HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2026

Maner Costerisan

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INDEPENDENT AUDITOR'S REPORT

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

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Heritage Southwest Intermediate School District, as of and for the year ended June 30, 2026, and the related notes to the financial statements, which collectively comprise Heritage Southwest Intermediate School District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Heritage Southwest Intermediate School District, as of June 30, 2026, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Heritage Southwest Intermediate School District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Heritage Southwest Intermediate School District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2026 on our consideration of Heritage Southwest Intermediate School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Heritage Southwest Intermediate School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Heritage Southwest Intermediate School District's internal control over financial reporting and compliance.

Maner Costerisan PC

Lansing, Michigan
October 13, 2026

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 the finance staff's knowledge of the District's finances.

If you have any questions about this report or need any additional information, please contact Andy Hubbard, Superintendent, Heritage Southwest Intermediate School District, 61682 Dailey Road., Cassopolis, Michigan 49031.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's financial report contains basic financial statements. Those financial statements present the District's finances at both an overall and a detailed level. The first two - the *government-wide financial statements* - cover the District's governmental activities. (See the diagram in Figure A-1.)

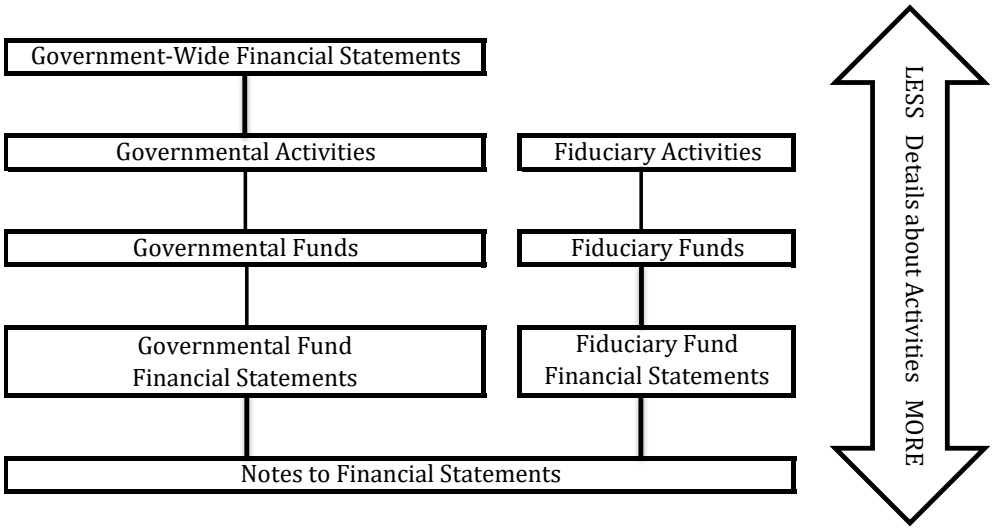
- *Governmental Activities* comprise of the District's most basic functions, such as instruction, support services, and food services. Governmental activities primarily are financed by property taxes from non-personal residence exemption properties, state aid foundation, and federal grants. These statements provide both short-term and long-term information.

The remaining basic financial statements present the District's finances in greater detail and present fiduciary activities. As their name implies, the fund financial statements disaggregate financial information by separate funds to report on the specific purposes for which resources are used or for which they are restricted. The District reports two groups of funds:

- *Governmental Fund Financial Statements* report all of the governmental activities. In addition to the District's main operating fund - the general fund - those financial statements report special revenue funds that track the use of restricted or committed funding sources.

- *Fiduciary Fund Financial Statements* report resources for which the District acts as a trustee or custodian. The resources in this fund do not belong to the District and cannot be used to provide services, which is why they are not included in the government-wide financial statements.

Figure A-1. Contents of the District's Basic Financial Statements



The next section of this financial report contains *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 amounts were determined, and (3) report certain information that does not meet the requirements for inclusion in the financial statements (such as certain contingencies).

TYPES OF INFORMATION IN THE FINANCIAL STATEMENTS

All of the District's financial statements, except for the governmental fund financial statements, use the economic resources measurement focus and accrual basis of accounting. (See Figure A-2.) In other words, they comprehensively report all types of financial statement elements:

- *Assets* - resources the District controls, from short-term assets like cash and cash equivalents to long-term assets like buildings and transportation equipment.
- *Liabilities* - amounts the District owes, from short-term liabilities such as salaries and related items to long-term liabilities such as outstanding debt and pension obligations.
- *Deferred Outflows of Resources and Deferred Inflows of Resources* - flows that occurred during the year, or in prior years, that will not be reported as expenses and revenues until the future year to which they are related.
- *Revenues and Expenses* - inflows and outflows of economic resources, respectively, related to the current year.

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 nonfinancial 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 and spending on construction.

Figure A-2. Types of Information Reported in the District's Financial Statements

	Financial Statements		
	Government-wide	Fiduciary Fund	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 the first note to financial statements, the summary of significant accounting policies.

ANALYSIS OF THE DISTRICT'S FINANCES

Table A-1
Heritage Southwest Intermediate School District

	2026	2025	Dollar Change	Total Percentage Change
ASSETS				
Current and other assets	$ 16,967,929	$ 17,503,003	$ (535,074)	-3.1%
Net other postemployment benefits asset	4,264,298	3,550,158	714,140	20.1%
Capital assets	11,213,644	9,210,636	2,003,008	21.7%
TOTAL ASSETS	32,445,871	30,263,797	2,182,074	7.2%
DEFERRED OUTFLOWS OF RESOURCES	8,547,609	10,473,824	(1,926,215)	-18.4%
LIABILITIES				
Other liabilities	5,400,376	5,261,888	138,488	2.6%
Noncurrent liabilities	439,599	347,115	92,484	26.6%
Net pension liability	16,756,490	19,276,376	(2,519,886)	-13.1%
TOTAL LIABILITIES	22,596,465	24,885,379	(2,288,914)	-9.2%
DEFERRED INFLOWS OF RESOURCES	10,184,212	11,047,504	(863,292)	-7.8%
NET POSITION				
Net investment in capital assets	11,135,638	9,095,799	2,039,839	22.4%
Restricted for net other postemployment benefits	4,264,298	3,550,158	714,140	20.1%
Unrestricted	(7,187,133)	(7,841,219)	654,086	8.3%
TOTAL NET POSITION	$ 8,212,803	$ 4,804,738	$ 3,408,065	70.9%

Table A-1 shows that as of June 30, 2026, the District's total net position - assets and deferred outflows minus liabilities and deferred inflows - was $8,212,803, an increase of $3,408,065 or 70.9% compared with 2025. This increase is primarily due to a $2,039,839 or 22.4% increase in net investment in capital assets as well as an approximately $2,200,000 increase related to pension and other post-employment benefit (OPEB) adjustments. The following sections of MD&A analyze the finances of the governmental activities.

GOVERNMENTAL ACTIVITIES

Table A-2 shows that revenues continued to exceed expenses in the current year, resulting in an increase in net position. Various events contributed to this increase in net position; however, the primary factors affecting the change in net position are as follows:

1. Decrease in operating grants and contributions due to reductions in federal and state grant allocations.
2. Improvements to buildings and infrastructure that are recorded as capital assets.
3. Expenses, especially related to the impact of the current year pension and OPEB adjustments.

