Hillsdale Community Schools

Financial Report
With Supplementary Information

Year Ended June 30, 2026

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, 2026, 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, 2026, 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 accompanying 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 October 6, 2026, 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.

October 6, 2026

The purpose of management's discussion and analysis (MD&A) is to help the District's residents and other readers understand what the financial statements and notes in this financial report say about the District's financial health and why it changed since last year. It contains information drawn from those other parts of the report, accompanied by explanations informed by management's knowledge of the District's finances.

This report is designed to give an overview of the financial conditions of 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.

Overview of the Basic Financial Statements

The School District's financial report consists of basic financial statements, a series of financial statements that show information for the School District as a whole and also information on its funds. The District-wide financial statements, namely, 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, covering the District's governmental activities. Governmental activities comprise the District's most basic functions, such as instruction, support services, and food services. Governmental activities primarily are financed by property taxes from non-principal residence exemption properties, State aid foundation, and State and federal grants. These statements provide both short-term and long-term information.

The governmental fund financial statements, beginning on page 3, present the District's finances in greater detail. The fund financial statements disaggregate financial information by separate fund for each major fund and also present non-major fund information, in an aggregated format. All of the District's funds are considered governmental funds. 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). In addition to the District's main operating fund, the General Fund, other governmental funds include special revenue funds which track the use of restricted or committed funding sources, debt service funds to record the repayment of outstanding bonds, and capital projects funds to account for resources used to acquire or construct long-lived assets.

The next section, beginning on page 7, is the notes to financial statements, which delve deeper into the District's finances as reported in the financial statements. The information in the notes is as important to understanding the District's finances as the information in the financial statements. The District uses notes to (1) present information in greater detail than is possible within the financial statements themselves, (2) explain the nature of amounts reported in the financial statements and how those amount were determined, and (3) report certain information that does not meet the requirements for inclusion in the financial statements (such as certain contingencies or commitments).

Types of Information in the Financial Statements

The District's *district-wide financial statements* use the economic resources measurement focus and accrual basis of accounting. This basis of accounting takes into account all of the current year's revenue and expenses, regardless of when cash is received or paid. In other words, they comprehensively report all types of financial statement elements.

The District's *governmental fund financial statements* use the current financial resources measurement focus and modified accrual basis of accounting to report on the sources, uses, and balances of current financial resources. The governmental funds do not report non-financial assets, such as capital assets, or certain other long-term items, such as general obligation bonds, but they do report the flows of current financial resources related to those long-term items; for example, the proceeds from issuing bonds or selling equipment, as well as principal and interest payments on bonds or spending on construction.

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.

Types of Information Reported in the District's Financial Statements

	Financial Statements	
Financial Statement Element	**District-wide**	**Governmental Funds**
Types of assets and liabilities	* All assets and liabilities, both financial and nonfinancial, short-term and long-term	* Only current financial resources, such as cash, receivables, and accounts payable
Types of revenues/ additions	* All types of revenues/additions that flow into the District during the year that relate to that year, regardless of when cash is received	* Only revenues that are measurable and available to finance expenditures of that year
Types of expenses/ deductions/ expenditures	* All types of expenses/deductions that flow out of the District during the year that relate to that year, regardless of when cash is paid	* Only expenditures for which the related governmental fund liability is incurred in that year
Types of deferred outflows of resources and deferred inflows of resources	* All types of resources that flow into and out of the District during the year that relate to a future year	* Current financial resources that flow into and out of the governmental funds during the year that related to a future year

More detail about the measurement focuses and bases of accounting can be found in Note 1 of the notes to financial statements, the Summary of Significant Accounting Policies.

Analysis of the District's Finances

Governmental Activities

Below we focus our attention on the net position of the School District's governmental activities.

Net Position
June 30, 2026 and 2025

	Governmental Activities	
	2026	**2025**
Assets:		
Current assets	$ 12,069,183	$ 12,028,160
Non-current assets	17,493,537	15,617,683
Total assets	29,562,720	27,645,843
Deferred Outflows of Resources	5,076,669	6,958,256
Liabilities:		
Current liabilities	3,919,500	2,842,691
Non-current liabilities	15,859,204	19,262,962
Total liabilities	19,778,704	22,105,653
Deferred Inflows of Resources	10,077,200	11,569,316
Net Position:		
Invested in capital assets - net of related debt	13,400,455	12,180,095
Restricted	5,754,523	5,527,701
Unrestricted	(14,371,493)	(16,778,666)
Total net position	$ 4,783,485	$ 929,130

At year-end, the School District's net position - assets and deferred outflows less liabilities and deferred inflows - was $4,783,485. Of this amount, $(14,371,193) 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. The increase is primarily due to an approximately $217,000 increase in unrestricted net position. All of the increase in net position was the result of the financial performance of the governmental activities. The following section of analyzes the finances of the governmental activities.

The following provides information on the changes in net position of the School District's governmental activities.

Changes in Net Position
Years Ended June 30, 2026 and 2025

	Governmental Activities	
	2026	**2025**
Revenues:		
Program revenues:		
Charges for services	$ 232,643	$ 238,994
Operating grants	5,699,031	5,593,027
General revenues:		
Property taxes - general purpose	3,021,755	2,685,720
Property taxes - capital projects	1,021,481	948,123
State School Aid	10,252,456	11,646,737
Miscellaneous	510,240	468,063
Total revenues	20,737,606	21,580,664
Expenses:		
Instruction	9,002,430	9,007,626
Support services	5,333,067	5,330,706
Food service	1,099,433	944,558
Student activities	331,511	324,952
Community service	50,601	26,942
Other	37,861	30,777
Interest	2,974	558
Capital outlay	28,613	12,584
Depreciation (unallocated)	996,761	928,203
Total expenses	16,883,251	16,606,906
Increase (decrease) in net position	3,854,355	4,973,758
Net position beginning of year	929,130	(4,044,628)
Ending net position	$ 4,783,485	$ 929,130

As shown above, the cost of all our governmental activities this year was $16,883,251. However, the amount that our taxpayers ultimately financed for those activities through school property taxes was $4,043,236. The remainder of the cost was paid by charges for services, State Aid, and federal grants.

