

Hanover-Horton School District

Financial Report
With Supplemental Information

Year Ended June 30, 2023

Hanover-Horton School District

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Issued Under
Separate Cover



Independent Auditors' Report

Board of Education
Hanover-Horton School District
Horton, Michigan

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hanover-Horton School District, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Hanover-Horton 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 Hanover-Horton School District, as of June 30, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Hanover-Horton 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 Hanover-Horton School District's ability to continue as a going concern for twelve months beyond the financial statements date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

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

or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Hanover-Horton 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 Hanover-Horton 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, budgetary comparison information, and certain pension and OPEB information as identified in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report (under separate cover) dated September 30, 2023, on our consideration of Hanover-Horton 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 Hanover-Horton 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 Hanover-Horton School District's internal control over financial reporting and compliance.

Sincerely,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

September 30, 2023

Hanover-Horton School District
Management's Discussion and Analysis
Year Ended June 30, 2023

This section of Hanover-Horton School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2023.

Financial Highlights

- The current year's activity increased net position by \$850,209, see comparison to prior year on page vii.
- The General Fund's fund balance decreased by \$211,490 to \$1,877,012 or approximately 13% of total 2022-23 General Fund expenditures.
- The District participated in the State Aid Note program for the 2022-23 year for cash flow to maintain the current level of services. This will be the case again for the 2023-24 year. See Note 7.
- The property tax revenue for the fiscal year restricted to sinking fund capital improvement expenditures totaled approximately \$333,000.
- In accordance with Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, an unfunded pension liability has been established through actuarial valuations and will be amortized over a period ending September 30, 2038. A liability has also been recorded for postemployment benefits other than pensions (OPEB) similar to reporting in regards to pension plans (as per GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*). With the recording of these two liabilities, the liabilities of the District exceeded its assets. The balance of the net position at the close of the most recent fiscal year was \$(10,884,131), a negative net position.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District financially as a whole. The District-wide Financial Statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The financial statements then proceed to provide an increasingly detailed look at specific financial activities included in the fund financial statements. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements provide information about the School District's most significant funds – the General Fund and the Food Service Fund. All other funds are presented in one column as non-major funds.

Reporting the District as a Whole

The Statement of Net Position and Statement of Activities - One of the most important questions asked about the District's finances is, "Is the District better or worse off as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the School District's financial statements, report information about the District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities of the District using the accrual basis of accounting, which is similar to accounting used by private-sector corporations.

Hanover-Horton School District
Management's Discussion and Analysis
Year Ended June 30, 2023

The statement of net position and the statement of activities present information about the following:

Governmental Activities – The Statement of Net Position and Statement of Activities report the governmental activities for the District. These services include instruction, support services, student activities, community services, athletics, and food services. Property taxes, intergovernmental revenues, (unrestricted and restricted State Aid), and charges for services finance most of these activities. All of the current year's revenues and expenses for these services are taken into consideration regardless of when cash is received or paid.

The Statement of Net Position reports the District's net position, the difference between assets and liabilities. The Statement of Activities reports the District's change in net position, the revenues less expenses for the fiscal year, either as an increase or a decrease, or in other words, the operating results for the year. However, the School District's goal is to provide services to its students, not to generate profits, as private-sector corporations do.

These two statements report the District's net position and changes in net position. The change in net position provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as property tax base, political conditions at the State Capitol, student enrollment growth, birth rates, and facility conditions in arriving at their conclusion regarding the overall health of the District.

The government-wide financial statements can be found on pages 1 and 2 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements – The fund financial statements provide detailed information about the most significant funds – not the District as a whole. The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's *Accounting Manual*.

Governmental Funds – Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. In the fund financial statements, capital assets purchased by cash are reported as expenditures in the year of acquisition. No capital assets are reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future years' debt obligations are not recorded.

The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources available to spend in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the basic financial statements.

The basic governmental fund financial statements can be found on pages 3 and 5 of this report.

Additional Information – The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 7-27 of this report.

Hanover-Horton School District
Management's Discussion and Analysis
Year Ended June 30, 2023

Government-Wide Financial Analysis

The government-wide financial analysis focuses on the net position and changes in net position of the District's governmental activities. As noted earlier, net position may serve over time as a useful indicator of a government's financial position.

