

Hillsdale Community Schools

Financial Report
With Supplemental Information

Year Ended June 30, 2024

Hillsdale Community Schools

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WILLIS & JURASEK

CPAS AND CONSULTANTS

Independent Auditors' Report

Board of Education
Hillsdale Community Schools
Hillsdale, Michigan

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hillsdale Community Schools, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the 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 Hillsdale Community Schools, as of June 30, 2024, and the respective changes in financial position 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Hillsdale Community Schools, 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 Hillsdale Community Schools' 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.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 Hillsdale Community Schools' 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 Hillsdale Community Schools' 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, budgetary comparison information, and certain pension and OPEB 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, which 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 Hillsdale Community Schools' basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report (under separate cover) dated August 15, 2024, on our consideration of Hillsdale Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 Hillsdale Community Schools' internal control over financial reporting and compliance.

Sincerely,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

August 15, 2024

Hillsdale Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2024

Our discussion and analysis of Hillsdale Community Schools' financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2024. The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms, the past and current position of the School District's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the revenues and expenditures by program for all the District's funds.

USING THIS ANNUAL REPORT

The School District's annual report consists of a series of financial statements that show information for the School District as a whole, its funds, and its fiduciary responsibilities. The Statement of Net Position and the Statement of Activities (pages 1 - 2), provide information about the activities of the School District as a whole and present a longer-term view of the School District's finances. Our fund financial statements start on page 3. Our governmental activities statements tell how we financed our services in the short-term, as well as what remains for future spending. Fund financial statements report the School District's operations in more detail than governmental-wide financial statements by providing information about the School District's most significant funds. The remaining statement provides information about activities for which the School District acts solely as an agent for the benefit of student groups.

Reporting the School District as a Whole

One of the most important questions asked about the School District is, "Is the School District as a whole better off or worse off financially as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. We prepared these statements to include all assets and liabilities, using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenue and expenses, regardless of when cash is received or paid.

These two statements report the School District's *net position* – the difference between assets and liabilities – as one way to measure the School District's financial health or *financial position*. Over time, *increases* or *decreases* in the School District's net position – are one indicator of whether its *financial health* is improving or deteriorating. The relationship between revenues and expenses indicates the School District's *operating results*. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school to assess the *overall health* of the School District.

Reporting the School District's Most Significant Funds

The School District's Fund Financial Statements, which begin on page 3, provide detailed information about the School District's most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes other funds to help it control and manage money for particular purposes (like the Food Service Fund and the Student Activities Fund) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like the Building & Site Funds).

Hillsdale Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2024

Governmental fund reporting focuses on showing how money flows into and out of the funds and the balances left at year-end that are available for spending in future periods. They are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the School District's operations and the services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between *governmental activities* (reported in the Statement of Net Position and the Statement of Activities) and *governmental funds* in reconciliations on pages 4 and 6.

The School District as a Whole

The School District's net position at June 30, 2024 was \$(3,950,876). Of this amount, \$(18,194,226) was unrestricted. Restricted net position is reported separately to show legal constraints that limit the School District's ability to use those assets for day-to-day operations. Below we focus our attention on the net position (TABLE 1) and changes in net position (TABLE 2) of the School District's governmental activities.

TABLE 1 – Net Position
June 30, 2024 and 2023

	<u>Governmental Activities</u>	
	<u>2024</u>	<u>2023</u>
Assets:		
Current assets	\$ 11,138,361	\$ 10,234,438
Non-current assets	12,163,571	10,735,994
Total assets	<u>23,301,932</u>	<u>20,970,432</u>
 Deferred Outflows of Resources	 <u>9,733,006</u>	 <u>12,377,027</u>
 Liabilities:		
Current liabilities	2,840,767	2,316,703
Non-current liabilities	26,093,838	32,291,090
Total liabilities	<u>28,934,605</u>	<u>34,607,793</u>
 Deferred Inflows of Resources	 <u>8,051,209</u>	 <u>6,153,831</u>
 Net Position:		
Invested in capital assets - net of related debt	11,627,974	10,609,305
Restricted	2,615,376	2,156,940
Unrestricted	(18,194,226)	(20,180,410)
Total net position	<u>\$ (3,950,876)</u>	<u>\$ (7,414,165)</u>

Hillsdale Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2024

The School District as a Whole (Concluded)

TABLE 2 – Changes in Net Position

Years ended June 30, 2024 and 2023

	<u>Governmental Activities</u>	
	<u>2024</u>	<u>2023</u>
Revenues:		
Program revenues:		
Charges for services	\$ 244,410	\$ 251,779
Operating grants	5,997,196	6,561,025
General revenues:		
Property taxes - general purpose	2,444,335	2,290,221
Property taxes - capital projects	884,533	827,460
State School Aid	12,269,161	9,954,467
Miscellaneous	399,121	184,976
Total revenues	<u>22,238,756</u>	<u>20,069,928</u>
Expenses:		
Instruction	10,147,653	9,834,552
Support services	6,071,158	5,734,266
Food service	1,028,722	945,016
Student activities	378,718	377,540
Community service	19,189	2,148
Other	66,891	34,218
Capital outlay	122,073	57,362
Depreciation (unallocated)	941,063	879,517
Total expenses	<u>18,775,467</u>	<u>17,864,619</u>
 Increase (decrease) in net position	 3,463,289	 2,205,309
Net position beginning of year	<u>(7,414,165)</u>	<u>(9,619,474)</u>
Ending net position	<u>\$ (3,950,876)</u>	<u>\$ (7,414,165)</u>

As shown above, the cost of all our governmental activities this year was \$18,775,467. However, the amount that our taxpayers ultimately financed for those activities through school property taxes was \$3,328,868. The remainder of the cost was paid by charges for services, State Aid, federal grants, and use of prior years' accumulation of funds.

There were several reasons for the change in the financial condition from 2023 to 2024 including:

- Continued monitoring of costs
- Supplemental funds made available to the District at both the state and federal level.

Hillsdale Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2024

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The School District's budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund. During the fiscal year ended June 30, 2024, the School District amended the General Fund Budget two times.

General Fund

The actual revenue and other financing sources of the General Fund was \$18,995,102, below the original budget estimates of \$19,378,685 and above the final amended budget of \$18,923,632. Revenues were updated throughout the year as additional federal revenue became available through State Aid and when it was known that some of the federal grant awards would not be used in the current year.

The actual expenditures and other financing uses of the General Fund were \$18,673,300, below the original budget estimates of \$20,516,850 and below the final amended budget of \$19,402,044. Expenditures are also updated as additional revenue becomes available.

CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of fiscal year 2024, the School District had \$26,297,858 invested in land and buildings, furniture and equipment, and vehicles. We have estimated that these assets have depreciated by \$14,669,884 through June 30, 2024; therefore, we currently have net book value of \$11,627,974.

Total additions for the year consisted of a district-wide HVAC upgrades, district-wide security upgrades, HHS cafeteria renovation, and other building improvements.

Governmental Activities

	<u>2024</u>	<u>2023</u>
Land	\$ 77,434	\$ 77,434
Construction in process	287,634	563,133
Buildings and improvements	20,862,125	24,020,104
Infrastructure	9,819	231,651
Furniture and equipment	1,649,191	1,925,047
Vehicles	3,411,655	4,803,614
Total capital assets	<u>26,297,858</u>	<u>31,620,983</u>
Less accumulated depreciation	<u>(14,669,884)</u>	<u>(21,011,678)</u>
Net capital assets	<u><u>\$ 11,627,974</u></u>	<u><u>\$ 10,609,305</u></u>

At June 30, 2024, the School District had \$0 in general debt obligation debt.