There were several reasons for the change in the net position from 2025 to 2026 including the following primary factors:

- Changes in state funding and property tax revenue
- Changes in the pension and OPEB funding status
- Fluctuations in grant funding

Governmental Funds

The District's primary fund which accounts for general operations is its General Fund. The other major fund is the Building & Site Fund 2. The changes in these funds are as follows:

Revenues, Expenditures, and Changes in Fund Balances of Major Governmental Funds
Years Ended June 30, 2026 and 2025

	General Fund		Building & Site Fund 2	
	2026	2025	2026	2025
Revenues:				
Local sources	$ 3,346,356	$ 2,990,764	$ 1,092,240	$ 990,986
State sources	13,808,690	14,434,901	10,656	18,905
Federal sources	661,744	777,332	-	
Interdistrict and other	302,631	280,858	-	-
Total revenues	18,119,421	18,483,855	1,102,896	1,009,891
Expenses:				
Instruction	11,874,240	11,350,778	-	-
Support services	6,617,602	6,584,823	-	-
Community service	50,601	26,942	-	-
Other	30,865	30,777	-	-
Debt service	21,588	5,397	-	-
Capital outlay	6,996	-	1,568,536	954,827
Total expenses	18,601,892	17,998,717	1,568,536	954,827
Revenues Over (Under) Expenditures	(482,471)	485,138	(465,640)	55,064
Other Financing Sources (Uses), Net	72,490	161,062	-	-
Net Changes in Fund Balance	(409,981)	646,200	(465,640)	55,064
Fund Balances - Beginning of Year	6,350,206	5,704,006	1,866,697	1,811,633
Fund Balances - End of Year	$ 5,940,225	$ 6,350,206	$ 1,401,057	$ 1,866,697

Fund balance represents the financial standing of a governmental fund at the end of the fiscal year from a short-term perspective.

General Fund

The fund balance of the District's General Fund decreased by 6%. The decline is attributable to (1) a decline in District enrollment, (2) the District's staffing levels exceed current needs as student enrollment declines, and (3) investments in curriculum, classroom and athletic supplies, student resources, and facility improvement and maintenance.

The overall fund balance at the end of the fiscal year, represented approximately 32% of operating expenditures. The District aims to have a minimum fund balance of 15% of operating expenditures. Within fund balance, approximately 41% is considered unassigned. The remaining 59% is considered either restricted, committed, or assigned for other items and is not readily available for use.

Other Major Fund

The fund balance for the Building & Site Fund 2 is considered to be 100% restricted. This means that the fund balance can only be used for the restricted purpose of the fund, namely capital purchases and construction, and is not readily available for use.

Significant Capital Assets and Long-Term Obligations

Capital Assets

At the end of fiscal year 2026, the School District had $30,071,124 invested in land and buildings, furniture and equipment, and vehicles. We have estimated that these assets have depreciated by $16,594,848 through June 30, 2026; therefore, we currently have net book value of $13,476,276. Overall, the carrying value of capital assets (original cost less accumulated depreciation) increased 10% over the prior year.

	Governmental Activities	
	2026	2025
Land	$ 77,434	$ 77,434
Construction in process	1,520,875	-
Buildings and improvements	22,244,621	22,177,796
Infrastructure	9,819	9,819
Furniture and equipment	2,028,503	1,877,664
Vehicles	3,778,430	3,502,234
Right-to-use assets	411,442	227,670
Total capital assets	30,071,124	27,872,617
Less accumulated depreciation	(16,594,848)	(15,598,087)
Net capital assets	$13,476,276	$12,274,530

Total additions for the year consisted of two district vans, a truck, cafeteria tables, and a significant capital update that was in progress at year-end.

Long-Term Obligations

Overall, the carrying value of the District's long-term obligations decreased by 20% from the prior year. The reason for the decrease was regular payments on the capital lease payable. At June 30, 2026, the District had long-term obligations as follows:

	Governmental Activities	
	2026	2025
Capital lease payable	$ 75,821	$ 94,435
Total	$ 75,821	$ 94,435

See Note 11 for an analysis of the District's net pension/OPEB liability.

Currently Known Facts, Decisions, or Conditions

The District has an established pattern of financial stability; however, the General Fund balance decreased by approximately 6% during the current fiscal year. This planned use of fund balance supported previously identified needs, including curriculum and instructional materials, classroom and athletic supplies, student resources, and facility improvements and maintenance. While these expenditures decreased the fund balance, they represented immediate operational, instructional, and facility needs across the District.

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. We are continuing to use our resources to provide smaller class sizes, additional after-school programs, and supplemental instruction resources to address learning loss.

The District continued collaboration with the Hillsdale County ISD through transportation, food service, and special education program agreements. During the past year, the District also entered into a collaborative agreement with the Hillsdale City Police Department. Grant funding from the Michigan State Police supported the addition of a School Resource Officer in District buildings. These partnerships are intended to improve services while containing costs and increasing operational efficiency for the participating organizations.

By committing a portion of available resources over multiple years, the District has successfully planned for major purchases such as buses, curriculum materials, and technology. This strategy has allows the District to make purchases without incurring interest and other financing costs. Continued use of long-range financial planning can help the District maintain updated curriculum, technology, transportation, and other essential resources while limiting future borrowing expenses.

The Board of Education engages in strategic planning and updates the plan annually to make long-term progress. The District's continuous improvement process includes input from stakeholders including staff members, parents and students, when appropriate. Consistent stakeholder involvement and opportunities for staff engagement support transparency and confidence in the District's planning and financial decision-making.

Although the District continues to maintain a stable financial position, changes in fund balance require careful monitoring and disciplined financial planning. Continued cost-sharing partnerships, expenditure controls, and alignment of staffing levels with current and projected enrollment will be importing to preserving long-term stability. Maintaining an health fund balance will support consistent student programming, staff retention, and the District's ability to respond to future operational and facility needs.