The following is a summary of the School District's net assets as of June 30, 2023 and 2022:

	<u>Governmental Activities</u>	
	<u>2023</u>	<u>2022</u>
Assets:		
Current assets	\$ 4,958,976	\$ 5,659,745
Non-current assets	12,543,874	11,295,790
Total assets	<u>17,502,850</u>	<u>16,955,535</u>
 Deferred Outflows of Resources	 <u>8,413,239</u>	 <u>4,223,916</u>
 Liabilities:		
Current liabilities	1,843,580	1,915,030
Non-current liabilities	29,775,923	20,789,558
Total liabilities	<u>31,619,503</u>	<u>22,704,588</u>
 Deferred Inflows of Resources	 <u>5,180,717</u>	 <u>10,209,203</u>
 Net Position:		
Invested in capital assets - net of related debt	6,799,568	5,650,438
Restricted	762,570	1,989,169
Unrestricted	(18,446,269)	(19,373,947)
Total net position	<u>\$ (10,884,131)</u>	<u>\$ (11,734,340)</u>

The above analysis focuses on the net position. The change in net position of the School District's governmental activities is discussed below. The net position differs from fund balances and a reconciliation appears on page 4.

A portion of the District's net position, \$6,799,568, reflects an investment in capital assets (i.e. land, buildings, vehicles, and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net position, \$762,570, represents resources that are subject to external restrictions on how they may be used. In the case of the School District, these amounts are restricted for debt service, student activities, and capital projects. The *unrestricted* balance of net position, \$(18,446,269), which is *negative* net position, is negative primarily due to recording the net pension and OPEB liabilities. The pension and OPEB liabilities at fiscal year-end are expected to be amortized over a declining period ending September 30, 2023.

Hanover-Horton School District
Management's Discussion and Analysis
Year Ended June 30, 2023

The results of this year's operations for the School District as a whole are reported in the Statement of Activities which shows the changes in net position for fiscal year 2023. Comparative information for fiscal years 2023 and 2022 follows.

The following is a summary of the change in net position for the years ended June 30, 2023 and 2022:

	<u>Governmental Activities</u>	
	<u>2023</u>	<u>2022</u>
Revenues:		
Program revenues:		
Charges for services	\$ 292,906	\$ 105,010
Operating grants	3,639,113	3,514,117
General revenues:		
Property taxes - general purpose	1,279,215	1,290,033
Property taxes - debt service	328,230	340,960
Property taxes - sinking fund	322,669	274,146
Grants and state aid	8,017,151	7,844,625
Other	635,220	354,665
Total revenues	<u>14,514,504</u>	<u>13,723,556</u>
Functions/Program Expenses:		
Instruction	7,104,273	6,637,419
Support services	4,524,431	3,909,955
Food service activities	510,755	504,472
Student activities	231,849	178,116
Community service	53	-
Athletics	333,811	282,936
Capital outlay	55,590	-
Interest	230,980	174,900
Depreciation and amortization (unallocated)	672,553	588,226
Total expenses	<u>13,664,295</u>	<u>12,276,024</u>
Increase (decrease) in net position	850,209	1,447,532
Net position beginning of year	<u>(11,734,340)</u>	<u>(13,181,872)</u>
Ending net position	<u>\$ (10,884,131)</u>	<u>\$ (11,734,340)</u>

The District's net position increased by \$850,209 during the current fiscal year.

The net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State Aid constitute the vast majority of the School District's operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

Hanover-Horton School District
Management's Discussion and Analysis
Year Ended June 30, 2023

General Fund Budgeting and Operating Highlights

The School District's budgets are prepared according to Michigan law. The most significant budgeted funds are the General Fund and Food Service Fund. A schedule showing the School District's General Fund original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements. The budgets were amended during the year to factor in previously unknown items such as confirmed pupil count and state aid foundation allowance.

The General Fund actual revenue and other financing sources were \$14,073,727. That amount is slightly higher than the amended budget estimate of \$13,286,000. The actual expenditures and other financing uses of the General Fund were \$14,285,217, which is slightly more than the amended budget estimate of \$13,564,400.

The General Fund had total revenues and other financing sources of \$14,073,727 and total expenditures of \$14,285,217 with a net decrease in fund balance of \$211,490 and ending fund balance of \$1,877,012.