Hillsdale Community Schools
Management's Discussion and Analysis
Year Ended June 30, 2024

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District has an established pattern of financial stability. The general fund balance increased from the prior year. This resulted from a careful use of resources, procurement and utilization of supplemental incomes.

Supplemental funds from both the State and federal levels enabled the District to conduct significant roofing and HVAC projects over the past two years. The District has also utilized supplemental funding to update our safety and security plans and equipment throughout our buildings. Continued use of ESSER funds provided smaller class sizes, additional after-school programs, increased school nursing services, and supplemental instruction resources to address learning loss.

The District continued collaboration with the Hillsdale County ISD to implement a transportation agreement, food service agreement, and special education program agreements. In the past year we have entered into a collaborative agreement with the Hillsdale City Police Department, utilizing grant funds from Michigan State Police to add the presence of a School Resource Officer to our buildings. The collaborations focus on cost containment and efficiency for all organizations involved.

By "committing" a portion of the anticipated funds needed over a period of several years, the District has been successful with advance planning for large purchases such as buses, curriculum and technology. This strategy often allows the District to make purchases without loan costs of interest and other financing expenses. Continued utilization of this approach can provide for updated curriculum materials and well-maintained resources across the District without the added cost of rising interest expense for these purchases.

The Board of Education engages in strategic planning and updates the plan annually to make long-term progress. The District's Continuous Improvement Plan process includes input from stakeholders including staff, parents and students (as appropriate). The consistent involvement and opportunity for staff engagement in the District's formal processes result in a high level of trust and confidence in the financial status of the District.

The School District has a stable financial position. Collaborations for shared costs and other expense containment strategies will continue to provide benefit. Utilizing a staffing plan aligned to the current enrollment is another important factor to maintain stability. A healthy financial situation contributes to staff retention and consistency of programming for students.

CONTACTING THE SCHOOL DISTRICT FINANCIAL MANAGEMENT

This report is designed to give an overview of the financial conditions of the Hillsdale Community Schools. If you have any questions about this report or need further information, you may contact the Superintendent's Office by phone at 517-437-4401 located inside Hillsdale High School, at 30 S. Norwood Avenue, Hillsdale, Michigan 49242.

Hillsdale Community Schools

Statement of Net Position

June 30, 2024

	Governmental Activities
Assets:	
Cash and investments	\$ 7,121,099
Receivables	16,897
Due from other governmental units	3,748,844
Inventories	25,254
Prepaid expenses	226,267
Land contract receivable:	
Due within one year	16,979
Due in more than one year	77,900
Net OPEB asset	440,718
Capital assets:	
Cost of capital assets	26,297,858
Less: accumulated depreciation	(14,669,884)
Net capital assets	11,627,974
Total assets	23,301,932
Deferred Outflows of Resources:	
Pension related	7,962,535
OPEB related	1,770,471
Total deferred outflows of resources	9,733,006
Liabilities:	
Accounts payable and accrued expenses	2,211,509
Unearned revenue	629,258
Long-term liabilities:	
Due in more than one year:	
Compensated absences	46,515
Net pension liability	26,047,323
Total liabilities	28,934,605
Deferred Inflows of Resources:	
Pension related	4,379,985
OPEB related	3,671,224
Total deferred inflows of resources	8,051,209
Net Position:	
Invested in capital assets, net of related debt	11,627,974
Restricted for:	
Capital projects	1,896,620
Student activities	278,038
Net other post-employment benefits	440,718
Unrestricted	(18,194,226)
Total net position	\$ (3,950,876)

Hillsdale Community Schools

Statement of Activities

Year Ended June 30, 2024

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expenses) Revenues and Change in Net Position</u>
Primary Government				
Governmental activities:				
Instruction	\$ 10,147,653	\$ 3,101	\$ 4,117,640	\$ (6,026,912)
Support services	6,071,158	184,491	335,087	(5,551,580)
Food service activities	1,028,722	56,818	1,122,766	150,862
Student activities	378,718	-	421,703	42,985
Community services	19,189	-	-	(19,189)
Other	66,891	-	-	(66,891)
Capital outlay	122,073	-	-	(122,073)
Depreciation (unallocated)	941,063	-	-	(941,063)
Total governmental activities	<u>\$ 18,775,467</u>	<u>\$ 244,410</u>	<u>\$ 5,997,196</u>	<u>(12,533,861)</u>
General Revenues:				
Taxes:				
Property taxes, levied for general purposes				2,444,335
Property taxes, levied for capital projects				884,533
State aid not restricted to specific purposes				12,269,161
Unrestricted investment earnings				257,453
Other				141,668
Total general revenues				<u>15,997,150</u>
Change in Net Position				3,463,289
Net Position - Beginning of Year				<u>(7,414,165)</u>
Net Position - End of Year				<u>\$ (3,950,876)</u>

Balance Sheet
June 30, 2024

See Notes to Financial Statements

Hillsdale Community Schools

Reconciliation of Fund Balances on the Balance Sheet of Governmental Funds to Net Position of Governmental Activities on the Statement of Net Position June 30, 2024

Total Fund Balances - Governmental Funds	\$ 8,297,594
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Amounts reported for governmental activities in the Statement of Net Position are different because:

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

The cost of capital assets is	\$ 26,297,858	
Accumulated depreciation is	<u>(14,669,884)</u>	
		11,627,974

Land contract receivable is not due and receivable in the current period and is not reported in the funds.	94,879
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Some assets are not current financial resources and therefore are not reported in the Government Funds Balance Sheet.

Noncurrent assets at year-end consist of:

Net OPEB asset	440,718
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Long-term liabilities and related deferred outflows and inflows are not due and payable in the current period and are not reported in the funds.

Compensated absences	(46,515)	
Deferred outflows related to net pension liability	7,962,535	
Deferred outflows related to net OPEB asset/liability	1,770,471	
Deferred inflows related to net pension liability	(4,379,985)	
Deferred inflows related to net OPEB asset/liability	(3,671,224)	
Net pension liability	<u>(26,047,323)</u>	
		<u>(24,412,041)</u>

Total Net Position - Governmental Activities	<u>\$ (3,950,876)</u>
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Hillsdale Community Schools
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2024

	General Fund	Building & Site Fund 2	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Local sources	\$ 2,772,157	\$ 948,284	\$ 464,444	\$ 4,184,885
State sources	14,038,241	16,775	141,069	14,196,085
Federal sources	1,952,781	-	981,697	2,934,478
Interdistrict and other	177,913	-	26,656	204,569
Total revenues	18,941,092	965,059	1,613,866	21,520,017
Expenditures:				
Instruction	11,092,596	-	-	11,092,596
Support services	6,854,493	-	-	6,854,493
Community services	19,189	-	-	19,189
Food service activities	-	-	1,055,967	1,055,967
Student activities	-	-	378,718	378,718
Other	66,821	-	-	66,821
Capital outlay	639,513	1,063,878	9,811	1,713,202
Total expenditures	18,672,612	1,063,878	1,444,496	21,180,986
Revenues Over (Under) Expenditures	268,480	(98,819)	169,370	339,031
Other Financing Sources (Uses):				
Proceeds from sale of capital assets	9,010	-	31,818	40,828
Transfers in	45,000	-	688	45,688
Transfers out	(688)	-	(45,000)	(45,688)
Total other financing sources (uses)	53,322	-	(12,494)	40,828
Net Changes in Fund Balances	321,802	(98,819)	156,876	379,859
Fund Balances - Beginning of Year	5,382,207	1,910,452	625,076	7,917,735
Fund Balances - End of Year	\$ 5,704,009	\$ 1,811,633	\$ 781,952	\$ 8,297,594

Hillsdale Community Schools
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended June 30, 2024

Net Change in Fund Balances - Total Governmental Funds	\$	379,859
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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.