Hillsdale Community Schools
Statement of Net Position
June 30, 2026

	Governmental Activities
Assets:	
Cash and investments	$ 8,943,670
Receivables	9,588
Due from other governmental units	2,973,625
Inventories	40,333
Prepaid expenses	101,967
Net OPEB asset	4,017,261
Capital assets:	
Cost of capital assets	30,071,124
Less: accumulated depreciation	(16,594,848)
Net capital assets	13,476,276
Total assets	29,562,720
Deferred Outflows of Resources:	
Pension related	4,282,467
OPEB related	794,202
Total deferred outflows of resources	5,076,669
Liabilities:	
Accounts payable and accrued expenses	3,312,281
Unearned revenue	607,219
Long-term liabilities:	
Due within one year:	
Lease payable	19,268
Compensated absences	14,700
Claims and judgments	
Due in more than one year:	
Lease payable	56,553
Compensated absences	132,430
Net pension liability	15,636,253
Total liabilities	19,778,704
Deferred Inflows of Resources:	
Pension related	6,567,325
OPEB related	3,509,875
Total deferred inflows of resources	10,077,200
Net Position:	
Invested in capital assets, net of related debt	13,400,455
Restricted for:	
Capital projects	1,472,804
Student activities	264,458
Net other post-employment benefits	4,017,261
Unrestricted	(14,371,493)
Total net position	$ 4,783,485

Hillsdale Community Schools
Statement of Activities
Year Ended June 30, 2026

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Governmental Activities: Net (Expenses) Revenues and Change in Net Position
Primary Government				
Governmental activities:				
Instruction	$ 9,002,430	$ 770	$ 2,246,124	$ (6,755,536)
Support services	5,333,067	177,194	1,727,186	(3,428,687)
Food service activities	1,099,433	54,679	1,357,321	312,567
Student activities	331,511	-	319,372	(12,139)
Community services	50,601	-	49,028	(1,573)
Other	37,861	-	-	(37,861)
Interest on long-term debt	2,974	-	-	(2,974)
Capital outlay	28,613	-	-	(28,613)
Depreciation (unallocated)	996,761	-	-	(996,761)
Total governmental activities	$ 16,883,251	$ 232,643	$ 5,699,031	(10,951,577)
General Revenues:				
Taxes:				
Property taxes, levied for general purposes				3,021,755
Property taxes, levied for capital projects				1,021,481
State aid not restricted to specific purposes				10,252,456
Unrestricted investment earnings				290,142
Other				220,098
Total general revenues				14,805,932
Change in Net Position				3,854,355
Net Position - Beginning of Year				929,130
Net Position - End of Year				$ 4,783,485

Hillsdale Community Schools
Balance Sheet
Governmental Funds
June 30, 2026

	General Fund	Building & Site Fund 2	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and investments	$ 5,851,041	$ 2,332,010	$ 760,619	$ 8,943,670
Due from other funds	26,000	-	-	26,000
Due from other governmental units	2,858,918	-	114,707	2,973,625
Other receivables	9,362	-	226	9,588
Inventories	-	-	40,333	40,333
Prepaid expenditures	43,967	10,000	48,000	101,967
Total assets	$ 8,789,288	$ 2,342,010	$ 963,885	$ 12,095,183
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	$ 22,700	$ 928,953	$ 68,118	$ 1,019,771
Due to other funds	-	12,000	14,000	26,000
Salaries payable and related	2,223,560	-	68,950	2,292,510
Unearned revenue	602,803	-	4,416	607,219
Total liabilities	2,849,063	940,953	155,484	3,945,500
Fund Balances:				
Nonspendable:				
Inventories	-	-	40,333	40,333
Prepaid expenditures	43,967	10,000	48,000	101,967
Restricted:				
Capital projects	-	1,391,057	71,747	1,462,804
Food services	-	-	383,863	383,863
Student activities	-	-	264,458	264,458
Committed	423,578	-	-	423,578
Assigned	3,045,435	-	-	3,045,435
Unassigned	2,427,245	-	-	2,427,245
Total fund balances	5,940,225	1,401,057	808,401	8,149,683
Total liabilities and fund balances	$ 8,789,288	$ 2,342,010	$ 963,885	$ 12,095,183

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, 2026

Total Fund Balances - Governmental Funds		$ 8,149,683
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	$ 30,071,124	
Accumulated depreciation is	(16,594,848)	
		13,476,276
Some assets are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet.		
Noncurrent assets at year-end consist of:		
Net OPEB asset		4,017,261
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.		
Lease payable	(75,821)	
Compensated absences	(147,130)	
Net pension liability	(15,636,253)	
		(15,859,204)
Deferred inflows and outflows related to long-term debt and pension/OPEB assets/liabilities are long-term and thus, not reported in the funds.		
Deferred outflows related to net pension liability	4,282,467	
Deferred outflows related to net OPEB asset/liability	794,202	
Deferred inflows related to net pension liability	(6,567,325)	
Deferred inflows related to net OPEB asset/liability	(3,509,875)	
		(5,000,531)
Total Net Position - Governmental Activities		$ 4,783,485

Hillsdale Community Schools

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2026

	General Fund	Building & Site Fund 2	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Local sources	$ 3,346,356	$ 1,092,240	$ 361,832	$ 4,800,428
State sources	13,808,690	10,656	73,900	13,893,246
Federal sources	661,744	-	1,282,689	1,944,433
Interdistrict and other	302,631	-	25,047	327,678
Total revenues	18,119,421	1,102,896	1,743,468	20,965,785
Expenditures:				
Instruction	11,874,240	-	-	11,874,240
Support services	6,617,602	-	-	6,617,602
Community services	50,601	-	-	50,601
Food service activities	-	-	1,451,760	1,451,760
Student activities	-	-	331,511	331,511
Other	30,865	-	-	30,865
Debt service:				
Principal	18,614	-	-	18,614
Interest and other charges	2,974	-	-	2,974
Capital outlay	6,996	1,568,536	47,776	1,623,308
Total expenditures	18,601,892	1,568,536	1,831,047	22,001,475
Revenues Over (Under) Expenditures	(482,471)	(465,640)	(87,579)	(1,035,690)
Other Financing Sources (Uses):				
Proceeds from sale of capital assets	1,222	-	63,053	64,275
Transfers in	72,000	-	732	72,732
Transfers out	(732)	-	(72,000)	(72,732)
Total other financing sources (uses)	72,490	-	(8,215)	64,275
Net Changes in Fund Balances	(409,981)	(465,640)	(95,794)	(971,415)
Fund Balances - Beginning of Year	6,350,206	1,866,697	904,195	9,121,098
Fund Balances - End of Year	$ 5,940,225	$ 1,401,057	$ 808,401	$ 8,149,683

See Notes to Financial Statements.