Capital Asset and Debt Administration

Capital Assets – At the end of fiscal year 2023, the School District had \$24,061,313 invested in land, buildings, furniture and equipment, vehicles and buses, and right-to-use assets. On this amount, \$11,517,439 in depreciation/amortization has been taken over the years. We currently have a net book value of \$12,543,874.

	<u>Governmental Activities</u>	
	<u>2023</u>	<u>2022</u>
Land	\$ 1,150	\$ 1,150
Land improvements	2,453,349	2,453,349
Buildings and improvements	19,433,596	18,383,978
Buses and other vehicles	533,000	533,000
Furniture and equipment	854,450	769,199
Right-to-use - leased buses	785,768	-
Total capital assets	<u>24,061,313</u>	<u>22,140,676</u>
Less accumulated depreciation/amortization	11,517,439	10,844,886
Net capital assets	<u><u>\$ 12,543,874</u></u>	<u><u>\$ 11,295,790</u></u>

Major capital asset purchases during the current fiscal year included an air conditioning project at the Middle School/High School (\$1 million), new ovens at the District cafeterias (\$85,000), and a fleet of leased buses (\$785,000).

Long-Term Debt – At June 30, 2023, the District had total debt outstanding of \$5,744,306.

	<u>Governmental Activities</u>	
	<u>2023</u>	<u>2022</u>
General obligation bonds	\$ 5,048,000	\$ 5,365,000
Equipment loans	53,597	67,852
Leases payable	642,709	-
Total	<u><u>\$ 5,744,306</u></u>	<u><u>\$ 5,432,852</u></u>

Hanover-Horton School District
Management's Discussion and Analysis
Year Ended June 30, 2023

During the current fiscal year, the District's total debt increased by \$311,454.

Additionally, the District has long-term obligations to pay out compensated absences based upon contract agreements with employees. The amount reported, which is an estimate of what is due to applicable employees if their employment ends, totals \$50,500.

Economic Factors and Next Year's Budgets and Rates

For the 2023-2024 budget cycle, we've estimated an enrollment of 1010 and a per pupil allocation of \$9,608 which reflects an increase of \$458 per student. Due to the uncertainty of the state budget at the time the budget must be adopted, we did not include all proposed increases of the categorical funding sources our District receives each year. Whenever an estimate is required during the budgeting process, we take a very conservative yet realistic approach and estimate revenues low and expenditures high.

Requests for Information

This financial report is designed to provide a general overview of the Hanover-Horton Schools' finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Attention: Susan Michalsky
Hanover-Horton School District
405 S. Main Street
10400 Moscow Road
Horton, MI 49246

Hanover-Horton School District

Statement of Net Position

June 30, 2023

	Governmental Activities
Assets:	
Cash and investments	\$ 2,934,679
Receivables:	
Accounts receivable	3,200
Due from other governmental units	2,012,636
Inventories	6,390
Prepaid expenses	2,071
Capital assets, net	12,543,874
Total assets	17,502,850
Deferred Outflows of Resources:	
Pension related	6,781,233
OPEB related	1,632,006
Total deferred outflows of resources	8,413,239
Liabilities:	
Accounts payable	210,184
State aid anticipation loan	131,069
Accrued payroll and related	1,270,514
Accrued interest	53,200
Unearned revenue	178,613
Long-term liabilities:	
Bonds payable, due within one year	331,000
Loans payable, due within one year	14,656
Lease liability payable, due within one year	98,712
Bonds payable, due in more than one year	4,717,000
Loans payable, due in more than one year	38,941
Lease liability payable, due in more than one year	543,997
Compensated absences	50,500
Net pension liability	22,721,770
Net OPEB liability	1,259,347
Total liabilities	31,619,503
Deferred Inflows of Resources:	
Pension related	2,378,436
OPEB related	2,802,281
Total deferred inflows of resources	5,180,717
Net Position:	
Invested in capital assets - net of related debt	6,799,568
Restricted for capital projects	185,145
Restricted for student activities	352,166
Restricted for debt service	225,259
Unrestricted	(18,446,269)
Total net position	\$ (10,884,131)

See Notes to Financial Statements.