Table A-2
Changes in Heritage Southwest Intermediate School District's Net Position

	2026	2025	Dollar Change	Total Percentage Change
REVENUES				
Program revenues				
Charges for services	$ 603,690	$ 649,422	$ (45,732)	-7.0%
Operating grants and contributions	15,154,029	17,379,081	(2,225,052)	-12.8%
General revenues				
Property taxes	5,367,800	5,176,571	191,229	3.7%
State sources - unrestricted	452,853	828,862	(376,009)	-45.4%
Proceeds from sale of capital assets	42,377	7,308	35,069	479.9%
Investment earnings and other	672,799	970,846	(298,047)	-30.7%
TOTAL REVENUES	22,293,548	25,012,090	(2,718,542)	-10.9%
EXPENSES				
Instruction	5,233,618	6,415,258	(1,181,640)	-18.4%
Support services	12,684,553	12,086,828	597,725	4.9%
Community services	136,104	239,353	(103,249)	-43.1%
Interdistrict transactions	377,835	895,876	(518,041)	-57.8%
Student/school activities	5,430	3,086	2,344	76.0%
Depreciation/ amortization expense	447,943	427,846	20,097	4.7%
TOTAL EXPENSES	18,885,483	20,068,247	(1,182,764)	-5.9%
Change in net position	3,408,065	4,943,843	$ (1,535,778)	
Net position- beginning of year	4,804,738	(139,105)		
Net position - end of year	$ 8,212,803	$ 4,804,738		

Decline in Operating Grants and Contributions

Operating grants and contributions decreased during the current year due to reductions in both State and federal grant funding. The most significant State grant decreases occurred within the CTE, Section 32p, and School Readiness programs, while federal revenues declined primarily within the Trails, Perkins, and Health Resource grants. These decreases were largely attributable to lower grant allocations. As a result, overall grant revenue was lower than the previous fiscal year, contributing to the decline in operating grants and contributions.

Investment in Capital Assets

During the current year, the District invested approximately $2,000,000 in capital assets to improve its buildings and facilities. These projects helped maintain and enhance the District's learning environment for students and staff. The investment reflects the District's ongoing commitment to preserving its facilities and addressing building needs. As a result, the District's capital assets increased during the year.

Pension and OPEB

During the current year, the District recognized an approximate $2.2 million adjustment to its net pension liability and net other postemployment benefits (OPEB) asset as well as deferred inflows and outflows related to pension and OPEB. This change was primarily driven by continued funding of the pension and OPEB plans at the State level, which has contributed to improvements in the overall funded status of both plans. As a result, the District's proportionate share of the plans' actuarially determined amounts reflected a positive adjustment during the year.

GOVERNMENTAL FUNDS

The District reports two major funds individually in the governmental fund financial statements. These funds are the general fund and the special education fund. Most of the discussion regarding governmental activities is equally applicable to the finances of this governmental fund. However, certain factors that are relevant to the District's current financial health are more apparent in the fund financial statements than in the government-wide statements. The changes are shown in Table A-3 and are discussed in more detail below.

Table A-3
Revenues, Expenditures, and Changes in Fund Balances

	General Fund		Special Education Fund	
	2026	2025	2026	2025
REVENUES	$ 6,826,133	$ 8,631,465	$ 15,700,001	$ 15,970,992
EXPENDITURES	6,521,636	7,817,292	16,765,886	17,255,277
Excess (deficiency) of revenues over expenditures	304,497	814,173	(1,065,885)	(1,284,285)
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	-	-	42,377	7,308
Net change in fund balance	304,497	814,173	(1,023,508)	(1,276,977)
Fund balance - beginning of year	3,987,891	3,173,718	8,654,227	9,931,204
Fund balance - end of year	$ 4,292,388	$ 3,987,891	$ 7,630,719	$ 8,654,227

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 increased by 7.6%. The increase in fund balance is attributable to the increase in the foundation allowance, as well as the District continuing to operate within its available resources.

The overall fund balance at the end of June 30, 2026, represented approximately 65.7% of operating expenditures. Within fund balance, approximately 92% of the balance is considered unassigned. The remaining 8% is considered either restricted, committed, or assigned for other items and is not readily available for use.

Special Education Fund

The fund balance of the District's Special Education Fund decreased by 11.8% during the current year. The decline was primarily attributable to the District's continued investment in building and infrastructure improvements.

Within fund balance, approximately 99% of the balance is considered restricted. The remaining 1% is considered to be nonspendable and is not readily available for use.

SIGNIFICANT CAPITAL ASSET AND LONG-TERM OBLIGATIONS

Capital Assets

The discussion thus far has only touched upon certain significant transactions and events during 2026 with respect to capital assets and long-term obligations. Overall, the carrying value of capital assets-original cost minus accumulated depreciation- increased 21.7% over 2025. See Table A-4 for the carrying value of capital assets.

Table A-4
Heritage Southwest Intermediate School District

	2026			2025	Total
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value	Percentage Change
Land	$ 76,000	$ -	$ 76,000	$ 60,000	26.7%
Construction in progress	5,140,255	-	5,140,255	3,159,602	62.7%
Buildings and improvements	8,408,901	3,641,864	4,767,037	4,969,184	-4.1%
Furniture and equipment	957,332	775,642	181,690	138,348	31.3%
Transportation equipment	2,336,807	1,356,648	980,159	778,045	26.0%
Right to use - leased equipment	181,811	113,308	68,503	105,457	-35.0%
Total	$ 17,101,106	$ 5,887,462	$ 11,213,644	$ 9,210,636	21.7%

A significant factor contributing to the increase in net capital assets was the continued construction of the District's transportation building and the complete resurfacing of the parking lot. During the year, the District added approximately $2.0 million in construction in progress related to these ongoing capital projects and purchased approximately $381,000 of mobility vans to support transportation operations.

Long-term Obligations

Overall, the carrying value of the District's long-term obligations increased by 6.6% from the prior year. See Table A-5 for the carrying value of the District's long-term obligations.

Table A-5
Outstanding Long-Term Obligations

	2026	2025	Total Percentage Change
Notes from direct borrowings and direct placements	$ 78,006	$ 114,837	-32.1%
Compensated Absences	748,793	660,945	13.3%
	$ 826,799	$ 775,782	6.6%

Long-term obligations increased during the current fiscal year primarily due to an increase in the District's compensated absences liability. While the District continued to make principal payments on its lease liabilities, reducing those obligations, the increase in accrued compensated absences more than offset the reductions from scheduled debt service payments. As a result, total long-term obligations increased from the prior year.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

There are several factors that could significantly affect the financial health of the District in the future.

- Our Board and administration considered many factors when setting the District's 2026-2027 fiscal year budget. The most important factors affecting the operating budget are the economic condition of the State and new legislation. The 2026-2027 budget was adopted based on an estimate of property tax revenue, state aid and grant funding. State law requires the School to amend the budget if actual School District resources are not sufficient to fund original appropriations. The District used budget assumptions based upon the most recent information to build the budget.