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, 2026

Net Change in Fund Balances - Total Governmental Funds		$ (971,415)
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	$ (996,761)	
Capital outlay	2,198,507	
		1,201,746
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		(64,371)
Governmental funds report debt proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which repayments exceeded proceeds.		
Lease payments	18,614	
		18,614
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		(6,100)
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	2,238,415	
Changes in OPEB related assets/liabilities and deferrals	1,437,466	
		3,675,881
Change in Net Position of Governmental Activities		$ 3,854,355

See 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 "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, State, and federal sources and must comply with all of the requirements of these funding source entities. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

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

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

District-Wide Statements – The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as 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.

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.

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) - 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 charges to customers and restricted grants and contributions (see Program Revenues below). 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.

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

Fund-Based Statements – The fund financial statements provide information about the District's funds. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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 and federal aid, certain 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. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received by year-end or within 60 days of year-end. 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.

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)

Additionally, the government reports the following fund types:

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

Capital Projects Funds – Capital Projects Funds are used to record the receipt of property taxes levied for sinking funds or capital project activities funded with bond proceeds and the subsequent expenditures of those revenues 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.

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. 2023-1.

Revenue, Assets, Liabilities, and Net Position or Equity

Program Revenues – Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, unrestricted State aid, and other internally dedicated resources are reported as general revenues rather than as program revenues.

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 regarding pupil membership counts. For the year ended June 30, 2026, the foundation allowance was based on pupil membership counts taken in February 2025 and October 2025.

The State portion of the foundation is provided primarily by a State education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by non-PRE property taxes which may be levied at a rate of up to 18 mills as well as 6 mills on Commercial Personal property. The State revenue is recognized during the foundation period and is funded through payments from October 2025 to August 2026. 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 the specific identified purposes. 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.

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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, 2026, the District levied the following amounts per $1,000 of assessed valuation:

General Fund – non-primary residence	16.7942
General Fund – commercial personal property	4.7942
Building & Site Fund 2 – all taxable values	2.1387

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.

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 receivables are shown net of an allowance for uncollectible amounts. Based on previous experience, 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/expenses 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. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Note 1 – Summary of Significant Accounting Policies (Continued)

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

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the district-wide financial statements. The District 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.

Capital assets are depreciated/amortized using the straight-line method over the following useful lives:

Land and construction in progress	Not depreciated
Buildings and improvements	15-50 years
Infrastructure	20 years
Buses and other vehicles	5-10 years
Furniture and equipment	5-10 years

Leases and Subscription-Based IT Arrangements (SBITAs) – The District recognizes lease/subscription-based IT arrangement liabilities and the related intangible right-to-use assets in the government-wide financial statements with an initial individual value of $10,000 or more. 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.

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

Key estimates and judgments related to leases/SBITAs include how the District determines (1) the discount rate it uses to discount the expected lease/SBITA payments to present value, (2) lease/SBITA terms, and (3) lease/SBITA payments.

- The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for leases/SBITA.
- The lease/SBITA term includes the noncancelable period of the lease/subscription. Lease/SBITA payments included in the measurement of the lease/SBITA liability are composed of fixed payments and any purchase option price that the District is reasonably certain to exercise.

The District monitors changes in circumstances and remeasures lease/SBITA assets and liabilities if certain changes occur that are expected to significantly affect the amount of the lease/SBITA liabilities.

Lease/SBITA assets are reported with other capital assets, and lease/SBITA liabilities are reported with long-term obligations on the Statement of Net Position. See Notes 4 and 6, respectively.

Note 1 – Summary of Significant Accounting Policies (Continued)

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

Compensated Absences - The District recognizes a liability for compensated absences for leave time that (1) has been earned for services previously rendered by employees, (2) accumulates and is allowed to be carried over to subsequent years, and (3) is more likely than not to be used as time off or settled during or upon separation from employment. The liability for compensated absences is reported as incurred in the government-wide financial statements. The liability for compensated absences includes salary and related benefits, where applicable.

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 straight-line method which approximates 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. The face amount of debt issued and premiums received on debt issuances are reported as other financing sources while discounts on debt 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 (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the plan benefit terms. Related plan investments are reported at fair value. See Note 11 for detailed information.

Note 1 – Summary of Significant Accounting Policies (Continued)

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

Postemployment Benefits Other Than Pensions – For purposes of measuring the net other postemployment benefits ("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 (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Related investments are reported at fair value. See Note 11 for detailed information.

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 *non-spendable* 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 – 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 investments	$ 8,943,670

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

Deposits (checking and savings accounts)	$ 1,348,234
Investments in MILAF pooled investment fund	7,594,536
Petty cash and cash on hand	900
Total	$ 8,943,670

Note 2 – Deposits and Investments (Continued)

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 $7,594,536 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 of deposits 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 $1,300,000 had $800,000 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.

Interest Rate Risk – Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. 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 – Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. 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 3 – Receivables

Receivables at year-end totaled $2,983,213 and consist mainly of amounts due from the Michigan Department of Education for State aid and federal grants.

Note 4 – 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	-	1,520,875	-	1,520,875
Subtotal	77,434	1,520,875	-	1,598,309
Capital assets being depreciated:				
Buildings and improvements	22,177,796	66,825	-	22,244,621
Infrastructure	9,819	-	-	9,819
Buses and other vehicles	1,877,664	150,839	-	2,028,503
Furniture and equipment	3,502,234	276,196	-	3,778,430
Right-to-use - copiers	99,274	-	-	99,274
Right-to-use - SBITAs	128,396	183,772	-	312,168
Subtotal	27,795,183	677,632	-	28,472,815
Accumulated depreciation:				
Buildings and improvements	11,648,469	623,454	-	12,271,923
Infrastructure	9,082	491	-	9,573
Buses and other vehicles	1,013,801	201,004	-	1,214,805
Furniture and equipment	2,883,937	63,215	-	2,947,152
Right-to-use - copiers	-	19,855	-	19,855
Right-to-use - SBITAS	42,798	88,742	-	131,540
Subtotal	15,598,087	996,761	-	16,594,848
Net capital assets being depreciated	12,197,096	(319,129)	-	11,877,967
Net capital assets	$ 12,274,530	$ 1,201,746	$ -	$ 13,476,276

Depreciation for the current year totaled $996,761. The District determined that it was impractical to allocate depreciation to various governmental activities as the assets serve multiple functions.