Hanover-Horton School District
Statement of Activities
Year Ended June 30, 2023

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expense) Revenues and Changes in Net Position
Primary government				
Governmental activities:				
Instruction	\$ 7,104,273	\$ -	\$ 2,909,182	\$ (4,195,091)
Support services	4,524,431	-	-	(4,524,431)
Food service activities	510,755	237,896	451,331	178,472
Athletics	333,811	55,010	-	(278,801)
Student activities	231,849	-	278,600	46,751
Community services	53	-	-	(53)
Capital outlay	55,590	-	-	(55,590)
Interest on long-term debt	230,980	-	-	(230,980)
Depreciation and amortization	672,553	-	-	(672,553)
Total governmental activities	<u>\$ 13,664,295</u>	<u>\$ 292,906</u>	<u>\$ 3,639,113</u>	<u>(9,732,276)</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				1,279,215
Property taxes, levied for debt service				328,230
Property taxes, levied for sinking fund				322,669
State aid not restricted to specific purposes				8,017,151
Interest and investment earnings				92,304
Other				542,916
Total general revenues				<u>10,582,485</u>
Change in Net Position				850,209
Net Position - Beginning of Year				<u>(11,734,340)</u>
Net Position - End of Year				<u><u>\$ (10,884,131)</u></u>

See Notes to Financial Statements.

Hanover-Horton School District

Balance Sheet
Governmental Funds
June 30, 2023

	<u>General</u>	<u>Food Service Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 1,426,852	\$ 617,458	\$ 890,369	\$ 2,934,679
Receivables:				
Accounts receivable	3,200	-	-	3,200
Due from other governmental units	2,012,636	-	-	2,012,636
Due from other funds	36,027	-	-	36,027
Inventories	-	6,390	-	6,390
Prepaid expenditures	2,071	-	-	2,071
	<u>2,071</u>	<u>-</u>	<u>-</u>	<u>2,071</u>
Total assets	<u>\$ 3,480,786</u>	<u>\$ 623,848</u>	<u>\$ 890,369</u>	<u>\$ 4,995,003</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 58,337	\$ 27,353	\$ 124,494	\$ 210,184
Due to other funds	-	32,722	3,305	36,027
Salaries payable	621,386	3,776	-	625,162
Accrued expenditures	642,819	2,533	-	645,352
Short-term loans	131,069	-	-	131,069
Unearned revenue	150,163	28,450	-	178,613
Total liabilities	<u>1,603,774</u>	<u>94,834</u>	<u>127,799</u>	<u>1,826,407</u>
Fund balances:				
Nonspendable	2,071	6,390	-	8,461
Restricted	-	522,624	762,570	1,285,194
Assigned for subsequent year expenditures	1,054,600	-	-	1,054,600
Unassigned	820,341	-	-	820,341
Total fund balances	<u>1,877,012</u>	<u>529,014</u>	<u>762,570</u>	<u>3,168,596</u>
Total liabilities and fund balances	<u>\$ 3,480,786</u>	<u>\$ 623,848</u>	<u>\$ 890,369</u>	<u>\$ 4,995,003</u>

See Notes to Financial Statements.

Hanover-Horton School District
 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
 Governmental Funds
 June 30, 2023

Total Fund Balance - Governmental Funds	\$	3,168,596
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds.		
The cost of the capital assets is	\$ 24,061,313	
Accumulated depreciation and amortization is	<u>(11,517,439)</u>	12,543,874
Long-term liabilities not due and payable in the current period and not reported in the funds:		
Compensated absences		(50,500)
Bonds payable		(5,048,000)
Loans payable		(53,597)
Lease liability payable		(642,709)
Net pension liability		(22,721,770)
Deferred outflows related to net pension liability		6,781,233
Deferred inflows related to net pension liability		(2,378,436)
Net OPEB liability		(1,259,347)
Deferred outflows related to net OPEB liability		1,632,006
Deferred inflows related to net OPEB liability		(2,802,281)
Accrued interest payable on long-term debt is not included as a liability in governmental activities.		<u>(53,200)</u>
Total Net Position - Governmental Activities	\$	<u>(10,884,131)</u>

See Notes to Financial Statements.