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

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

BASIC FINANCIAL STATEMENTS

HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2026

	Governmental Activities
ASSETS	
Cash and investments	$ 13,833,995
Intergovernmental receivables	3,025,660
Prepaids	108,274
Net other postemployment benefits asset	4,264,298
Capital assets not being depreciated/amortized	5,216,255
Capital assets, net of accumulated depreciation/amortization	5,997,389
TOTAL ASSETS	32,445,871
DEFERRED OUTFLOWS OF RESOURCES	
Related to other postemployment benefits	1,169,742
Related to pension	7,377,867
TOTAL DEFERRED OUTFLOWS OF RESOURCES	8,547,609
LIABILITIES	
Accounts payable	996,953
Accrued salaries and related items	956,495
Accrued retirement	438,986
Unearned revenue	2,620,742
Noncurrent liabilities	
Due within one year	387,200
Due in more than one year	439,599
Net pension liability	16,756,490
TOTAL LIABILITIES	22,596,465
DEFERRED INFLOWS OF RESOURCES	
Related to other postemployment benefits	3,609,832
Related to pension	5,156,355
Related to state aid funding for pension	1,418,025
TOTAL DEFERRED INFLOWS OF RESOURCES	10,184,212
NET POSITION	
Net investment in capital assets	11,135,638
Restricted for net other postemployment benefits	4,264,298
Unrestricted	(7,187,133)
TOTAL NET POSITION	$ 8,212,803

See notes to financial statements.

HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2026

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Governmental Activities: Net (Expense) Revenue and Changes in Net Position
Governmental activities				
Instruction	$ 5,233,618	$ 603,690	$ 4,416,419	$ (213,509)
Support services	12,684,553	-	10,601,221	(2,083,332)
Community services	136,104	-	126,977	(9,127)
Interdistrict transactions	377,835	-	-	(377,835)
Student/school activities	5,430	-	9,412	3,982
Unallocated depreciation/amortization	447,943	-	-	(447,943)
Total governmental activities	$ 18,885,483	$ 603,690	$ 15,154,029	(3,127,764)
General revenues				
Property taxes, levied for general purposes				486,877
Property taxes, levied for special education				4,880,923
Investment earnings				319,310
State sources - unrestricted				452,853
Gain sale of capital assets				42,377
Other				353,489
Total general revenues				6,535,829
CHANGE IN NET POSITION				3,408,065
NET POSITION, beginning of year				4,804,738
NET POSITION, end of year				$ 8,212,803

See notes to financial statements.

HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2026

	General Fund	Special Education	Nonmajor (Student/School Activities Fund)	Total Governmental Funds
ASSETS				
Cash and investments	$ 6,324,284	$ 7,478,065	$ 31,646	$ 13,833,995
Intergovernmental receivables	1,238,247	1,787,413	-	3,025,660
Due from other funds	-	318,825	-	318,825
Prepaids	32,482	75,792	-	108,274
TOTAL ASSETS	$ 7,595,013	$ 9,660,095	$ 31,646	$ 17,286,754
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	$ 116,469	$ 880,484	$ -	$ 996,953
Accrued salaries and related items	228,904	727,591	-	956,495
Accrued retirement	111,948	327,038	-	438,986
Due to other funds	318,825	-	-	318,825
Unearned revenue	2,526,479	94,263	-	2,620,742
TOTAL LIABILITIES	3,302,625	2,029,376	-	5,332,001
FUND BALANCES				
Nonspendable				
Prepaids	32,482	75,792	-	108,274
Restricted for				
Special education - general	-	5,554,927	-	5,554,927
Special education - capital projects	-	2,000,000	-	2,000,000
Committed for student/school activities	-	-	31,646	31,646
Assigned for:				
Subsequent year's expenditures	300,000	-	-	300,000
Unassigned				
General fund	3,959,906	-	-	3,959,906
TOTAL FUND BALANCES	4,292,388	7,630,719	31,646	11,954,753
TOTAL LIABILITIES AND FUND BALANCES	$ 7,595,013	$ 9,660,095	$ 31,646	$ 17,286,754

See notes to financial statements.

HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2026

Total governmental fund balances		$ 11,954,753
Amounts reported for governmental activities in the statement of net position are different because:		
Deferred outflows of resources - related to pension	$ 7,377,867	
Deferred outflows of resources - related to other postemployment benefits	1,169,742	
Deferred inflows of resources - related to pension	(5,156,355)	
Deferred inflows of resources - related to other postemployment benefits	(3,609,832)	
Deferred inflows of resources - related to state funding for pension	(1,418,025)	
		(1,636,603)
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 other postemployment benefits asset		4,264,298
Capital assets used in governmental activities are not financial resources and are not reported in the funds:		
The cost of the capital assets is	17,101,106	
Accumulated depreciation/ amortization is	(5,887,462)	
		11,213,644
Long-term obligations are not due and payable in the current period and are not reported in the funds:		
Notes from direct borrowings and direct placements		(78,006)
Compensated absences		(748,793)
Net pension liability		(16,756,490)
Net position of governmental activities		$ 8,212,803

See notes to financial statements.

HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2026

	General Fund	Special Education	Nonmajor (Student/ School Activities Fund)	Total Governmental Funds
REVENUES				
Local sources	$ 925,747	$ 6,147,918	$ 9,412	$ 7,083,077
State sources	5,664,260	6,730,009	-	12,394,269
Federal sources	228,456	2,218,384	-	2,446,840
Interdistrict sources	7,670	603,690	-	611,360
TOTAL REVENUES	6,826,133	15,700,001	9,412	22,535,546
EXPENDITURES				
Current				
Instruction	2,093,725	3,857,270	-	5,950,995
Supporting services	4,001,528	10,263,076	-	14,264,604
Community services	141,141	4,785	-	145,926
Interdistrict transactions	152,157	225,678	-	377,835
Student/school activities	-	-	5,430	5,430
Capital outlay	122,621	2,383,685	-	2,506,306
Debt service				
Principal	9,208	27,623	-	36,831
Interest and fiscal charges	1,256	3,769	-	5,025
TOTAL EXPENDITURES	6,521,636	16,765,886	5,430	23,292,952
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	304,497	(1,065,885)	3,982	(757,406)
OTHER FINANCING SOURCES				
Proceeds from sale of capital assets	-	42,377	-	42,377
NET CHANGE IN FUND BALANCES	304,497	(1,023,508)	3,982	(715,029)
FUND BALANCES				
Beginning of year	3,987,891	8,654,227	27,664	12,669,782
End of year	$ 4,292,388	$ 7,630,719	$ 31,646	$ 11,954,753

See notes to financial statements.

HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2026

Net change in fund balances total governmental funds	$ (715,029)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation/amortization:	
Depreciation/amortization expense	(447,943)
Capital outlay	2,450,951
The issuance of long-term obligations (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term obligations consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items and are as follows:	
Payments on obligations	36,831
Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:	
Compensated absences, beginning of the year	660,945
Compensated absences, end of the year	(748,793)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:	
Other postemployment benefits related items	1,387,098
Pension related items	1,068,380
Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to section 147c pension contributions subsequent to the measurement period:	
Pension related items, beginning of year	1,133,650
Pension related items, end of year	(1,418,025)
Change in net position of governmental activities	$ 3,408,065

See notes to financial statements.

HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2026

	Private Purpose Trust Fund
ASSETS	
Assets held by foundation	$ 44,153
NET POSITION	
Unrestricted	$ 44,153

See notes to financial statements.

HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2026

	Private Purpose Trust Fund
ADDITIONS	
Investment earnings	$ 6,699
DEDUCTIONS	
Distributions	1,393
Administrative fees	469
TOTAL DEDUCTIONS	1,862
NET INCREASE IN NET POSITION	4,837
NET POSITION, beginning of year	39,316
NET POSITION, end of year	$ 44,153

See notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. *Governmental activities* normally are supported by taxes, and intergovernmental revenues.

Basis of Presentation - Government-wide Financial Statements

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

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

Basis of Presentation - Fund Financial Statements

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

The District reports the following *Major Governmental Funds*:

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

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

The District reports the following *Other Nonmajor Funds*:

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation - Fund Financial Statements (continued)

Other Nonmajor Funds (continued):

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

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

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

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

Measurement Focus and Basis of Accounting

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

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

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are generally collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under leases are reported as other financing sources.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting (continued)

Property taxes, state and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end).

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

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

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

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

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

Cash

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

Investments

In accordance with Michigan Compiled Laws, the District is authorized to invest in the following investment vehicles:

a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.

b. The United States government or federal agency obligations repurchase agreements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Investments (continued)

c. Bankers' acceptances of United States banks.

d. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

e. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration (NCUA), but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.

f. Commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services, and which matures not more than 270 days after the date of purchase.

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

Inventories and Prepaid Items

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

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

Capital Assets

Capital assets, which include land, construction in progress, buildings and improvements, furniture and equipment, right to use equipment, and transportation equipment are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Group purchases are evaluated on a case-by-case basis. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Capital Assets (continued)

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

Defined Benefit Plans

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

Deferred Outflows

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

Deferred Inflows

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Net Position Flow Assumption

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

Fund Balance Flow Assumptions

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

Fund Balance Policies

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Leases (continued)

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

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

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

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

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

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

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

Revenues and Expenditures/Expenses

Program Revenues

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

Property taxes

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues and Expenditures/Expenses (continued)

Property taxes (continued)

For the year ended June 30, 2026, the District levied the following amounts per $1,000 of assessed valuation:

Fund	Mills
General fund	
General education	0.1978
Special revenue funds	
Special education	1.9820

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

As of June 30, 2026, the District had deposits and investments subject to the following risk.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2026, $6,520,741 of the District's bank balance of $6,770,741 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying value on the books for deposits at the end of the year was $6,601,866. The District does not have a deposit policy for custodial credit risk.

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

Custodial Credit Risk - Investments

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

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

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

Investment Type	Fair Value	Weighted Average Maturity (Years)
MILAF External Investment Pool - CMC	$ 2,803,840	N/A
MILAF External Investment Pool - Max	3,586,847	N/A
Michigan CLASS Investment Pool	841,442	0.1342
Total fair value	$ 7,232,129	
Portfolio weighted average maturity		0.1342

One day maturity equals 0.0027, one year equals 1.00.

Concentration of Credit Risk

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

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

Concentration of Credit Risk (continued)

Investment Type	Fair Value	Rating	Rating Agency
MILAF External Investment Pool - CMC	$ 2,803,840	AAAm	Standard & Poor's
MILAF External Investment Pool - Max	3,586,847	AAAm	Standard & Poor's
Michigan CLASS Investment Pool	841,442	AAAm	Standard & Poor's
	$ 7,232,129		

Foreign Currency Risk

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

Fair Value Measurement

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

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

Fair Value Measurement (continued)

	Amortized Cost
MILAF External Investment Pool - CMC	$ 2,803,840
MILAF External Investment Pool - Max	3,586,847
	$ 6,390,687

Investments in Entities that Calculate Net Asset Value per share

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

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

Investment Type	Fair Value	Unfunded Commitments	Redemption Frequency if Eligible	Redemption Notice Period
Michigan CLASS Investment Pool	$ 841,442	$ -	No restrictions	None

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

NOTE 3 - ASSETS HELD AT COMMUNITY FOUNDATION

As of June 30, 2026, the District held $44,153 at Michigan Gateway Community Foundation (MGCF) under an agency endowment fund. The District has granted variance power to the MGCF, and the Community Foundation has ultimate authority and control over the Fund and income derived therefrom. Upon request by the District, income from the fund representing an annual return may be distributed to Heritage Southwest Intermediate School District or to another suggested beneficiary subject to the approval of the MGCF. This amount is included within the private purpose trust fund.

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2025	Additions	Deletions	Balance June 30, 2026
Governmental activities				
Capital assets, not being depreciated/amortized				
Land	$ 60,000	$ 16,000	$ -	$ 76,000
Construction in progress	3,159,602	1,980,653	-	5,140,255
Total assets not being depreciated/amortized	3,219,602	1,996,653	-	5,216,255
Capital assets, being depreciated/amortized				
Buildings and improvements	8,408,901	-	-	8,408,901
Furniture and equipment	884,852	72,480	-	957,332
Transportation equipment	1,983,989	381,818	(29,000)	2,336,807
Right to use - leased equipment	181,811	-	-	181,811
Total capital assets, being depreciated/amortized	11,459,553	454,298	(29,000)	11,884,851
Accumulated depreciation/amortization:				
Buildings and improvements	3,439,717	202,147	-	3,641,864
Furniture and equipment	746,504	29,138	-	775,642
Transportation equipment	1,205,944	179,704	(29,000)	1,356,648
Right to use - leased equipment	76,354	36,954	-	113,308
Total accumulated depreciation/amortization	5,468,519	447,943	(29,000)	5,887,462
Net capital assets being depreciated/amortized	5,991,034	6,355	-	5,997,389
Net governmental capital assets	$ 9,210,636	$ 2,003,008	$ -	$ 11,213,644

Depreciation/amortization expense for the fiscal year ended June 30, 2026 was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE 5 - INTERGOVERNMENTAL RECEIVABLES

Amounts due from other governmental units at June 30, 2026 consist of the following:

Other governmental units	
State aid	$ 2,133,070
Federal grants	540,937
Other	351,653
	$ 3,025,660

No allowance for doubtful accounts is considered necessary.

NOTE 6 - LONG-TERM OBLIGATIONS

The following is a summary of long-term obligations for the District for the year ended June 30, 2026:

	Compensated Absences*	Notes from Direct Borrowings and Direct Placements	Total
Balance, July 1, 2025	$ 660,945	$ 114,837	$ 775,782
Additions	87,848	-	87,848
Deletions	-	(36,831)	(36,831)
Balance, June 30, 2026	748,793	78,006	826,799
Due within one year	348,529	38,671	387,200
Due in more than one year	$ 400,264	$ 39,335	$ 439,599

*The change in the compensated absences liability is presented as a net change

Long-term obligations at June 30, 2026 are comprised of the following:

Notes from Direct Borrowings and Direct Placements	
Financed purchase agreement due in quarterly installments of $9,211 with 5.00% imputed interest, through May 2028.	$ 69,657
Financed purchase agreement due in quarterly installments of $493 with 5.00% imputed interest, through January 2028.	3,288
Financed purchase agreement due in quarterly installments of $760 with 5.00% imputed interest, through December 2027.	5,061
Total notes from direct borrowings and direct placements	78,006
Compensated absences	748,793
Total general long-term obligations	$ 826,799

The District's outstanding notes from direct borrowings and direct placements related to governmental activities of $78,006 contains provisions that in an event of default, either by (1) unable to make principal or interest payments (2) false or misrepresentation is made to the lender (3) become insolvent or make an assignment for the benefit of its creditors (4) if the lender at any time in good faith believes that the prospect of payment of any indebtedness is impaired. Upon the occurrence of any default event, the outstanding amounts, including accrued interest become immediately due and payable.