Depreciation expense	\$ (941,063)	
Capital outlay	1,969,901	
		1,028,838

Governmental funds report the entire net sales price (proceeds) from the sale of assets as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain or loss on the sale of assets. Thus, the change in net position differs from the change in fund balance by the net book value.

Net book value of assets disposed of	(10,169)
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Governmental funds report land contract proceeds as current financial resources when received. In contrast, the Statement of Activities treats such items as a receivable. Governmental funds report payment of land contract principal as an other financing source. In contrast, the Statement of Activities treats such payments as a reduction in receivables.

Principal payments	(31,810)	(31,810)
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Change in compensated absences	14,477	14,477
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Governmental funds report the required pension and OPEB contributions for the District's fiscal year ended June 30 as expenditures. The Statement of Activities reports the fully accrued pension and OPEB expenses based upon a September year-end to coincide with the State of Michigan's fiscal year.

Changes in pension related liabilities and deferrals	644,628	
Changes in OPEB related liabilities and deferrals	1,437,466	
		2,082,094

Change in Net Position of Governmental Activities	\$	3,463,289
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Hillsdale Community Schools

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

The basic financial statements of Hillsdale Community Schools (the “School District” or “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District’s accounting policies are described below.

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District’s reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the District does not contain any component units.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-Wide and Fund Financial Statements

District-Wide Statements – The district-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District’s government-wide activities are considered governmental activities.

The Statement of Net Position presents all governmental activities on a consolidated basis. The Statement of Net Position reports all assets and liabilities including those of a long-term nature. The net difference is reported as net position. Net position is categorized as net investment in capital assets, restricted net position, and unrestricted net position. It is the District’s policy to allocate resource outlays first to restricted net position with the remainder allocated to unrestricted net position.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other unrestricted items are not included as program revenues but instead as general revenue. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is 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 revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Hillsdale Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

District-Wide and Fund Financial Statements (Continued)

District-Wide Statements (Continued) - As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Fund-Based Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if 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, severance pay, 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 of lease and SBITA assets are reported as other financing sources.

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period, are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The School District reports the following major governmental funds:

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

Building & Site Fund 2 – The Building & Site Fund 2 is used to record tax receipts or other revenue and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment, and for remodeling.

Additionally, the government reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes (not including expendable trusts or major capital projects). The District maintains the Food Service Fund and the Student Activities Fund.

Capital Projects Funds – Capital Projects Funds are used to record tax receipts or other revenue and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment and for remodeling. In addition to the Building and Site Fund 2, which is a major fund, the District maintains the Building and Site Fund 1.

Revenue, Assets, Liabilities, and Net Position or Equity

State Revenue – 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.

Hillsdale Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenue, Assets, Liabilities, and Net Position or Equity (Continued)

State Revenue (Continued) - For the year ended June 30, 2024, the foundation allowance was based on pupil membership counts taken in February 2023 and October 2023.

The State portion of the foundation is provided primarily by a State education property tax millage of 6 mills and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The local portion also includes 6 mills on commercial personal property. The State revenue is recognized during the foundation period and is funded through payments from October 2023 to August 2024. The unpaid portion at June 30th is reported as due from other governmental units.

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 categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year, are recorded as unearned revenue. Other categorical funding is recognized when the appropriation is received.

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 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 date is 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, 2024, the District levied the following amounts per \$1,000 of assessed valuation:

General Fund – non-primary residence	17.6310
General Fund – commercial personal property	5.6310
Building & Site Fund – all taxable values	2.1972

Tax abatements provided to property taxpayers, if any, were not significant, and thus, no disclosure was deemed required in accordance with GASB Statement No. 77, *Tax Abatement Disclosures*.

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit.

The District reports its investments in accordance with GASB professional standards. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in bankers' acceptances and commercial paper are recorded at amortized cost.

Hillsdale Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenue, Assets, Liabilities, and Net Position or Equity (Continued)

Deposits and Investments (Continued) - State statutes authorize the District to invest in bonds, and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; and in 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. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.” Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. The District has determined the uncollectible amounts are immaterial and no provision has been recorded.

Inventories and Prepaid Items – Inventories are valued at cost on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. The government defines capital assets as assets with an initial individual cost of \$5,000 or greater and an estimated useful life in excess of one year. Group purchases are evaluated on a case-by-case basis. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized.

Right-to-use assets, if any, are amortized using the straight-line method over the shorter of the lease/subscription period or the estimated useful lives. Capital assets are depreciated/amortized using the straight-line method over the following useful lives:

Buildings and improvements	15-50 years
Infrastructure	20 years
Buses and other vehicles	5-10 years
Furniture and equipment	5-10 years

Compensated Absences - The District reports a liability for compensated absences which consists of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method in which leave amounts for employees who are currently eligible to receive termination payments are included.

Hillsdale Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenue, Assets, Liabilities, and Net Position or Equity (Continued)

Long-Term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources – 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 represents a consumption of net position or fund balance that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District currently reports deferred outflows of resources related to deferred pension and OPEB plan expenses. Deferred pension and OPEB plan expenses are recognized in the applicable plan years. The District also currently reports deferred outflows of resources from pension and OPEB payments made subsequent to the measurement date to be recognized as the corresponding time lags are met.

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 represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District currently reports deferred inflows of resources related to its pension and OPEB plan earnings. These future resources will be amortized and recognized over a time period established by the actuary and relate to differences between actuarial estimates and actual results.

Defined Benefit Pension Plan – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public Employees' Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the plan benefit terms. Related plan investments are reported at fair value. See Note 11 for detailed information.

Postemployment Benefits Other Than Pensions – For purposes of measuring the net OPEB asset, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Michigan Public Employees' Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Related investments are reported at fair value. See Note 11 for detailed information.

Hillsdale Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenue, Assets, Liabilities, and Net Position or Equity (Continued)

Fund Equity – The District has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In accordance with this guidance, fund balances of governmental funds are categorized according to five defined categories of fund balance. These categories consist of *nonspendable* amounts which are not in spendable form or are legally or contractually required to be maintained intact; *restricted* amounts that are constrained for specific purposes set by external parties or law; *committed* amounts that are constraints set by the highest decision-making authority (the School Board) through adoption of a resolution and may only be removed by the School Board through a rescindment resolution; *assigned* amounts that have an intended purpose but require no formal specific action; and *unassigned* amounts which are the residual of the other categories and have no specific purpose.

It is the District's policy to generally use fund balance in order according to the hierarchy of fund balance categories, from restricted down to unassigned.

Use of Estimates - 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 expenditures. 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.

Note 2 – Stewardship, Compliance, and Accountability

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriations lapse at fiscal year-end. The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. 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 supplemental information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the *Uniform Budgeting and Accounting Act* (P.A. 621 of 1978). 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, for the General Fund and any major special revenue funds are noted in the required supplemental information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditures 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.

Hillsdale Community Schools
Notes to Financial Statements

Note 2 – Stewardship, Compliance, and Accountability (Continued)

5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to fiscal year-end.

Note 3 – Deposits and Investments

At year-end, the District's deposits were reported in the basic financial statements in the following categories:

	Governmental Activities
Cash and cash equivalents	<u>\$ 7,121,099</u>

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking and savings accounts)	\$ 2,100,032
Investments in MILAF pooled investment fund	5,020,167
Petty cash and cash on hand	900
Total	<u>\$ 7,121,099</u>

The District holds investments in a pooled Michigan Investment Liquid Asset Fund (MILAF) account which is a qualified local government investment pool for Michigan School Districts and is considered an external investment pool as defined by GASB and as such is recorded at amortized cost which approximates fair value. The District's investments under the interlocal agreement (MILAF – Michigan CLASS) in the amount of \$5,020,167 at year-end, are regulated by the Urban Cooperation Act.

