department of Community Health										
Medicaid Cluster										
Medical Assistance Program	93.778	14000	46,725	-	-	-	46,725	46,725	-	13,719
Passed through the Mid-Michigan District Health Dept.										
MDHSS Health Resource Advocate Funding	93.323	232810 - HRA2023	224,000	-	-	-	224,000	74,303	149,697	144,863
Total U.S. Department of Health and Human Services			333,225	-	-	-	304,674	140,175	164,499	158,582

The accompanying notes are an integral part of this schedule.

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2023**

Federal Grantor/Program Title	Federal Assistance Listing Number	Pass-through Grantor's Number	Approved Grant Award Amount	Accrued (Unearned) Revenue at 7/1/2022	Prior Year Expenditures (Memo Only)	Adjustments	Current Year Expenditures	Current Year Cash Receipts	Accrued (Unearned) Revenue 6/30/2023	Current Year Cash Transferred to Subrecipients
<u>U.S. Department of Treasury</u>										
Passed Through Michigan Department of Education										
COVID-19 Coronavirus Relief Funds										
ARP-GSRP	21.027	222390-GSRP2122	\$ 404,550	\$ 286,400	\$ 286,400	\$ -	\$ 118,150	\$ 286,400	\$ 118,150	\$ -
ARP-GSRP	21.027	232390-GSRP2223	41,175	-	-	-	41,175	-	41,175	-
Total ALN 21.027			<u>445,725</u>	<u>286,400</u>	<u>286,400</u>	<u>-</u>	<u>159,325</u>	<u>286,400</u>	<u>159,325</u>	<u>-</u>
Total U.S. Department of Treasury			<u>445,725</u>	<u>286,400</u>	<u>286,400</u>	<u>-</u>	<u>159,325</u>	<u>286,400</u>	<u>159,325</u>	<u>-</u>
<u>Federal Communications Commission</u>										
Passed through Universal Service Administrative Co.										
COVID-19 Emergency Connectivity Funds										
	32.009	N/A	23,451	23,451	23,451	(9,773)	-	13,678	-	-
Total Federal Awards			<u>\$ 7,551,948</u>	<u>\$ 1,526,657</u>	<u>\$ 4,246,724</u>	<u>\$ (9,773)</u>	<u>\$ 3,244,295</u>	<u>\$ 3,882,891</u>	<u>\$ 878,288</u>	<u>\$ 158,582</u>

The accompanying notes are an integral part of this schedule.

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PASS-THROUGH AMOUNTS
YEAR ENDED JUNE 30, 2023**

Federal Grantor/Program Title/Subrecipient Name	Grant/Project Number	Federal Assistance Listing Number	Award Amount	Due to Subrecipient 7/1/2022	Subrecipient Current Year Expenditures	Current Year Cash Transferred to Subrecipient	Due to Subrecipient 6/30/2023
U.S. Department of Health and Human Services							
Passed through the Michigan Department of Community Health							
Medicaid Cluster							
Medical Assistance Program							
Cassopolis Public Schools	14000	93.778	\$ 4,715	\$ -	\$ 4,715	\$ 2,516	\$ 2,199
Dowagiac Union Schools	14000	93.778	10,595	-	10,595	5,702	4,893
Edwardsburg Public Schools	14000	93.778	6,522	-	6,522	3,555	2,967
Marcellus Community Schools	14000	93.778	3,861	-	3,861	1,946	1,915
Total Medical Assistance Program			<u>25,693</u>	<u>-</u>	<u>25,693</u>	<u>13,719</u>	<u>11,974</u>
Passed through the Mid-Michigan District Health Dept.							
MDHSS Health Resource Advocate Funding							
Cassopolis Public Schools	232810 - HRA2023	93.323	18,312	-	18,312	18,312	-
Dowagiac Union Schools	232810 - HRA2023	93.323	35,831	-	35,831	35,831	-
Edwardsburg Public Schools	232810 - HRA2023	93.323	70,560	-	70,560	70,560	-
Marcellus Community Schools	232810 - HRA2023	93.323	20,160	-	20,160	20,160	-
Total MDHSS Health Resource Advocate Funding			<u>144,863</u>	<u>-</u>	<u>144,863</u>	<u>144,863</u>	<u>-</u>
U.S. Department of Health and Human Services			<u>170,556</u>	<u>-</u>	<u>170,556</u>	<u>158,582</u>	<u>11,974</u>
Total Federal Awards Pass-through Amounts			<u>\$ 170,556</u>	<u>\$ -</u>	<u>\$ 170,556</u>	<u>\$ 158,582</u>	<u>\$ 11,974</u>

The accompanying notes are an integral part of this schedule.

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2023**

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Heritage Southwest Intermediate School District under programs of the federal government for the year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Heritage Southwest Intermediate School District, it is not intended to and does not present the financial position or changes in net position of Heritage Southwest Intermediate School District.

The District qualifies for low-risk auditee status. Management has utilized the NexSys, Cash Management System and the Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available. Heritage Southwest Intermediate School District has elected to not use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 3 - RECONCILING WITH AUDITED FINANCIAL STATEMENTS

Federal expenditures are reported as revenue in the following funds in the financial statements:

General fund	\$ 577,574
Special education fund	<u>2,680,399</u>
Federal revenue per financial statements	3,257,973
Prior year receipts received after 60 days	(23,451)
Adjustments	<u>9,773</u>
Total federal expenditures	<u><u>\$ 3,244,295</u></u>

NOTE 4 - SUBRECIPIENTS

Of the federal expenditures presented in the Schedule of Expenditures of Federal Awards, Heritage Southwest Intermediate School District provided federal awards to subrecipients reported in the schedule of pass-through amounts.