NOTE 6 - LONG-TERM OBLIGATIONS (continued)

The annual requirement to amortize long-term obligations outstanding as of June 30, 2026, are as follows:

Year Ending June 30,	Direct Borrowings and Direct Principal	Direct Borrowings and Direct Interest	Compensated Absences	Total
2027	$ 38,671	$ 3,184	$ -	$ 41,855
2028	39,335	1,214	-	40,549
	78,006	4,398	-	82,404
Compensated absences	-	-	748,793	748,793
	$ 78,006	$ 4,398	$ 748,793	$ 831,197

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) (System) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the Board's authority to promulgate or amend the provisions of the System. MPSERS issues a publicly available Annual Comprehensive Financial Report that can be obtained at www.michigan.gov/orsschools.

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

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

Benefits Provided - Overall

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

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

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Benefits Provided - Pension

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

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

Pension Reform 2010

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

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012 or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

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

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

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

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Pension Reform 2012 (continued)

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

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

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

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

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

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

Pension Reform of 2017

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

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Pension Reform of 2017 (continued)

New employees hired between February 1, 2018 and June 30, 2024, are automatically enrolled as members in the Pension Plus 2 Plan as of their date of hire. They have 75 days from the last day of their first pay period, as reported to ORS, to elect to opt out of the Pension Plus 2 Plan and become a qualified participant to the DC Plan; if no election is made they will default to the DC Plan. If they elect to opt out of the Pension Plus 2 Plan, their participation in the DC Plan will be retroactive to their date of hire.

Pension Reform of 2023

On November 29, 2023, the Governor signed Public Act 250 of 2023 into law. New employees hired after June 30, 2024, are automatically enrolled as members in the Pension Plus 2 Plan as of their date of hire. They have 75 days from the last day of their first pay period, as reported to ORS, to elect to opt out of the Pension Plus 2 Plan and become a qualified participant in the DC Plan; if no election is made they will remain in the Pension Plus 2 Plan. If they elect to opt out of the Pension Plus 2 Plan, their participation in the DC Plan will be retroactive to their date of hire.

Benefits Provided - Other Postemployment Benefit (OPEB)

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

Retiree Healthcare Reform of 2012

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

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

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Regular Retirement (no reduction factor for age)

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

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

Member Contributions

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

Employer Contributions

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The normal cost is the annual cost assigned under the actuarial funding method, to the current and subsequent plan years. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis.

Pension and OPEB contributions made in the fiscal year ending September 30, 2025 were determined as of the September 30, 2022 actuarial valuations. The pension and OPEB benefits, the unfunded (overfunded) actuarial accrued liabilities as of September 30, 2022 are amortized over an 14-year period beginning October 1, 2024 and ending September 30, 2038.

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

	Pension	Other Postemployment Benefits
October 1, 2025 - September 30, 2026	15.21% -26.08%	0.00% - 3.83%
October 1, 2024 - September 30, 2025	20.96% -30.11%	0.00% - 1.25%

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Employer Contributions (continued)

The District's pension contributions for the year ended June 30, 2026 were equal to the required contribution total. Total pension contributions were approximately $3,889,000. Of the total pension contributions approximately $3,629,000 was contributed to fund the Defined Benefit Plan and approximately $260,000 was contributed to fund the Defined Contribution Plan.

The District's OPEB contributions for the year ended June 30, 2026 were equal to the required contribution total. Total OPEB contributions were approximately $289,000. Of the total OPEB contributions approximately $157,000 was contributed to fund the Defined Benefit Plan and approximately $132,000 was contributed to fund the Defined Contribution Plan.

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

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

Pension Liabilities

The net pension liability was measured as of September 30, 2025, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2024 and rolled-forward using generally accepted actuarial procedures.

District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined.

MPSERS (Plan) Non-university Employers	September 30, 2025	September 30, 2024
Total pension liability	$ 97,436,103,863	$ 95,765,499,515
Plan fiduciary net position	$ 77,403,114,236	$ 71,283,482,728
Net pension liability	$ 20,032,989,627	$ 24,482,016,787
Proportionate share	0.08364%	0.07874%
Net pension liability for the District	$ 16,756,490	$ 19,276,376

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

For the year ended June 30, 2026, the District recognized pension expense of $2,560,479.

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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

At June 30, 2026, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and differences between employer contributions and proportionate share of contributions	$ 2,873,481	$ 117,043
Differences between expected and actual experience	649,027	149,249
Changes of assumptions	601,438	885,621
Net difference between projected and actual plan investments earnings	-	4,004,442
Reporting Unit's contributions subsequent to the measurement date	3,253,921	-
	$ 7,377,867	$ 5,156,355

$3,253,921, reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

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

Year Ended June 30,	Amount
2027	$ 1,058,650
2028	(912,003)
2029	(900,081)
2030	(278,975)
Total	$ (1,032,409)

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

The net OPEB liability (asset) was measured as of September 30, 2025, and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation date of September 30, 2024 and rolled-forward using generally accepted actuarial procedures.

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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

The District's proportion of the net OPEB liability (asset) was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined.

MPSERS (Plan) Non-university Employers	September 30, 2025	September 30, 2024
Total other postemployment benefits liability	$ 9,360,649,860	$ 9,991,545,923
Plan fiduciary net position	$ 15,439,767,833	$ 14,295,943,589
Net other postemployment benefits liability (asset)	$ (6,079,117,973)	$ (4,304,397,666)
Proportionate share	0.07015%	0.08248%
Net other postemployment benefits liability (asset) for the District	$ (4,264,298)	$ (3,550,158)

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

For the year ended June 30, 2026, the District recognized OPEB benefit of $1,230,176.

At June 30, 2026, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and differences between employer contributions and proportionate share of contributions	$ 467,120	$ 45,838
Differences between expected and actual experience	-	2,919,540
Changes of assumptions	569,116	45,227
Net difference between projected and actual plan investments earnings	-	599,227
Reporting Unit's contributions subsequent to the measurement date	133,506	-
	$ 1,169,742	$ 3,609,832

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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

$133,506, reported as deferred outflows of resources related to OPEB resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability (asset) in the subsequent fiscal year.

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

Year Ended June 30,	Amount
2027	$ (635,163)
2028	(644,594)
2029	(644,775)
2030	(430,940)
2031	(164,690)
2032	(53,434)
Total	$ (2,573,596)

Actuarial Assumptions

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

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

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

Inflation - 3.0%.