The Michigan CLASS investment pool invests in U.S. Treasury obligations, federal agency obligations of the U.S. government, high-grade commercial paper, and approved money market funds. The program is designed to meet the needs of Michigan public sector investors. There are no limitations or restrictions on withdrawals from the investments held in the MILAF account except for a one-day minimum investment period on the MILAF cash management funds and a fourteen-day redemption limitation on MILAF MAX Class funds.

Investment and Deposit Risk – The District's cash and investments are subject to several types of risk, as noted below.

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District requires that financial institutions be evaluated and only those with an acceptable risk level are used for the District's deposits for custodial credit risk. At year-end, the District's deposit balance of approximately \$7,500,000 had \$7,000,000 of bank deposits that were uninsured and uncollateralized.

Custodial Credit Risk – Investments – Custodial credit risk of investments 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 does not have an investment policy for custodial credit risk. The MILAF investments are not insured by FDIC or other protections. Standard & Poor's rating for the MILAF investments is AAAM.

Hillsdale Community Schools
Notes to Financial Statements

Note 3 – Deposits and Investments (Continued)

Interest Rate Risk – State law limits the allowable investments and the maturities of some of the allowable investments. The District's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools. See Note 1 for a full description of allowed investments. The District's investment policy does not further limit its investment choices.

Concentration of Credit Risk – The District's investment policy does not limit investments with individual issuers.

Foreign Currency Risk – The District does not invest in foreign currency and does not maintain a policy regarding foreign currency risk.

Note 4 – Receivables

Receivables at year end totaled \$3,765,741 and consist mainly of amounts due from the Michigan Department of Education for State aid and federal grants.

Hillsdale Community Schools
Notes to Financial Statements

Note 5 – Capital Assets

Capital asset activity of the District's governmental activities was as follows:

	Beginning Balance	Additions	Disposals	Year-End Balance
Capital assets not being depreciated:				
Land	\$ 77,434	\$ -	\$ -	\$ 77,434
Construction in progress	563,133	287,634	563,133	287,634
Subtotal	<u>640,567</u>	<u>287,634</u>	<u>563,133</u>	<u>365,068</u>
Capital assets being depreciated:				
Buildings and improvements	24,020,104	2,090,647	5,248,626	20,862,125
Infrastructure	231,651	-	221,832	9,819
Buses and other vehicles	1,925,047	60,238	336,094	1,649,191
Furniture and equipment	4,803,614	94,515	1,486,474	3,411,655
Subtotal	<u>30,980,416</u>	<u>2,245,400</u>	<u>7,293,026</u>	<u>25,932,790</u>
Accumulated depreciation:				
Buildings and improvements	15,526,288	713,412	5,247,157	10,992,543
Infrastructure	229,933	491	221,832	8,592
Buses and other vehicles	1,003,553	177,600	336,094	845,059
Furniture and equipment	4,251,904	49,560	1,477,774	2,823,690
Subtotal	<u>21,011,678</u>	<u>941,063</u>	<u>7,282,857</u>	<u>14,669,884</u>
Net capital assets being depreciated	<u>9,968,738</u>	<u>1,304,337</u>	<u>10,169</u>	<u>11,262,906</u>
Net capital assets	<u>\$ 10,609,305</u>	<u>\$ 1,591,971</u>	<u>\$ 573,302</u>	<u>\$ 11,627,974</u>

Depreciation for the current year totaled \$941,063. The District determined that it was impractical to allocate depreciation to various governmental activities as the assets serve multiple functions.

Note 6 – Interfund Receivables, Payables and Transfers

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

A transfer of \$45,000 was made from the Food Service Fund to the General Fund for the current year to cover indirect costs and \$688 was transferred from the General Fund to the Food Service Fund to cover expenditures allowable under a State grant program.

Hillsdale Community Schools
Notes to Financial Statements

Note 7 – Unearned Revenue

Governmental funds report unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the components of unearned revenue are as follows:

Grant and categorial aid payments received prior to meeting all eligibility requirements	\$ 623,602
Food service deposits	<u>5,656</u>
	<u>\$ 629,258</u>

Note 8 – Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. As of June 30, 2024, no bonded debt or notes payable were held by the District. Other long-term obligations include compensated absences as described in Note 1 and net pension and OPEB liabilities. See Note 11 for further details regarding the net pension and OPEB liabilities. Other long-term debt activity is summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Compensated absences	\$ 60,992	\$ -	\$ 14,477	\$ 46,515	\$ -
Total governmental activities	<u>\$ 60,992</u>	<u>\$ -</u>	<u>\$ 14,477</u>	<u>\$ 46,515</u>	<u>\$ -</u>

Note 9 – Committed and Assigned Fund Balance

Portions of fund equity are segregated for specific future use and are, therefore, not available for future general appropriations or expenditure. Assigned fund balance represents those amounts that are expected to be used to cover expenditures that exceed revenue in the subsequent year. Fund balance commitments represent those amounts that are segregated by Board directive for future use as follows:

General Fund

Committed:	
Curriculum	\$ 95,945
Bus	200,000
Maintenance truck	29,750
Capital projects	<u>389,500</u>
Total committed	<u>\$ 715,195</u>

Hillsdale Community Schools
Notes to Financial Statements

Note 10 – Risk Management

The School District is exposed to various risks of loss related torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries 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 year, 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 School District has purchased commercial insurance for other risks of loss, including property and casualty, errors and omissions, fleet, and employee health and accident insurance. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

Note 11 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions

Organization

Pension/OPEB Plan Description – The School District participates in the Michigan Public School Employees' Retirement System ("MPERS" or "the System"), a State-wide, cost-sharing, multiple-employer defined benefit public employee retirement plan governed by the State of Michigan. The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to public school employees, and covers substantially all employees of the School District.

There are currently approximately 690 participating employers in the System which meets the definition of a qualified pension trust fund under Section 401(a) of the Internal Revenue Code. In addition, the System maintains a health plan ("OPEB") which provides postemployment healthcare benefits to all eligible retirees as an elective option including health, prescription drug, dental, and vision coverage.

The System was originally created under Public Act 136 of 1945, recodified, and currently operates under the provisions of Public Act 300 of 1980, as amended. Section 25 of this Act establishes a governing board and its authority to promulgate or amend the provisions of the System. The board consists of twelve members – eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System is administered by the Office of Retirement Services 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 fiduciary and custodian for the System.

The System's financial statements are included as a pension and other employee benefit trust fund in the State of Michigan Annual Comprehensive Financial Report and are available on the ORS website at www.michigan.gov/orsschools. Information provided in this report includes financial data, actuarial assumptions data, and detailed information about the pension plan and OPEB plan fiduciary positions.

Hillsdale Community Schools
Notes to Financial Statements

Note 11 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Organization (Continued)

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

Based on current benefit provisions, new hires can opt between two plans. The first plan, called Pension Plus 2, is a hybrid plan that contains a pension component with a required employee contribution and a flexible and transferable defined contribution tax-deferred investment account component that contains 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%. The second option is a Defined Contribution plan under which a participant receives a 4% employer contribution to a tax-deferred 457 account and can choose to make employee contributions up to the maximum allowed per IRS regulations.

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

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

Public Act 300 of 2012 granted all active members of the MPSERS, who earned service credit in the twelve 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.