Note 5 – 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. At year-end, the General Fund was owed $14,000 from the Food Service Fund for indirect costs and $12,000 from Building & Site Fund 2 for an advance towards expenditures for a total of $26,000.

A transfer of $72,000 was made from the Food Service Fund to the General Fund for the current year to cover indirect costs and $732 was transferred from the General Fund to the Food Service Fund to cover expenditures allowable under a State grant program.

Note 6 – 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	$ 602,803
Food service deposits	4,416
	$ 607,219

Note 7 – Long-Term Obligations

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, 2026, 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:

	Balance June 30, 2025	Additions	Reductions	Balance June 30, 2026	Amounts Due Within One Year
Governmental Activities:					
Lease payable	$ 94,435	$ -	$ 18,614	$ 75,821	19,268
Compensated absences	141,030	6,100	-	147,130	14,700
Total governmental activities	$ 235,465	$ 6,100	$ 18,614	$ 222,951	$ 33,968

The lease payable is for copiers and payments are due in monthly installments of $1,799 through March, 2030 with an implied interest rate of 3.46%.

Annual debt service requirements to maturity on the above lease payable are as follows:

	Principal	Interest	Total
2027	$ 19,268	$ 2,320	$ 21,588
2028	19,946	1,642	21,588
2029	20,647	941	21,588
2030	15,960	231	16,191
	$ 75,821	$ 5,134	$ 80,955

Note 8 – 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:	
Bus	$ 164,078
Capital projects	259,500
Total committed	$ 423,578

Note 9 – 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. No settlements have occurred in excess of coverage for June 30, 2026, or any of the prior three years.

Note 10 – Contingent Liabilities

The District has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

Note 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 ("MPSERS" or "the System"), a State-wide, cost-sharing, multiple-employer defined benefit public employee retirement plan governed by the State of Michigan. The System was originally created under Public Act (PA) 136 of 1945, recodified and currently operating 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 plus the State Superintendent of Instruction, who serves as an ex-officio member.

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

Organization (Continued)

Pension/OPEB Plan Description (Continued) - 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 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. In addition, the System maintains a health plan ("OPEB") which provides postemployment healthcare benefits to eligible retirees as an elective option of receiving health, prescription drug, dental, and vision coverage under the Michigan Public School Employees Retirement Act. There are currently more than 695 participating employers in the System which meets the definition of a qualified pension trust fund under Section 401(a) of the Internal Revenue Code.

The System's financial statements are included as a pension and other employee benefit trust fund (a component unit) 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.

Employers participating in the System are required to report pension and OPEB information in their financial statements in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended, and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as amended. The requirements of GASB Nos. 68 and 75 incorporate provisions intended to reflect the effects of transactions and events related to pensions and OPEB in the measurement of employer liabilities and recognition of expenses, deferred outflows of resources, and deferred inflows of resources related to pensions and OPEB.

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 contribution 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 401(k) account and can choose to make employee contributions up to the maximum allowed per IRS regulations to a tax-deferred 457 account.

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.

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

Organization (Continued)

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 required 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement.

Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions are 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. Required employer pension contributions are comprised of pension normal cost, pension unfunded actuarial accrued liability (UAAL), and pension early retirement incentive contributions. Required employer pension contributions also include the UAAL rate stabilization contributions. Required employer OPEB contributions are comprised of OPEB normal cost and OPEB UAAL.

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

Organization (Continued)

Pension/OPEB Plan Contributions (Continued) – Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The normal cost is the annual cost assigned under the actuarial funding method to the current and subsequent plan years. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability will be amortized over a declining period ending September 30, 2038.

Pension Plan Contributions – School districts' contributions are determined based on employee elections. There are several different benefits options included in the plan available to employees based on date of hire and certain voluntary elections. Contribution rates are adjusted annually by the ORS. The schedule below summarizes pension contribution rates in effect for the fiscal year ended September 30, 2025:

Benefit Type	Member Rates	Employer Rates	Status
Basic (Defined Benefit)	0.0% - 4.0%	20.96 – 30.11%	Closed
MIP (Defined Benefit)	3.0% - 7.0%	20.96 – 30.11%	Closed
Pension Plus (Hybrid)	3.0% - 6.4%	26.27%	Closed
Pension Plus 2 (Hybrid)	6.2%	27.16%	Open
Defined Contribution	0.0%	20.96%	Open

Employer contributions for the plan year ended September 30, 2025 range from 20.96% to 30.11% and are determined based on employee elections. The District's required and actual contributions to the plan for the year ended September 30, 2025 were $3,250,910. The District's required and actual pension contributions include an allocation of $1,064,788 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, 2025.

OPEB Contributions – OPEB employee contributions in effect for the fiscal year ended September 30, 2025 range from 0% - 3%. Employer contributions range from 0.00% to 1.53% for the plan year ended September 30, 2025 and are determined based on employee elections. Required contributions to the OPEB plan from the District were $62,150 for the year ended September 30, 2025. 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, 2025.

Proportionate Share of School District's Net Pension Liability - At June 30, 2026, the District reported a liability of $15,636,253 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2025, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2024. 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, 2025, the District's proportionate share was .07805253 percent, an increase of .0003322 percent from its proportion measured as of September 30, 2024.

Pension Expense - For the year ended June 30, 2026, the School District recognized pension expense of $737,391, exclusive of payments to fund the MPSERS UAAL stabilization rate.

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 OPEB Asset/Liability - At June 30, 2026, the District reported an asset of $4,017,261 for its proportionate share of the MPSERS net OPEB asset. The net OPEB asset was measured as of September 30, 2025, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation rolled forward from September 30, 2024. 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, 2025, the District's proportionate share was .06608296 percent, a decrease of .01158537 percent from its proportion measured as of September 30, 2024.