Mortality Assumptions -

Retirees: 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: PubT-2010 Male and Female Employee Mortality Tables scaled 100% and MP-202 adjusted for mortality improvements using projection scale 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.

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Assumptions (continued)

Experience Study - 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 determination of the total pension and OPEB liability beginning with the September 30, 2023 valuation.

The Long-Term Expected Rate of Return on Pension and Other Postemployment Benefit Plan Investments - The pension rate was 6.00% (MIP, Basic, Pension Plus Plan, and Pension Plus 2 Plan), and the other postemployment benefit rate was 6.00%, net of investment and administrative expenses determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension and OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

Healthcare Cost Trend Rate for Other Postemployment Benefit - Pre 65, 7.50% for year one and graded to 3.5% in year fifteen. Post 65, 6.25% for year one and graded to 3.5% in year fifteen.

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

Opt Out Assumption - 21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan.

Survivor Coverage - 80% of male retirees and 67% of female retirees electing two-person coverage are assumed to have coverage continuing after the retiree's death.

Coverage Election at Retirement - 75% of male and 60% of female future retirees who elected coverage are assumed to elect coverage for 1 or more dependents.

The target asset allocation at September 30, 2025 and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Assumptions (continued)

Investment Category	Target Allocation		Long-term Expected Real Rate of Return*
	Pension	OPEB	
Domestic Equity Pools	21.0%	16.0%	5.8%
International Equity Pools	14.0%	11.0%	5.6%
Private Equity Pools	16.0%	16.0%	9.3%
Real Estate and Infrastructure Pools	8.0%	5.0%	7.0%
Fixed Income Pools	15.0%	26.0%	2.5%
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%
	100.0%	100.0%	

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

Rate of Return - For fiscal year ended September 30, 2025, the annual money-weighted rate of return on pension and OPEB plan investments, net of pension and 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.

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

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

NOTE 7 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Assumptions (continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the Reporting Unit's proportionate share of the net pension liability calculated using a single discount rate of 6.00%, as well as what the Reporting Unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Pension		
	1% Decrease	Discount Rate	1% Increase
Reporting Unit's proportionate share of the net pension liability	$ 26,442,665	$ 16,756,490	$ 8,689,146

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate - The following presents the Reporting Unit's proportionate share of the net OPEB liability (asset) calculated using a single discount rate of 6.00%, as well as what the Reporting Unit's proportionate share of the net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Other Postemployment Benefits		
	1% Decrease	Discount Rate	1% Increase
Reporting Unit's proportionate share of the net other postemployment benefits liability (asset)	$ (3,673,962)	$ (4,264,298)	$ (4,780,969)

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

	Other Postemployment Benefits		
	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Reporting Unit's proportionate share of the net other postemployment benefits liability (asset)	$ (4,776,254)	$ (4,264,298)	$ (3,726,760)

Pension and OPEB Plan Fiduciary Net Position

Detailed information about the pension and OPEB's fiduciary net position is available in the separately issued Michigan Public School Employees' Retirement System 2025 Annual Comprehensive Financial Report.

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

NOTE 8 - CONTINGENT LIABILITIES

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

NOTE 9 - RISK MANAGEMENT

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

The District continues to carry commercial insurance for other risks of loss, including property and casualty errors and omissions, fleet and employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2026 or any of the prior three years.

NOTE 10 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2026 are as follows:

Receivable Fund		Payable Fund	
Special education	$ 318,825	General fund	$ 318,825

NOTE 11 - UPCOMING ACCOUNTING PRONOUNCEMENTS

In December 2025, the GASB issued Statement No. 105, *Subsequent Events*. This Statement clarifies the subsequent events that constitute recognized and nonrecognized events and establishes specific note disclosure requirements for nonrecognized events. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the 2026-2027 fiscal year.

NOTE 12 - CHANGE 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 addressed the following areas:

a. Management's discussion and analysis (MD&A)
b. Unusual or infrequent items
c. Presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position;
d. 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;
e. 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 required to be 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 Statement No. 34. This Statement also requires additional disclosures for capital assets held for sale.

REQUIRED SUPPLEMENTARY INFORMATION

HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2026

	Budgeted Amounts		Variance with Original and Final Budget	Actual	Variance with Final Budget and Actual
	Original	Final			
REVENUES					
Local sources	$ 718,233	$ 935,136	$ 216,903	$ 925,747	$ (9,389)
State sources	5,952,548	5,881,522	(71,026)	5,664,260	(217,262)
Federal sources	174,249	337,296	163,047	228,456	(108,840)
Interdistrict sources and other	4,970	6,046	1,076	7,670	1,624
TOTAL REVENUES	6,850,000	7,160,000	310,000	6,826,133	(333,867)
EXPENDITURES					
Current					
Instruction					
Basic programs	2,346,368	2,214,198	132,170	2,093,725	120,473
Supporting services					
Pupil	1,478,247	1,457,793	20,454	1,348,026	109,767
Instructional staff	1,385,572	1,452,278	(66,706)	1,443,169	9,109
General administration	399,501	456,284	(56,783)	471,844	(15,560)
Business	344,525	340,383	4,142	311,463	28,920
Operation and maintenance	155,439	370,068	(214,629)	142,567	227,501
Pupil transportation	208,043	200,723	7,320	197,973	2,750
Information management	114,519	72,069	42,450	86,486	(14,417)
Total supporting services	4,085,846	4,349,598	(263,752)	4,001,528	348,070
Community services	287,786	138,704	149,082	141,141	(2,437)
Interdistrict transactions	-	240,911	(240,911)	152,157	88,754
Capital outlay	-	16,125	(16,125)	122,621	(106,496)
Debt service					
Principal	9,000	9,208	(208)	9,208	-
Interest and fiscal charges	1,000	1,256	(256)	1,256	-
Total debt service	10,000	10,464	(464)	10,464	-
TOTAL EXPENDITURES	6,730,000	6,970,000	(240,000)	6,521,636	448,364
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	120,000	190,000	70,000	304,497	114,497
FUND BALANCE					
Beginning of year	3,987,891	3,987,891	-	3,987,891	-
End of year	$ 4,107,891	$ 4,177,891	$ 70,000	$ 4,292,388	$ 114,497

HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
SPECIAL EDUCATION FUND
YEAR ENDED JUNE 30, 2026