Hillsdale Community Schools
Notes to Financial Statements

Note 11 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Organization (Continued)

OPEB Benefits Provided (Continued) - Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) accounts.

Pension/OPEB Plan Contributions – Public Act 300 of 1980, as amended, requires contributions from both the participating employers and the active plan members. The School District, as a participating employer, is required to contribute amounts necessary to finance the coverage of pension and OPEB benefits of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature. Under these provisions, each school district's contribution is expected to finance the costs of benefits earned by employees (plan members) during the year, with an additional amount paid in to finance a portion of the unfunded actuarial accrued liability.

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 plan year. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability will be amortized over a declining period ending September 30, 2038.

Pension Plan Contributions – The schedule below summarizes pension contribution rates in effect for the fiscal year ended September 30, 2023:

<u>Benefit Type</u>	<u>Member Rates</u>	<u>Status</u>
Basic (Defined Benefit)	0.0% - 4.0%	Closed
MIP (Defined Benefit)	3.0% - 7.0%	Closed
Pension Plus (Hybrid)	3.0% - 6.4%	Closed
Pension Plus 2 (Hybrid)	6.2%	Open
Defined Contribution	0.0%	Open

Employer contributions for the plan year ended September 30, 2023 range from 13.75% to 20.16% and are determined based on employee elections. The District's required and actual contributions to the plan for the year ended September 30, 2023 were \$2,900,490. The District's required and actual pension contributions include an allocation of \$1,437,729 in revenue received from the State of Michigan, and remitted to the System, to fund the MPSERS unfunded actuarial accrued liability (UAAL) stabilization rate for the year ended September 30, 2023.

OPEB Contributions – OPEB employee contributions in effect for the fiscal year ended September 30, 2023 range from 0% - 3%. Employer contributions range from 0% to 8.07% for the plan year ended September 30, 2023 and are determined based on employee elections. Required contributions to the OPEB plan from the District were \$606,891 for the year ended September 30, 2023. The District's required and actual OPEB contributions include an allocation of \$0 in revenue received from the State of Michigan, and remitted to the System, to fund the MPSERS unfunded actuarial accrued liability (UAAL) stabilization rate for the year ended September 30, 2023.

Hillsdale Community Schools
Notes to Financial Statements

Note 11 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Pension/OPEB (Asset)/Liabilities, Pension/OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions/OPEB

Proportionate Share of School District's Net Pension Liability - At June 30, 2024, the District reported a liability of \$26,047,323 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2022. The District's proportionate share of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the System during the measurement period by the percent of statutorily required pension contributions from all applicable employers during the measurement period. At September 30, 2023, the District's proportionate share was .08047726 percent, a decrease of .00056525 percent from its proportion measured as of September 30, 2022.

Pension Expense - For the year ended June 30, 2024, the School District recognized pension expense of \$3,344,491, exclusive of payments to fund the MPSERS UAAL stabilization rate.

Proportionate Share of School District's Net OPEB Asset/Liability - At June 30, 2024, the District reported an asset of \$440,718 for its proportionate share of the MPSERS net OPEB asset. The net OPEB asset was measured as of September 30, 2023, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation rolled forward from September 30, 2022. The District's proportionate share of the net OPEB asset was determined by dividing each employer's statutorily required OPEB contributions to the System during the measurement period by the percent of statutorily required OPEB contributions from all applicable employers during the measurement period. At September 30, 2023, the District's proportionate share was .07790684 percent, a decrease of .00476532 percent from its proportion measured as of September 30, 2022.

OPEB Expense - For the year ended June 30, 2024, the School District recognized OPEB benefit of \$768,554.

Deferred Outflows and Deferred Inflows - At June 30, 2024, the District reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	<u>Pension</u>	<u>OPEB</u>	<u>Pension</u>	<u>OPEB</u>
Difference between expected and actual experience	\$ 822,235	\$ -	\$ 39,900	\$3,330,290
Changes of assumptions	3,529,531	981,115	2,035,046	118,145
Net difference between projected and actual earnings on pension/OPEB plan investments	-	1,344	533,013	-
Changes in proportion and differences between District contributions and proportionate share of contributions	547,672	194,022	216,802	222,789
District contributions subsequent to the measurement date	3,063,097	593,990	1,555,224	-
Total	<u>\$7,962,535</u>	<u>\$1,770,471</u>	<u>\$4,379,985</u>	<u>\$3,671,224</u>

Hillsdale Community Schools
Notes to Financial Statements

Note 11 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Pension/OPEB Asset/Liabilities, Pension/OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions/OPEB (Continued)

Deferred Outflows and Deferred Inflows (Continued) - \$3,063,097 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 year ended June 30, 2025. \$593,990 reported as deferred outflows of resources related to OPEB resulting from District employer contributions subsequent to the measurement date, will be recognized as an increase/reduction of the net OPEB asset/liability in the year ended June 30, 2025.

Other amounts reported as deferred outflows of resources and deferred (inflows) of resources related to pensions and OPEB will be recognized in pension/OPEB expense as follows:

Year Ended <u>June 30</u>	<u>Pension</u>	<u>OPEB</u>
2025	\$ 699,281	\$ (813,352)
2026	576,746	(758,310)
2027	1,191,723	(281,061)
2028	(393,073)	(272,642)
2029	-	(241,402)
Thereafter	-	(127,976)

Payables to the Pension/OPEB Plan - The District reported an accrued pension/OPEB plan payable at June 30, 2024 of \$375,585. This amount represents employee withholdings and the employer amount payable for wages earned at June 30, 2024 but not yet paid. The District is current on all required pension and OPEB plan payments. Amounts accrued at year-end 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).

Actuarial Assumptions

Actuarial Valuations and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. A summary of actuarial assumptions as of the latest actuarial valuation follows:

Valuation date	September 30, 2022
Actuarial cost method	Entry age, normal
Wage inflation rate	2.75%
Investment rate of return:	
MIP and Basic plans	6.00%, net of investment expenses
Pension Plus Plan and Plus 2 Plans	6.00%
OPEB	6.00%
Projected salary increases	2.75 – 11.55%, including wage inflation at 2.75%

Hillsdale Community Schools
Notes to Financial Statements

Note 11 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Actuarial Assumptions (Continued)

Cost-of-living adjustments	3% annual non-compounded for MIP members
Healthcare cost trend rate	Pre-65: 7.50% Year 1 graded to 3.5% Year 15 Post-65: 6.25% Year 1 graded to 3.5% Year 15
Mortality: Retirees:	PubT-2010 Male and Female Retiree Mortality Tables scaled by 116% for males and 116% for females and adjusted for mortality improvements using projection scale MP-2021 from 2010
Active Members:	PubT-2010 Male and Female Employee Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2021 from 2010.
Disabled Retirees:	PubNS-2010 Male and Female Disabled Retiree Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2021 from 2010.

Other Assumptions (OPEB) – 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.
Survivor Coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death.
Coverage Election at Retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

Additional assumption information includes the following:

- Assumption changes as a result of an experience study for the periods 2017 through 2022 have been adopted by the System for use in the annual pension and OPEB valuations beginning with the September 30, 2023 valuation. The total pension/OPEB liability as of September 30, 2023 is based on the results of an actuarial valuation date of September 30, 2022, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years – 4.4406 for pension plan employers and 6.5099 for OPEB plan employers.
- Recognition period for assets in years is 5.0000.
- Full actuarial assumptions are available in the 2023 MPSERS Annual Comprehensive Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Rate of Return on Plan Assets – The long-term expected rate of return on pension/OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension/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.