OPEB Expense - For the year ended June 30, 2026, the School District recognized OPEB benefit of $1,295,411.

Deferred Outflows and Deferred Inflows - At June 30, 2026, 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	
	Pension	OPEB	Pension	OPEB
Difference between expected and actual experience	$ 605,637	$ -	$ 139,271	$2,750,407
Changes of assumptions	561,230	536,147	826,413	42,607
Net difference between projected and actual earnings on pension/OPEB plan investments	-	-	3,736,730	564,513
Changes in proportion and differences between District contributions and proportionate share of contributions	167,615	98,252	572,042	152,348
District contributions subsequent to the measurement date	2,947,985	159,803	1,292,869	-
Total	$4,282,467	$ 794,202	$6,567,325	$3,509,875

$2,947,985 reported as deferred outflows of resources related to pensions resulting from District employer contributions paid after the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year. $159,803 reported as deferred outflows of resources related to OPEB resulting from District employer contributions paid after the measurement date, will be recognized as an increase/reduction of the net OPEB asset/liability in the subsequent fiscal year.

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) - 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 June 30	Pension	OPEB
2027	$ (338,400)	$ (742,325)
2028	(1,877,494)	(735,814)
2029	(1,352,432)	(714,318)
2030	(371,649)	(470,460)
2031	-	(162,365)
Thereafter	-	(50,197)

Payables to the Pension/OPEB Plan - The District is current on all required pension and OPEB plan payments. The District reported an accrued pension/OPEB plan payable at June 30, 2026 of $428,706. Amounts accrued at year-end represent current payments for June paid in July including employee withholdings, 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 – Actuarial valuations for the pension and OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. 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, 2024
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%, net of investment expenses
OPEB	6.00%, net of investment expenses
Projected salary increases	2.75 – 11.55%, including wage inflation at 2.75%
Cost-of-living pension adjustments	3% annual non-compounded for MIP members
Healthcare cost trend rate	Pre-65: 7.75% Year 1 graded to 3.50% Year 15
	Post-65: 6.50% Year 1 graded to 3.50% Year 15

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

Actuarial Assumptions (Continued)

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 electing two-person coverage are assumed to have coverages continuing after the retiree's death.
Coverage Election at Retirement	Of those opting out, 75% of male and 60% of female future retirees who elect coverage 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, 2025 is based on the results of an actuarial valuation date of September 30, 2024, 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 – 4.4524 for pension plan employers and 6.4654 for OPEB plan employers.
- Recognition period for assets in years is 5.0000.
- Full actuarial assumptions are available in the 2025 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.

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, 2025, are summarized in the following table:

Asset Class	Target Allocation		Long-Term Expected Real Rate of Return*
	Pension	OPEB	
Domestic equity pools	21.0%	16.0%	5.8%
Private equity pools	16.0%	16.0%	9.3%
International equity	14.0%	11.0%	5.6%
Fixed income pools	15.0%	26.0%	2.5%
Real estate and infrastructure pools	8.0%	5.0%	7.0%
Absolute return pools	13.0%	15.0%	4.4%
Real return/opportunistic pools	9.0%	7.0%	7.0%
Short-term investment pools	4.0%	4.0%	1.3%
Total	100.0%	100.0%	

*Long-term rates of return are net of administrative expenses and 2.4% inflation.

Rate of Return – For the fiscal year ended September 30, 2025, the annual money-weighted rate of return on pension/OPEB plan investments, net of pension/OPEB plan investment expense, was 9.81% and 9.24%, 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 single discount rate assumed that future 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 table presents the School District's proportionate share of the net pension liability calculated using a single 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 single discount rate that is one percentage point lower or one percentage point higher:

1% Decrease	Current Single Discount Rate Assumption	1% Increase
5.00%	6.00%	7.00%
$24,674,873	$15,636,253	$8,108,243

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 table 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 5.00%	Current Discount Rate 6.00%	1% Increase 7.00%
($3,461,125)	($4,017,261)	($4,504,001)

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

1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
($4,499,559)	($4,017,261)	($3,510,864)

Note 12 – Changes in Accounting Principle

For the year ended June 30, 2026, the District implemented the following GASB standards:

GASB Statement No. 103, *Financial Reporting Model Improvements*. The Standard addresses the following areas:

- Management's Discussion and Analysis (MD&A)
- Unusual or infrequent items
- Presentation of the proprietary fund statement of revenues, expenses, and changes in net position
- Information about major component units in basic financial statements (should be presented separately in the statement of net position and statement of activities unless it reduces the readability of the statements in which case combining statements should be presented after the fund financial statements)
- Budgetary comparison information (should include variances between original and final budget amounts and variances between final budget and actual amounts with explanations of significant variances presented in the notes to RSI)

GASB Statement No. 104, *Disclosure of Certain Capital Assets*. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by GASB Statement No. 34. This Statement also requires additional disclosures for capital assets held for sale.

Required Supplementary Information

Hillsdale Community Schools
Budgetary Comparison Schedule - General Fund
Year Ended June 30, 2026