	Budgeted Amounts		Variance with Original and Final Budget	Actual	Variance with Final Budget and Actual
	Original	Final			
REVENUES					
Local sources	$ 5,837,882	$ 6,170,595	$ 332,713	$ 6,147,918	$ (22,677)
State sources	6,367,393	6,601,426	234,033	6,730,009	128,583
Federal sources	2,214,725	2,334,499	119,774	2,218,384	(116,115)
Other	680,000	603,480	(76,520)	603,690	210
TOTAL REVENUES	15,100,000	15,710,000	610,000	15,700,001	(9,999)
EXPENDITURES					
Current					
Instruction					
Basic programs	4,287,158	4,237,321	49,837	3,857,270	380,051
Supporting services					
Pupil	5,244,172	4,944,180	299,992	4,771,816	172,364
Program administration	1,000,930	963,647	37,283	962,041	1,606
General administration	209,675	202,661	7,014	204,948	(2,287)
Building administration	189,781	188,732	1,049	174,541	14,191
Business services	846,261	794,298	51,963	754,483	39,815
Operation and maintenance	918,513	948,138	(29,625)	910,908	37,230
Pupil transportation	2,120,151	2,243,427	(123,276)	1,986,930	256,497
Information management	530,733	460,715	70,018	497,409	(36,694)
Total supporting services	11,060,216	10,745,798	314,418	10,263,076	482,722
Community services	-	-	-	4,785	(4,785)
Interdistrict transactions	177,234	230,489	(53,255)	225,678	4,811
Capital outlay	3,000,000	3,125,000	(125,000)	2,383,685	741,315
Debt service					
Principal	26,572	26,284	288	27,623	(1,339)
Interest and fiscal charges	4,820	5,108	(288)	3,769	1,339
Total debt service	31,392	31,392	-	31,392	-
TOTAL EXPENDITURES	18,556,000	18,370,000	186,000	16,765,886	1,604,114
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(3,456,000)	(2,660,000)	796,000	(1,065,885)	1,594,115
OTHER FINANCING SOURCES					
Sale of capital assets	-	-	-	42,377	42,377
NET CHANGE IN FUND BALANCE	(3,456,000)	(2,660,000)	796,000	(1,023,508)	1,636,492
FUND BALANCE					
Beginning of year	8,654,227	8,654,227	-	8,654,227	-
End of year	$ 5,198,227	$ 5,994,227	$ 796,000	$ 7,630,719	$ 1,636,492

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

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Reporting Unit's proportion of net pension liability (%)	0.08364%	0.07874%	0.07277%	0.06606%	0.06060%	0.05943%	0.05944%	0.05906%	0.05785%	0.05590%
Reporting Unit's proportionate share of net pension liability	$ 16,756,490	$ 19,276,376	$ 23,552,686	$ 24,843,485	$ 14,348,176	$ 20,414,377	$ 19,684,632	$ 17,754,499	$ 14,991,008	$ 13,942,643
Reporting Unit's covered-employee payroll	$ 9,609,224	$ 8,890,113	$ 7,787,026	$ 6,873,685	$ 5,682,117	$ 5,373,500	$ 5,289,187	$ 5,107,168	$ 4,973,542	$ 4,686,930
Reporting Unit's proportionate share of net pension liability as a percentage of its covered-employee payroll (%)	174.38%	216.83%	302.46%	361.43%	252.51%	379.91%	372.17%	347.64%	301.42%	297.48%
Plan fiduciary net position as a percentage of total pension liability (Non-university employers)	79.44%	74.44%	65.91%	60.77%	72.32%	59.49%	62.12%	62.12%	63.96%	63.01%

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

	2026	2025	2024	2023	2022	2021	2020	2019	2018	2017
Statutorily required contributions	$ 3,628,859	$ 3,854,332	$ 3,149,435	$ 3,270,161	$ 2,252,468	$ 1,870,299	$ 1,689,717	$ 1,594,034	$ 1,477,097	$ 954,183
Contributions in relation to statutorily required contributions	3,628,859	3,854,332	3,149,435	3,270,161	2,252,468	1,870,299	1,689,717	1,594,034	1,477,097	954,183
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Reporting Unit's covered-employee payroll	$ 9,637,996	$ 9,537,326	$ 8,814,349	$ 7,412,733	$ 6,370,540	$ 5,556,735	$ 5,399,873	$ 5,169,206	$ 5,053,643	$ 5,112,956
Contributions as a percentage of covered-employee payroll	37.65%	40.41%	35.73%	44.12%	35.36%	33.66%	31.29%	30.84%	29.23%	18.66%

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

	2025	2024	2023	2022	2021	2020	2019	2018	2017
Reporting Unit's proportion of net OPEB liability (%)	0.07015%	0.08248%	0.07688%	0.07001%	0.06223%	0.06032%	0.06034%	0.05989%	0.05789%
Reporting unit's proportionate share of net OPEB liability (asset)	$ (4,264,298)	$ (3,550,158)	$ (434,908)	$ 1,482,954	$ 949,915	$ 3,231,502	$ 4,330,943	$ 4,760,465	$ 5,126,493
Reporting Unit's covered-employee payroll	$ 9,609,224	$ 8,890,113	$ 7,787,026	$ 6,873,685	$ 5,682,117	$ 5,373,500	$ 5,289,187	$ 5,107,168	$ 4,973,542
Reporting Unit's proportionate share of net OPEB liability/asset as a percentage of its covered-employee payroll (%)	44.38%	39.93%	5.59%	21.57%	16.72%	60.14%	81.88%	93.21%	103.08%
Plan fiduciary net position as a percentage of total OPEB liability (Non-university employers)	164.94%	143.08%	105.04%	83.09%	88.87%	59.76%	48.67%	43.10%	36.53%

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

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

	2026	2025	2024	2023	2022	2021	2020	2019	2018
Statutorily required OPEB contributions	$ 156,922	$ 50,308	$ 665,910	$ 602,470	$ 519,148	$ 462,418	$ 433,912	$ 406,042	$ 362,315
OPEB contributions in relation to statutorily required contributions	156,922	50,308	665,910	602,470	519,148	462,418	433,912	406,042	362,315
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Reporting Unit's covered-employee payroll (OPEB)	$ 9,637,996	$ 9,537,326	$ 8,814,349	$ 7,412,733	$ 6,370,540	$ 5,566,735	$ 5,399,873	$ 5,169,206	$ 5,053,643
OPEB contributions as a percentage of covered-employee payroll	1.63%	0.53%	7.55%	8.13%	8.15%	8.31%	8.04%	7.86%	7.17%

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

HERITAGE SOUTHWEST INTERMEDIATE SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2026

NOTE 1 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.

b. Public hearings are conducted to obtain taxpayer comments.

c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.

d. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.

e. The final budget was approved prior to June 30, 2026 year-end.

NOTE 2 - BUDGETARY COMPARISON

Significant Variances Between Original and Final Budget (General Fund)

	Variance	Explanation
REVENUES		
Local Sources	$ 216,903	The increase is primarily attributable to higher anticipated interest earnings, additional local grant funding, increased revenue from C4S programs, and various one-time grant and miscellaneous revenue sources.
Federal sources	163,047	The increase is primarily due to the anticipated receipt of the final allocation of the Trails federal grant. This increase was partially offset by the loss of expected CTE grant funding.
EXPENDITURES		
Instruction - Basic	132,170	The increase is primarily attributable to revised staffing estimates for the GSRP and Strong Beginnings programs.
Supporting services - Operations and maintenance	(214,629)	The increase is primarily due to the addition of budgeted equipment purchases that were not included in the original budget.
Community services	149,082	The decrease is attributable to the loss of Section 32p block grant funding, resulting in corresponding reductions in planned expenditures.
Interdistrict transactions	(240,911)	The increase is primarily due to Trails-related outgoing transfers that were not anticipated when the original budget was adopted.