Hillsdale Community Schools
Notes to Financial Statements

Note 11 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Actuarial Assumptions (Continued)

Long-Term Expected Rate of Return on Plan Assets (Continued)

Best estimates of arithmetic real rates of return for each major asset class included in the pension/OPEB plan's target asset allocation as of September 30, 2023, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return*</u>
Domestic equity pools	25.0%	5.8%
Private equity pools	16.0%	9.6%
International equity	15.0%	6.8%
Fixed income pools	13.0%	1.3%
Real estate and infrastructure pools	10.0%	6.4%
Absolute return pools	9.0%	4.8%
Real Return/Opportunistic Pools	10.0%	7.3%
Short-term investment pools	2.0%	0.3%
Total	<u>100.0%</u>	

*Long-term rates of return are net of administrative expenses and 2.7% inflation.

Rate of Return – For the fiscal year ended September 30, 2023, the annual money-weighted rate of return on pension/OPEB plan investments, net of pension/OPEB plan investment expense, was 8.29% and 7.94%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate – A discount rate of 6.00% was used to measure the total pension liability and OPEB asset. This discount rate was based on the long-term expected rates of return on pension and 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 rates and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on these assumptions, the pension/OPEB plans' 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/OPEB plan investments was applied to all periods of projected benefits payments to determine the total pension liability/OPEB asset.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 6.00%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher:

Current Single Discount Rate		
1% Decrease	Assumption	1% Increase
5.00%	6.00%	7.00%
<u>\$35,189,858</u>	<u>\$26,047,323</u>	<u>\$18,435,833</u>

Hillsdale Community Schools
Notes to Financial Statements

Note 11 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Actuarial Assumptions (Continued)

Sensitivity of the Net OPEB Asset/Liability to Changes in the Discount Rate - The following presents the School District's proportionate share of the net OPEB asset/liability calculated using the discount rate of 6.00%, as well as what the District's proportionate share of the net OPEB asset/liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher:

1% Decrease	Current	1% Increase
5.00%	Discount Rate	7.00%
	6.00%	
<u>\$456,892</u>	<u>(\$440,718)</u>	<u>(\$1,212,125)</u>

Sensitivity of the Net OPEB Asset/Liability to Changes in the Healthcare Cost Trend Rate - The following presents the School District's proportionate share of the net OPEB asset/liability calculated using the assumed trend rates, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a trend rate that is one percentage point lower or one percentage point higher:

1% Decrease	Current Healthcare	1% Increase
	Cost Trend Rate	
<u>(\$1,214,049)</u>	<u>(\$440,718)</u>	<u>\$396,280</u>

Note 12 – Federal and State Grants

The District has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.

Note 13 - Sinking Fund

The Building & Site Funds 1 & 2 are sinking funds which record capital project activities funded with sinking fund millage. For these funds, the School District has complied with the applicable provisions of Section 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

Required Supplementary Information

Hillsdale Community Schools
 Budgetary Comparison Schedule – General Fund
 Year Ended June 30, 2024

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Local sources	\$ 2,295,310	\$ 2,750,281	\$ 2,772,157	\$ 21,876
State sources	14,266,764	14,036,801	14,038,241	1,440
Federal sources	2,672,980	1,904,628	1,952,781	48,153
Interdistrict and other	143,631	186,922	177,913	(9,009)
Total revenues	19,378,685	18,878,632	18,941,092	62,460
Expenditures:				
Instruction:				
Basic programs	10,235,608	9,029,910	8,856,524	173,386
Added needs	2,234,154	2,233,031	2,094,649	138,382
Adult education	81,200	161,510	141,423	20,087
Support services:				
Pupil	878,730	883,113	863,649	19,464
Instructional staff	383,200	606,681	581,308	25,373
General administration	339,080	359,213	355,451	3,762
School administration	1,117,950	1,093,509	1,066,482	27,027
Business	339,065	317,657	305,108	12,549
Operation & maintenance	1,921,668	2,074,651	1,931,566	143,085
Pupil transportation	1,227,075	976,656	924,544	52,112
Central services	225,350	462,690	367,349	95,341
Athletic activities	490,770	466,833	459,036	7,797
Community services:				
Community activities	6,000	23,569	19,189	4,380
Other	37,000	65,316	66,821	(1,505)
Capital outlay	1,000,000	646,017	639,513	6,504
Total expenditures	20,516,850	19,400,356	18,672,612	727,744
Revenues Over (Under) Expenditures	(1,138,165)	(521,724)	268,480	790,204
Other Financing Sources (Uses):				
Proceeds from sale of capital assets	-	-	9,010	9,010
Transfers in	-	45,000	45,000	-
Transfers out	-	(1,688)	(688)	1,000
Total other financing sources (uses)	-	43,312	53,322	10,010
Net Changes in Fund Balances	(1,138,165)	(478,412)	321,802	\$ 800,214
Fund Balances - Beginning of Year	5,382,207	5,382,207	5,382,207	
Fund Balances - End of Year	\$ 4,244,042	\$ 4,903,795	\$ 5,704,009	

Hillisdale Community Schools

Schedule of the District's Proportionate Share of the Net Position Liability of the MPSERS Plan Last Ten Fiscal Years (Amounts Determined Each Year as of September 30)

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
District's proportion of net pension liability (%)	0.0805%	0.0810%	0.0777%	0.0783%	0.0791%	0.0794%	0.0788%	0.0773%	0.0799%	0.0797%
District's proportionate share of net pension liability	\$ 26,047,323	\$ 30,479,050	\$ 18,406,951	\$ 26,881,262	\$ 26,203,314	\$ 23,866,007	\$ 20,415,791	\$ 19,297,803	\$ 19,506,725	\$ 17,563,376
District's covered-employee payroll	\$ 7,867,921	\$ 8,124,958	\$ 7,141,918	\$ 7,056,226	\$ 6,961,486	\$ 6,789,096	\$ 6,729,182	\$ 6,446,326	\$ 6,665,510	\$ 7,306,122
District's proportionate share of net pension liability as a percentage of its covered-employee payroll	331.06%	375.13%	257.73%	380.96%	376.40%	351.53%	303.39%	299.36%	292.65%	240.39%
Plan fiduciary net position as a percentage of total pension liability	65.91%	60.77%	72.60%	59.72%	60.31%	62.36%	64.21%	63.27%	63.17%	66.20%

Hillsdale Community School

Schedule of the District's Pension Contributions to the MPERS Plan
Last Ten Fiscal Years (Amounts Determined Each Year as of June 30)

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily required contributions	\$ 3,256,207	\$ 3,713,995	\$ 2,703,359	\$ 2,316,517	\$ 2,154,175	\$ 2,109,775	\$ 1,967,098	\$ 1,826,368	\$ 1,856,739	\$ 1,238,370
Contributions in relation to statutorily required contributions	3,256,207	3,713,995	2,703,359	2,316,517	2,154,175	2,109,775	1,967,098	1,826,368	1,856,739	1,238,370
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 8,251,963	\$ 7,766,418	\$ 7,757,416	\$ 7,019,190	\$ 7,056,226	\$ 6,845,589	\$ 6,718,276	\$ 6,903,006	\$ 6,469,382	\$ 6,746,650
Contributions as a percentage of covered-employee payroll	39.46%	47.82%	34.85%	33.00%	30.53%	30.82%	29.28%	26.46%	28.70%	18.36%

Hillsdale Community School

Schedule of the District's Proportionate Share of the Net OPEB (Asset)/Liability of the MPSERS Plan
Last Seven Fiscal Years (Amounts Determined Each Year as of September 30)