	Budgeted Amounts		Actual	Variance with Original and Final Budget	Variance with Actual and Final Budget
	Original	Final			
Revenues:					
Local sources	$ 2,784,200	$ 3,324,217	$ 3,346,356	$ 540,017	$ 22,139
State sources	13,408,082	14,649,280	13,808,690	1,241,198	(840,590)
Federal sources	603,965	804,167	661,744	200,202	(142,423)
Interdistrict and other	162,219	167,219	302,631	5,000	135,412
Total revenues	16,958,466	18,944,883	18,119,421	1,986,417	(825,462)
Expenditures:					
Instruction:				-	
Basic programs	8,765,675	9,303,737	9,078,774	(538,062)	224,963
Added needs	2,448,160	2,735,604	2,551,608	(287,444)	183,996
Adult education	241,785	345,106	243,858	(103,321)	101,248
Support services:				-	
Pupil	918,660	1,046,406	835,051	(127,746)	211,355
Instructional staff	374,495	538,011	428,218	(163,516)	109,793
General administration	365,215	404,620	386,730	(39,405)	17,890
School administration	1,032,300	1,015,686	968,148	16,614	47,538
Business	350,920	391,867	366,359	(40,947)	25,508
Operation & maintenance	1,955,340	2,123,605	1,662,524	(168,265)	461,081
Pupil transportation	1,226,533	1,445,388	1,072,331	(218,855)	373,057
Central services	304,050	333,557	311,931	(29,507)	21,626
Athletic activities	514,148	593,415	586,310	(79,267)	7,105
Community services:				-	
Community activities	4,925	136,017	50,601	(131,092)	85,416
Other	30,800	31,900	30,865	(1,100)	1,035
Debt service:				-	
Principal	-	18,614	18,614	(18,614)	-
Interest and other charges	-	2,974	2,974	(2,974)	-
Capital outlay	-	7,000	6,996	(7,000)	4
Total expenditures	18,533,006	20,473,507	18,601,892	(1,940,501)	1,871,615
				-	
Revenues Over (Under) Expenditures	(1,574,540)	(1,528,624)	(482,471)	(45,916)	1,046,153
Other Financing Sources (Uses):					
Proceeds from sale of capital assets	-	-	1,222	-	1,222
Transfers in	-	58,000	72,000	58,000	14,000
Transfers out	-	(732)	(732)	(732)	-
Total other financing sources (uses)	-	57,268	72,490	57,268	15,222
				-	
Net Changes in Fund Balances	(1,574,540)	(1,471,356)	(409,981)	103,184	$ 1,061,375
Fund Balances - Beginning of Year	6,350,206	6,350,206	6,350,206		
Fund Balances - End of Year	$ 4,775,666	$ 4,878,850	$ 5,940,225		

See Independent Auditors' Report.

Hillsdale Community Schools

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

Last Ten Fiscal Years (Amounts Determined Each Year as of September 30)

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
District's proportion of net pension liability (%)	0.0781%	0.0777%	0.0805%	0.0810%	0.0777%	0.0783%	0.0791%	0.0794%	0.0788%	0.0773%
District's proportionate share of net pension liability	$ 15,636,255	$ 19,027,499	$ 26,047,323	$ 30,479,050	$ 18,406,951	$ 26,881,262	$ 26,203,314	$ 23,866,007	$ 20,415,791	$ 19,297,803
District's covered-employee payroll	$ 8,757,105	$ 8,334,828	$ 7,867,921	$ 8,124,958	$ 7,141,918	$ 7,056,226	$ 6,961,486	$ 6,789,096	$ 6,729,182	$ 6,446,326
District's proportionate share of net pension liability as a percentage of its covered-employee payroll	178.56%	228.29%	331.06%	375.13%	257.73%	380.96%	376.40%	351.53%	303.39%	299.36%
Plan fiduciary net position as a percentage of total pension liability	79.44%	74.44%	65.91%	60.77%	72.60%	59.72%	60.31%	62.36%	64.21%	63.27%

Hillsdale Community Schools

Schedule of the District's Pension Contributions to the MPSERS Plan

Last Ten Fiscal Years (Amounts Determined Each Year as of June 30)

	2026	2025	2024	2023	2022	2021	2020	2019	2018	2017
Statutorily required contributions	$ 3,873,708	$ 3,495,366	$ 3,256,207	$ 3,713,995	$ 2,703,359	$ 2,316,517	$ 2,154,175	$ 2,109,775	$ 1,967,098	$ 1,826,368
Contributions in relation to statutorily required contributions	3,873,708	3,495,366	3,256,207	3,713,995	2,703,359	2,316,517	2,154,175	2,109,775	1,967,098	1,826,368
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 9,070,377	$ 8,636,007	$ 8,251,963	$ 7,766,418	$ 7,757,416	$ 7,019,190	$ 7,056,226	$ 6,845,589	$ 6,718,276	$ 6,903,006
Contributions as a percentage of covered-employee payroll	42.71%	40.47%	39.46%	47.82%	34.85%	33.00%	30.53%	30.82%	29.28%	26.46%

Hillsdale Community Schools

Schedule of the District's Proportionate Share of the Net OPEB (Asset) Liability of the MPSERS Plan

Last Nine Fiscal Years (Amounts Determined as of September 30)

	2025	2024	2023	2022	2021	2020	2019	2018	2017
District's proportion of net OPEB liability (asset) (%)	0.0661%	0.0777%	0.0779%	0.0827%	0.0783%	0.0780%	0.0795%	0.0797%	0.0789%
District's proportionate share of net OPEB liability (asset)	$ (4,017,261)	$ (3,343,153)	$ (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	$ 8,757,105	$ 8,334,828	$ 7,867,921	$ 8,124,958	$ 7,141,918	$ 7,056,226	$ 7,056,226	$ 6,789,096	$ 6,729,182
District's proportionate share of net OPEB liability (asset) as a percentage of its covered-employee payroll	-45.87%	-40.11%	-5.60%	21.55%	16.74%	59.23%	80.82%	93.29%	103.77%
Plan fiduciary net position as a percentage of total OPEB liability (asset)	164.94%	143.08%	105.04%	83.09%	87.33%	59.44%	48.46%	42.95%	36.39%

Hillsdale Community Schools

Schedule of the District's OPEB Contributions to the MPSERS Plan

Last Nine Fiscal Years (Amounts Determined as of June 30)

	2026	2025	2024	2023	2022	2021	2020	2019	2018
Statutorily required OPEB contributions	$ 53,877	$ 679,870	$ 645,584	$ 607,879	$ 612,680	$ 568,842	$ 558,587	$ 533,269	$ 486,412
OPEB contributions in relation to statutorily required contributions	53,877	679,870	645,584	607,879	612,680	568,842	558,587	533,269	486,412
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered-employee payroll (OPEB)	$ 9,070,377	$ 8,636,007	$ 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	0.59%	7.87%	7.82%	7.83%	7.90%	8.10%	7.92%	7.79%	7.24%

RSI Note 1 – Budgetary Basis of Accounting

Annual 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 supplementary 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 on the applicable Budgetary Comparison Schedule.

4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.

5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds. Other funds do not have appropriated budgets.

6. The budget was amended during the year with supplemental appropriations, the final one approved prior to fiscal year-end.