NOTE 2 - BUDGETARY COMPARISON (continued)

Significant Variances Between Final Budget and Actual (General Fund)

	Variance	Explanation
REVENUES		
State sources	$ (217,262)	Actual revenue was lower than budgeted due primarily to lower-than-anticipated expenditures eligible for reimbursement under Section 31n(6) and GSRP programs. Because these grants are expenditure-driven, lower program costs resulted in reduced revenue recognition.
Federal sources	(108,840)	Actual federal revenue was below budget as only a portion of the anticipated Trails grant revenue was recognized during the year due to changes affecting grant funding and program expenditures.
EXPENDITURES		
Instruction - Basic	120,473	Expenditures were lower than budgeted primarily due to reduced GSRP and Strong Beginnings supply, curriculum, and other program-related costs.
Supporting services - Pupil	109,767	Expenditures were lower than budgeted primarily due to decreased Section 31n(6) program costs, consistent with the related reduction in grant revenue.
Supporting services - Operations and maintenance	227,501	The variance is largely attributable to capital expenditures that were budgeted within this function but ultimately recorded under the Capital Outlay function.
Interdistrict transactions	88,754	Expenditures were lower than budgeted due to lower-than-anticipated Trails-related outgoing transfers, consistent with the corresponding reduction in grant revenue.
Capital outlay	(106,496)	Expenditures exceeded budget due primarily to building improvement projects that were originally budgeted within Operations and Maintenance but were properly recorded as Capital Outlay expenditures.

Significant Variances Between Original and Final Budget (Special Education)

	Variance	Explanation
REVENUES		
Local sources	$ 332,713	The increase is primarily attributable to higher anticipated interest earnings, increased Medicaid revenue, and higher-than-expected property tax collections.
State sources	234,033	The increase is primarily due to revised MPSERS state aid estimates following adoption of the State budget, which occurred after the original budget was approved.
EXPENDITURES		
Support services - Pupil	299,992	The decrease is primarily attributable to reduced anticipated costs for speech and visual impairment services resulting from staffing changes and vacancies.

NOTE 2 - BUDGETARY COMPARISON (continued)

Significant Variances Between Final Budget and Actual (Special Education)

	Variance	Explanation
EXPENDITURES		
Instruction - Basic	$ 380,051	Expenditures were lower than budgeted primarily due to lower-than-anticipated costs associated with the Federal Grow Your Own grant and early childhood programs.
Support services - Pupil	172,364	Expenditures were lower than budgeted due primarily to staffing costs associated with speech, social work, and health services coming in below projections.
Support services - Pupil transportation	256,497	Expenditures were lower than budgeted primarily due to vacant positions and related staffing costs that were less than anticipated.
Capital outlay	741,315	The variance is primarily attributable to parking lot improvement project expenditures that were budgeted for the current year but were incurred in the subsequent fiscal year.

NOTE 3 - PENSION INFORMATION

Benefit Changes

There were no changes of benefit terms for each of the reported plan years ended September 30.

Changes in Assumptions

There were no significant changes of benefit assumptions for each of the reported plan years ended September 30 except for the following:

- 2023 - The valuation includes the impact of an updated experience study for periods from 2017 to 2022.
- 2022 - The discount rate and investment rate of return used in the September 30, 2021 actuarial valuation decreased by 0.80 percentage points.
- 2019 - The discount rate used in the September 30, 2018 actuarial valuation decreased by 0.25 percentage points.
- 2018 - The discount rate used in the September 30, 2017 actuarial valuation decreased by 0.45 percentage points. The valuation also includes the impact of an updated experience study for periods from 2012 to 2017.
- 2017 - The discount rate used in the September 30, 2016 actuarial valuation decreased by 0.50 percentage points.

NOTE 4 - OPEB INFORMATION

Benefit Changes

There were no changes of benefit terms for each of the reported plan years ended September 30.

Changes in Assumptions

There were no significant changes of benefit assumptions for each of the reported plan years ended September 30 except for the following:

- 2025 - The health care cost trend rate used in the September 30, 2024, actuarial valuation increased by 0.50 percentage points for members under 65. This increased the plan's total OPEB liability by $267 million in 2025.

- 2024 - The health care cost trend rate used in the September 30, 2023 actuarial valuation decreased by 0.25 percentage points for members under 65 and increased by 0.25 percentage point for members over 65.

- 2023 - The health care cost trend rate used in the September 30, 2022 actuarial valuation decreased by 0.25 percentage points for members under 65 and increased by 1.00 percentage point for members over 65. In addition, actual per person health benefit costs were lower than projected. The valuation includes the impact of an updated experience study for periods from 2017 to 2022.

- 2022 - The discount rate and investment rate of return used in the September 30, 2021 actuarial valuation decreased by 0.95 percentage points. This resulted in lower than projected per person health benefit costs to reduce the plan's total OPEB liability by an additional $1.1 billion in 2022.

- 2021 - The health care cost trend rate used in the September 30, 2020 actuarial valuation increased by 0.75 percentage points for members under 65 and decreased by 1.75 percentage points for members over 65. In addition, actual per person health benefit costs were lower than projected. This reduced the plan's total OPEB liability by $1.3 billion in 2021.

- 2020 - The health care cost trend rate used in the September 30, 2019 actuarial valuation decreased by 0.50 percentage points and actual per person health benefit costs were lower than projected. This reduced the plan's total OPEB liability by $1.8 billion in 2020.

- 2019 - The discount rate used in the September 30, 2018 actuarial valuation decreased by 0.20 percentage points. The valuation also includes the impact of an updated experience study for periods from 2012 to 2017. This resulted in lower than projected per person health benefit costs to reduce the plan's total OPEB liability by an additional $1.4 billion in 2019.

- 2018 - The discount rate used in the September 30, 2017 actuarial valuation decreased by 0.35 percentage points. The valuation also includes the impact of an updated experience study for periods from 2012 to 2017. This resulted in lower than projected per person health benefit costs to reduce the plan's total OPEB liability by $1.4 billion in 2018.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Heritage Southwest Intermediate School District, as of and for the year ended June 30, 2026, and the related notes to the financial statements, which collectively comprise Heritage Southwest Intermediate School District's basic financial statements, and have issued our report thereon dated October 13, 2026.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

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

Maner Costerisan PC

Lansing, Michigan
October 13, 2026

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October 13, 2026

To the Board of Education
Heritage Southwest Intermediate School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Heritage Southwest Intermediate School District for the year ended June 30, 2026. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information orally during our discussion on September 24, 2026. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Heritage Southwest Intermediate School District are described in Note 1 to the financial statements. As described in Note 12 to the financial statements, the District adopted Governmental Accounting Standards Board (GASB) Statements No. 103, *Financial Reporting Model Improvements* and No. 104, *Disclosure of Certain Capital Assets* during the year ended June 30, 2026. Accordingly, the cumulative effects of the accounting changes are reported in the applicable financial statements and note disclosures. We noted no transactions entered into by Heritage Southwest Intermediate School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

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

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

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

Management's estimate of the discount rate used for leases, the lease term and lease payments/receipts is based on the Heritage Southwest Intermediate School District incremental borrowing rate and consideration of the noncancelable period of the lease and reasonably certain lease options.

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management.

Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 13, 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 the Heritage Southwest Intermediate School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the required supplementary information (RSI) 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 other supplementary information, 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.

Restriction on Use

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

Very truly yours,

Maner Costerisan PC

Lansing, Michigan