	2023	2022	2021	2020	2019	2018	2017
District's proportion of net OPEB liability (asset) (%)	0.0779%	0.0827%	0.0783%	0.0780%	0.0795%	0.0797%	0.0789%
District's proportionate share of net OPEB liability (asset)	\$ (440,718)	\$ 1,751,048	\$ 1,195,874	\$ 4,179,548	\$ 5,702,825	\$ 6,333,217	\$ 6,982,649
District's covered-employee payroll	\$ 7,867,921	\$ 8,124,958	\$ 7,141,198	\$ 7,056,226	\$ 6,961,486	\$ 6,789,096	\$ 6,729,182
District's proportionate share of net OPEB liability (asset) as a percentage of its covered-employee payroll	-5.60%	21.55%	16.75%	59.23%	81.92%	93.29%	103.77%
Plan fiduciary net position as a percentage of total OPEB liability (asset)	105.04%	83.09%	87.33%	59.44%	48.46%	42.95%	36.39%

Hillsdale Community School

Schedule of the District's OPEB Contributions to the MPSERS Plan
Last Seven Fiscal Years (Amounts Determined Each Year as of June 30)

	2024	2023	2022	2021	2020	2019	2018
Statutorily required OPEB contributions	\$ 651,241	\$ 607,879	\$ 612,680	\$ 568,842	\$ 558,587	\$ 533,269	\$ 486,412
OPEB contributions in relation to statutorily required contributions	651,241	607,879	612,680	568,842	558,587	533,269	486,412
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll (OPEB)	\$ 8,251,963	\$ 7,766,418	\$ 7,757,416	\$ 7,019,190	\$ 7,056,226	\$ 6,845,589	\$ 6,718,276
OPEB contributions as a percentage of covered-employee payroll	7.89%	7.83%	7.90%	8.10%	7.92%	7.79%	7.24%

Hillsdale Community School
Notes to Required Supplementary Information Pension and OPEB Schedules
Year Ended June 30, 2024

Changes of Benefit Terms: There were no changes of benefit terms in 2023.

Changes of Assumptions: For the State's fiscal year ended September 30, 2023:

The recognition period for liabilities, an average of the expected remaining service lives of all employees, changed to 4.4406 from 4.3922 for pension plan employers and to 6.5099 from 6.2250 for OPEB plan employers.

The healthcare cost trend rate was adjusted as follows:

Pre-65: From 7.75% to 7.50% for Year 1

Post-65: From 5.25% to 6.25% for Year 1

The mortality assumptions were adjusted by updates to the Mortality Tables from RP-2014 to Pub-2010 for the three mortality categories - retirees, active members, and disabled retirees.

The experience study applied in the annual pension and OPEB valuations was updated from using the periods 2012 - 2017 to using the periods 2017 - 2022 starting with the September 30, 2023 valuation.

Other Supplementary Information

Hillsdale Community Schools
Combining Balance Sheet
Nonmajor Governmental Funds
Year Ended June 30, 2024

	<u>Special Revenue</u>		<u>Capital Projects</u>		
	<u>Food Service Fund</u>	<u>Student Activities Fund</u>	<u>Building & Site Fund 1</u>		<u>Total Nonmajor Governmental Funds</u>
Cash and investments	\$ 483,837	\$ 278,038	\$ 34,987	\$	796,862
Receivable from other governments	15,618	-	-		15,618
Other receivables	410	-	-		410
Inventories	25,254	-	-		25,254
Prepaid expenditures	48,000	-	400		48,400
Total assets	<u>\$ 573,119</u>	<u>\$ 278,038</u>	<u>\$ 35,387</u>	<u>\$</u>	<u>886,544</u>
 <u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 4,444	\$ -	-	\$	4,444
Unearned revenue	43,470	-	-		43,470
Accrued salaries and related	56,678	-	-		56,678
Total liabilities	<u>104,592</u>	<u>-</u>	<u>-</u>		<u>104,592</u>
 Fund Balances:					
Nonspendable:					
Inventories	25,254	-	-		25,254
Prepaid expenses	48,000	-	400		48,400
Restricted	395,273	278,038	34,987		708,298
Total fund balances	<u>468,527</u>	<u>278,038</u>	<u>35,387</u>		<u>781,952</u>
Total liabilities and fund balances	<u>\$ 573,119</u>	<u>\$ 278,038</u>	<u>\$ 35,387</u>	<u>\$</u>	<u>886,544</u>

Hillsdale Community Schools
Combining Statement of Revenue, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2024

	Special Revenue		Capital Projects		Total Nonmajor Governmental Funds
	Food Service Fund	Student Activities Fund	Building & Site Fund 1		
Revenues:					
Local sources	\$ 41,597	\$ 421,703	\$ 1,144	\$	464,444
State sources	141,069	-	-	-	141,069
Federal sources	981,697	-	-	-	981,697
Interdistrict and other	26,656	-	-	-	26,656
Total revenues	1,191,019	421,703	1,144		1,613,866
Expenditures:					
Food service activities	1,055,967	-	-	-	1,055,967
Student activities	-	378,718	-	-	378,718
Other expenses	-	-	-	-	-
Capital outlay	-	-	9,811	-	9,811
Total expenditures	1,055,967	378,718	9,811		1,444,496
Revenues Over (Under) Expenditures	135,052	42,985	(8,667)		169,370
Other Financing Sources (Uses):					
Proceeds from sale of capital assets	-	-	31,818		31,818
Transfers in	688	-	-		688
Transfers out	(45,000)	-	-		(45,000)
Total other financing sources (uses)	(44,312)	-	31,818		(12,494)
Net Changes in Fund Balances	90,740	42,985	23,151		156,876
Fund Balances - Beginning of Year	377,787	235,053	12,236		625,076
Fund Balances - End of Year	\$ 468,527	\$ 278,038	\$ 35,387	\$	781,952

Hillsdale Community Schools

Single Audit Report

Year Ended June 30, 2024

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CPAs AND CONSULTANTS

**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Education
Hillsdale Community Schools
Hillsdale, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hillsdale Community Schools as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise Hillsdale Community Schools' basic financial statements, and have issued our report thereon dated August 15, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hillsdale Community Schools' 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 Hillsdale Community Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Hillsdale Community Schools' 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 considered 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 Hillsdale Community Schools' 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.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

August 15, 2024



WILLIS & JURASEK

CPAS AND CONSULTANTS

**Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by the Uniform Guidance**

Board of Education
Hillsdale Community Schools
Hillsdale, Michigan

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Hillsdale Community Schools' 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 Hillsdale Community Schools' major federal programs for the year ended June 30, 2024. Hillsdale Community Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Hillsdale Community Schools 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, 2024.