NOTE 5 - ADJUSTMENTS

Adjustments had been made to ALN #32.009 in the amount of \$9,773. The adjustment was due to an award modification by the granting agency as well as the reimbursable amount.



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education of the
Heritage Southwest Intermediate School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Heritage Southwest Intermediate School District, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Heritage Southwest Intermediate School District's basic financial statements, and have issued our report thereon dated October 10, 2023.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

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

Manes Costeiran PC

October 10, 2023



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

To the Board of Education of the
Heritage Southwest Intermediate School District

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Heritage Southwest Intermediate School District's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Heritage Southwest Intermediate School District's major federal programs for the year ended June 30, 2023. Heritage Southwest Intermediate School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Heritage Southwest Intermediate School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Heritage Southwest Intermediate School District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Heritage Southwest Intermediate School District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Heritage Southwest Intermediate School District's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

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

Maney Costeiran PC

October 10, 2023

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2023**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued based on financial statements prepared in accordance with generally accepted accounting principles:

	<i>Unmodified</i>			
➤ Material weakness(es) identified?	_____	Yes	_____ <input checked="" type="checkbox"/> _____	No
➤ Significant deficiency(ies) identified?	_____	Yes	_____ <input checked="" type="checkbox"/> _____	None reported
Noncompliance material to financial statements noted?	_____	Yes	_____ <input checked="" type="checkbox"/> _____	No

Federal Awards

Internal control over major programs:

➤ Material weakness(es) identified?	_____	Yes	_____ <input checked="" type="checkbox"/> _____	No
➤ Significant deficiency(ies) identified?	_____	Yes	_____ <input checked="" type="checkbox"/> _____	None reported

Type of auditor's report issued on compliance for major programs:

	<i>Unmodified</i>			
Any audit findings disclosed that are required to be reported with Title 2 CFR Section 200.516(a)?	_____	Yes	_____ <input checked="" type="checkbox"/> _____	No

Identification of major programs:

Assistance Listing Number(s)	Name of Federal Program or Cluster
84.027 and 84.173	Special Education Cluster

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

\$750,000

Auditee qualified as low-risk auditee?

_____ _____ Yes _____ _____ No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

**HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2023**

Financial Statement Finding

2022-001 Considered a Significant Deficiency

Criteria - The Intermediate School District's internal control structure should ensure that financial information is complete and accurate.

Condition - Certain account balances in the Intermediate School District's books and records for the 2022 fiscal year were not reconciled properly and, thus, were identified as part of the audit process to be improperly recorded. Certain adjustments and reclassifications to the Intermediate School District's general ledger were discussed with management during our audit process and recorded by management as a result.

Context - Adjustments and reclassifications that were identified during the audit as a result of audit procedures impacted accounts receivable, unavailable revenue, and revenue within the Intermediate School District's governmental funds. These adjustments and reclassifications were corrected by management and are reflected in the Intermediate School District's governmental funds financial statements. There were also modifications made to the schedule of expenditures of federal awards as a result of the financial statement adjustments.

Cause - The Intermediate School District did not have controls and processes in place to analyze, adjust, and independently review certain account balances prior to the commencement of the audit.

Effect - Account balances were not completely reconciled and adjusted prior to the commencement of the audit. The net effect of all adjustments was to decrease net change in fund balance by approximately \$149,000 in the General Fund and approximately \$24,000 in the Special Education Fund.

Recommendation - We recommend the Intermediate School District continue to review and revise its year-end closing accounting procedures and controls to make certain that all account balances are completely and accurately reconciled and reviewed prior to the commencement of the annual audit.

Views of Responsible Officials and Planned Corrective Actions - Heritage Southwest Intermediate School District agrees with the above recommendation. The Intermediate School District continues to use its resources to adequately review and revise year-end closing procedures to make certain that all account balance reconciliations are completed accurately before the annual audit.

Status - We consider this issue resolved in the current year.



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October 10, 2023

To the Board of Education of the
Heritage Southwest Intermediate School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Heritage Southwest Intermediate School District for the year ended June 30, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Heritage Southwest Intermediate School District are described in Note 1 to the financial statements. As described in Note 11 to the financial statements, the entity adopted Governmental Accounting Standards Board (GASB) Statement No. 96 *Subscription-based IT Arrangements*, during the year ended June 30, 2023. Accordingly, the cumulative effects of the accounting changes are reported in the applicable financial statements and note disclosures. We noted no transactions entered into by the Heritage Southwest Intermediate School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements of the governmental activities were:

Management's calculation of the depreciation/amortization expense is based on the estimated useful lives of the capital assets.

Management's calculation of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

The calculation of the net pension liability and related deferred outflows and inflows of resources is based on an actuarial study which utilized certain actuarial assumptions.

The calculation of the net other post-employment benefits liability and related deferred outflows and inflows of resources is based upon an actuarial study which utilized certain actuarial assumptions.

We evaluated the key factors and assumptions used to develop these accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 10, 2023.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the required supplementary information (RSI) which are required and supplement the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the other supplementary information, which accompany the financial statements but are not RSI. With respect to this other supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the other supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Board of Education and management of Heritage Southwest Intermediate School District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Maney Costeiran PC