RSI Note 2 – Budgetary Comparison

Significant variances between the original and final budget are as follows:

	Variance	Explanation
Revenues:		
Local sources	$ 540,017	When the original budget was adopted, the District anticipated property taxes would be comparable to the prior year; however, one of the municipalities in the District had a significant increase in taxable value leading to increased property tax revenue.
State sources	1,241,198	The District received additional categorial funding for 31a At-Risk, educator compensation, and adult education after the initial budget was prepared.
Expenditures:		
Instruction - basic programs	(538,062)	The original budget did not include expenses related to the additional 31a and educator compensation funding.

Significant variances between final budget and actual are as follows:

	Variance	Explanation
Revenues:		
State sources	$ (840,590)	The District budgeted for 31a At Risk, GSRP, and adult education revenues that were not spent prior to year-end.
Expenditures:		
Operation & maintenance	461,081	The final budget included wages and related fringes for a postion that was not filled as well as a provision for new equipment that was not purchased prior to year-end.

RSI Note 3 – Pension Information

Benefit Changes

There were no changes of benefit terms for the reported plan year ended September 30, 2025.

Changes in Assumptions

For the State's fiscal year ended September 30, 2025:

- The recognition period for liabilities, an average of the expected remaining service lives of all employees, changed to 4.4524 from 4.4612.

RSI Note 4 – OPEB Information

Benefit Changes

There were no changes of benefit terms for the reported plan year ended September 30, 2025.

Changes in Assumptions

For the State's fiscal year ended September 30, 2025:

- The recognition period for liabilities, an average of the expected remaining service lives of all employees, changed to 6.4654 from 6.2834.
- The healthcare cost trend rate was adjusted as follows:
    - Pre-65: From 7.25% to 7.75% for Year 1

Other Supplementary Information

Hillsdale Community Schools

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2026

	Special Revenue		Capital Projects	
	Food Service Fund	Student Activities Fund	Building & Site Fund 1	Total Nonmajor Governmental Funds
Assets				
Cash and investments	$ 424,387	$ 264,450	$ 71,782	$ 760,619
Receivable from other governments	114,707	-	-	114,707
Other receivables	218	8	-	226
Inventories	40,333	-	-	40,333
Prepaid expenditures	48,000	-	-	48,000
Total assets	$ 627,645	$ 264,458	$ 71,782	$ 963,885
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	$ 68,083	$ -	$ 35	$ 68,118
Accrued salaries and related	68,950	-	-	68,950
Unearned revenue	4,416	-	-	4,416
Total liabilities	155,449	-	35	155,484
Fund Balances:				
Nonspendable:				
Inventories	40,333	-	-	40,333
Prepaid expenses	48,000	-	-	48,000
Restricted	383,863	264,458	71,747	720,068
Total fund balances	472,196	264,458	71,747	808,401
Total liabilities and fund balances	$ 627,645	$ 264,458	$ 71,782	$ 963,885

See Notes to Financial Statements.

Hillsdale Community Schools

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2026

	Special Revenue		Capital Projects	
	Food Service Fund	Student Activities Fund	Building & Site Fund 1	Total Nonmajor Governmental Funds
Revenues:				
Local sources	$ 42,028	$ 319,372	$ 432	$ 361,832
State sources	73,900	-	-	73,900
Federal sources	1,282,689	-	-	1,282,689
Interdistrict and other	25,047	-	-	25,047
Total revenues	1,423,664	319,372	432	1,743,468
Expenditures:				
Food service activities	1,451,760	-	-	1,451,760
Student activities	-	331,511	-	331,511
Capital outlay	-	-	47,776	47,776
Total expenditures	1,451,760	331,511	47,776	1,831,047
Revenues Over (Under) Expenditures	(28,096)	(12,139)	(47,344)	(87,579)
Other Financing Sources (Uses):				
Proceeds from sale of capital assets	-	-	63,053	63,053
Transfers in	732	-	-	732
Transfers out	(72,000)	-	-	(72,000)
Total other financing sources (uses)	(71,268)	-	63,053	(8,215)
Net Changes in Fund Balances	(99,364)	(12,139)	15,709	(95,794)
Fund Balances - Beginning of Year	571,560	276,597	56,038	904,195
Fund Balances - End of Year	$ 472,196	$ 264,458	$ 71,747	$ 808,401

See Notes to Financial Statements.

WILLIS & JURASEK
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
Battle Creek, Michigan

We have audited, 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, 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, 2026, and the related notes to the financial statements, which collectively comprise Hillsdale Community Schools' basic financial statements, and have issued our report thereon dated October 6, 2026.

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 consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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.

October 6, 2026

WILLIS & JURASEK
CPAs AND CONSULTANTS

October 6, 2026

To the Board of Education
Hillsdale Community Schools
Hillsdale, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hillsdale Community Schools for the year ended June 30, 2026. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 4, 2026. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Hillsdale Community Schools are described in Note 1 to the financial statements. For the year ended June 30, 2026, the District adopted GASB Statement No. 103, *Financial Reporting Model Improvements,* and GASB Statement No. 104, *Disclosure of Certain Capital Assets.* See Note 12 to the financial statements for additional details. There were no other changes to the application of existing policies during the year. We noted no transactions entered into by Hillsdale Community Schools during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

> Management's estimate of the value of capitalized assets and the related accumulated depreciation/amortization is based on an asset appraisal done in a prior year and estimated usage using estimated lives and methods to formulate net book value. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.
>
> Management's estimate of the net pension liability and the net OPEB asset and related deferred inflows and deferred outflows of resources is based on the provision by ORS to all school districts participating in the MPSERS program. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.
>
> Management's estimate of the liability for employee compensated absences is based on current eligibility and known payroll information. We evaluated the key factors and assumptions used to develop the liability for compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 6, 2026.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis, Budgetary Comparison Schedule, and schedules related to the net pension liability and the net OPEB liability, and the related notes, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

Comments and Recommendations

The Food Service Fund's fund balance is currently in excess of the maximum threshold allowed under the federal program. Management is aware of this issue and has worked with the Michigan Department of Education to implement a spend-down plan to bring this back into compliance. The District should revise the policy for capitalization of assets to $10,000 to align with Federal regulations.

Restriction on Use

This information is intended solely for the use of the Board of Education and management of Hillsdale Community Schools and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.