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 these standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Hillsdale Community Schools 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 Hillsdale Community Schools' 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 Hillsdale Community Schools' federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Hillsdale Community Schools' 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 Hillsdale Community Schools' 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 Hillsdale Community Schools' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Hillsdale Community Schools' 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 Hillsdale Community Schools' 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. 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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hillsdale Community Schools as of and for the year ended June 30, 2024 and the related notes to the financial statements, which collectively comprise Hillsdale Community Schools' basic financial statements. We issued our report thereon dated August 15, 2024, which contained unmodified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

August 15, 2024

Hillisdale Community Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2024

Federal ALN	Pass-through Grantor's Number	Award/Grant Entitlement Program Amount	Accrued (Unearned) Revenue 7/1/2023	Prior Years' Expenditures (Memorandum Only)	Prior Year Adjustments	Current		Accrued (Unearned) Revenue 6/30/2024
						Year Receipts	Year Expenditures	
10.555		\$ 72,684	\$ -	\$ -	\$ -	\$ 72,684	\$ 72,684	\$ -
10.555		253	-	-	-	253	253	-
		<u>72,937</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>72,937</u>	<u>72,937</u>	<u>-</u>
10.555	230910	17,049	(17,049)	-	-	-	17,049	-
10.555	231960	581,459	-	499,725	662	82,034	81,372	-
10.555	240910	37,814	-	-	-	37,814	-	(37,814)
10.555	241960	491,636	-	-	-	491,636	491,636	-
		<u>1,127,958</u>	<u>(17,049)</u>	<u>499,725</u>	<u>662</u>	<u>611,484</u>	<u>590,057</u>	<u>(37,814)</u>
10.555		<u>1,200,895</u>	<u>(17,049)</u>	<u>499,725</u>	<u>662</u>	<u>684,421</u>	<u>662,994</u>	<u>(37,814)</u>
10.553	231970	236,402	-	-	306	36,314	36,008	-
10.553	241970	212,688	-	-	-	212,688	212,688	-
		<u>449,090</u>	<u>-</u>	<u>-</u>	<u>306</u>	<u>249,002</u>	<u>248,696</u>	<u>-</u>
10.559	230900	3,048	946	-	17	963	3,417	3,417
		<u>3,048</u>	<u>946</u>	<u>-</u>	<u>17</u>	<u>963</u>	<u>3,417</u>	<u>3,417</u>
		<u>1,580,096</u>	<u>(16,103)</u>	<u>499,725</u>	<u>985</u>	<u>861,449</u>	<u>842,170</u>	<u>(34,397)</u>
		<u>1,653,033</u>	<u>(16,103)</u>	<u>499,725</u>	<u>985</u>	<u>934,386</u>	<u>915,107</u>	<u>(34,397)</u>
10.558	231920	48,275	188	44,556	-	3,907	3,719	-
10.558	232010	3,575	14	3,317	-	271	257	-
10.558	241920	49,199	-	-	-	49,199	49,199	-
10.558	242010	3,415	-	-	-	3,415	3,415	-
		<u>104,464</u>	<u>202</u>	<u>47,873</u>	<u>-</u>	<u>56,792</u>	<u>56,590</u>	<u>-</u>
10.579	221997-2024	10,000	-	-	-	10,000	10,000	-
10.185	230985-2024	30	-	-	-	30	-	(30)
		<u>1,767,527</u>	<u>(15,901)</u>	<u>547,598</u>	<u>985</u>	<u>1,001,208</u>	<u>981,697</u>	<u>(34,427)</u>

Federal Grantor/Pass-Through Grantor/ Program Title
U.S. Department of Agriculture

Child Nutrition Cluster:
Passed through MI Department of Education:
Non-cash Assistance (Commodities):
National School Lunch Program - Regular
National School Lunch Program - Bonus

Cash Assistance:
Supply Chain Assistance
National School Lunch Program
Supply Chain Assistance
National School Lunch Program

Total National School Lunch Program

School Breakfast Program
School Breakfast Program

Summer Food Service Program

Total Cash Assistance

Total Child Nutrition Cluster

Child and Adult Care Food Program

School Breakfast Expansion

Local Food for Schools

Total U.S. Department of Agriculture

Hillsdale Community Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2024

Federal ALN	Pass-through Grantor's Number	Award/Grant Entitlement Program Amount	Accrued (Unearned) Revenue 7/1/2023	Prior Years' Expenditures (Memorandum Only)	Prior Year Adjustments	Current Year Receipts	Current Year Expenditures	Accrued (Unearned) Revenue 6/30/2024
Federal Grantor/Pass-Through Grantor/ Program Title								
U.S. Department of Education								
Passed through MI Department of Education:								
84.010	231530-2223	555,319	106,597	476,295	-	119,171	12,574	-
		603,277	-	-	-	152,348	389,818	237,470
		1,158,596	106,597	476,295	-	271,519	402,392	237,470
84.367	230520-2223	170,440	44,793	44,793	-	67,012	22,219	-
		159,045	-	-	-	-	79,625	79,625
		329,485	44,793	44,793	-	67,012	101,844	79,625
84.365	240570-2324	515	-	-	-	-	515	515
		515	-	-	-	-	515	515
84.424A	230750-2223	58,003	2,472	2,472	-	2,537	65	-
		73,250	-	-	-	-	21,721	21,721
		131,253	2,472	2,472	-	2,537	21,786	21,721
84.358	240660-2324	35,143	-	-	-	-	25,988	25,988
		35,143	-	-	-	-	25,988	25,988
Education Stabilization Fund:								
84.425W	211014-2021	50,185	-	-	-	-	12,952	12,952
		3,247,906	633,456	1,804,861	-	1,303,456	1,381,233	711,233
		3,298,091	633,456	1,804,861	-	1,303,456	1,394,185	724,185
Total passed through MI Department of Education			787,318	2,328,421	-	1,644,524	1,946,710	1,089,504
Total U.S. Department of Education			787,318	2,328,421	-	1,644,524	1,946,710	1,089,504
U.S. Department of Health and Human Services								
Medicaid Cluster								
93.778	2023-2024	6,071	-	-	-	6,071	6,071	-
		6,071	-	-	-	6,071	6,071	-
Total U.S. Department of Health and Human Services			\$ 771,417	\$ 2,876,019	\$ 985	\$ 2,651,803	\$ 2,934,478	\$ 1,055,077

Hillsdale Community Schools
Schedule of Reconciliation of Revenues with
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2024

	<u>Amount</u>
Revenue from Federal sources - per financial statements (includes all funds)	\$ <u>2,934,478</u>
Federal expenditures per the Schedule of Expenditures of Federal Awards	\$ <u>2,934,478</u>

Hillsdale Community Schools
Notes to Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Hillsdale Community Schools' (the "District") under programs of the federal government for the year ended June 30, 2024. 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 Hillsdale Community Schools, it is not intended to and does not present the financial position or changes in net position of the District.

Note 2 – Summary of Significant Explanations of Schedule

Expenditures reported in the Schedule are reported on the modified accrual basis of accounting, which is described in Note 1 to the District's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or limited as to reimbursement. Negative amounts 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.

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

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

Expenditures are in agreement with amounts reported in the financial statements and the financial reports. The amounts on the Grant Auditor Report reconcile with this Schedule with any differences being timing issues of when cash was received. The amounts reported on the Recipient Entitlement Balance (PAL) Report agree with this Schedule for USDA donated food commodities and the expenditures include any spoilage or pilferage.

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

Note 3 – Subrecipients

No federal awards were passed through the District to any subrecipients during the year.

Hillsdale Community Schools
Schedule of Findings and Questioned Costs
Year Ended June 30, 2024

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified	_____ yes <u> X </u> no
Significant deficiencies identified that are not considered to be material weaknesses	_____ yes <u> X </u> none reported
Noncompliance material to financial statements noted	_____ yes <u> X </u> no

Federal Awards

Internal control over major programs:	
Material weakness identified	_____ yes <u> X </u> no
Significant deficiencies identified that are not considered to be material weaknesses	_____ yes <u> X </u> none reported

Type of auditors’ report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)	_____ yes <u> X </u> no
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Identification of major programs:

Assistance Listing Number
84.425

Name of Federal Program
Education Stabilization Fund

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

\$ 750,000

Auditee qualified as low-risk

 X yes _____ no

Section II – Financial Statement Audit Findings

None reported

Section III – Federal Program Audit Findings

None reported

Hillsdale Community Schools
Comments on Resolution of Findings from June 30, 2023
Single Audit Report

Financial Statement Audit Findings:

None reported

Federal Program Audit Findings:

None reported