Hanover-Horton School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2023

	General Fund	Food Service Fund	Other Nonmajor Governmental Funds	Total
Revenues:				
Local sources	\$ 1,463,772	\$ 254,771	\$ 943,207	\$ 2,661,750
State sources	10,603,838	16,459	-	10,620,297
Federal sources	721,272	434,872	-	1,156,144
Interdistrict and other	460,667	5,138	9,118	474,923
Total revenues	<u>13,249,549</u>	<u>711,240</u>	<u>952,325</u>	<u>14,913,114</u>
Expenditures:				
Instruction	7,953,175	-	-	7,953,175
Support services	5,713,896	-	-	5,713,896
Athletic activities	333,811	-	-	333,811
Food service activities	-	622,051	-	622,051
Student activities	-	-	231,849	231,849
Community services	53	-	-	53
Debt service:				
Principal payments	157,313	-	317,000	474,313
Interest and fiscal charges	1,917	-	195,779	197,696
Capital outlay	125,052	-	980,156	1,105,208
Total expenditures	<u>14,285,217</u>	<u>622,051</u>	<u>1,724,784</u>	<u>16,632,052</u>
Revenues Over (Under) Expenditures	<u>(1,035,668)</u>	<u>89,189</u>	<u>(772,459)</u>	<u>(1,718,938)</u>
Other Financing Sources (Uses):				
Proceeds from sale of capital assets	-	5,881	-	5,881
Proceeds from issuance of lease liability	785,678	-	-	785,678
Operating transfers in	38,500	-	17,159	55,659
Operating transfers out	-	(38,500)	(17,159)	(55,659)
Total other financing sources (uses)	<u>824,178</u>	<u>(32,619)</u>	<u>-</u>	<u>791,559</u>
Net Changes in Fund Balances	(211,490)	56,570	(772,459)	(927,379)
Fund Balances - Beginning of Year	<u>2,088,502</u>	<u>472,444</u>	<u>1,535,029</u>	<u>4,095,975</u>
Fund Balances - End of Year	<u>\$ 1,877,012</u>	<u>\$ 529,014</u>	<u>\$ 762,570</u>	<u>\$ 3,168,596</u>

Hanover-Horton School District

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Governmental Funds
Year Ended June 30, 2023

Net Change in Fund Balances - Total Governmental Funds		\$ (927,379)
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 and amortization.		
Depreciation and amortization expense	\$ (672,553)	
Capital outlay	<u>1,920,637</u>	
		1,248,084
Accrued interest on long-term debt is recorded in the Statement of Activities when incurred; it is not reported in governmental funds until paid.		
		(33,195)
Debt proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the Statement of Net Position, however, issuing debt increases long-term liabilities and does not affect the Statement of Activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the Statement of Net Position.		
Lease liability issuance	(785,768)	
Compensated absences	(23,607)	
Principal repayments	<u>474,314</u>	
		(335,061)
Governmental funds report the required pension contributions for each fiscal year as an expenditure. The Statement of Activities reports the fully accrued pension expense based upon a September year-end to coincide with the State of Michigan's fiscal year.		
Changes in pension-related liabilities and deferrals		(203,593)
Changes in OPEB-related liabilities and deferrals		<u>1,101,353</u>
Change in Net Position of Governmental Activities		<u><u>\$ 850,209</u></u>

See Notes to Financial Statements.

Hanover-Horton School District
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

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

Reporting Entity

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-Wide and Fund Financial Statements

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

All of the School District’s government-wide activities are considered governmental activities. The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Hanover-Horton School District
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

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

District-Wide and Fund Financial Statements (Continued)

Fund-Based Statements – Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements with nonmajor governmental funds aggregated into a single column.

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

Property taxes, unrestricted State Aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Expenditure reimbursing grants are recognized when the qualifying expenditures have been incurred, eligibility requirements have been met, and receipt of monies is expected within the current availability period (60 days post year-end). All other revenue items are considered to be available only when cash is received by the government.

The School District reports the following major governmental funds:

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

Food Service Fund – The Food Service Fund is a special revenue fund used to record revenues and expenditures related specifically to food service activity.

Additionally, the government reports the following fund types:

Capital Project Funds – Capital Project Funds are used to record bond proceeds or other revenue and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment, and for remodeling and repairs. The District maintains the Sinking Fund, which has restricted property taxes as its source of revenue. For this capital project fund, the School District has complied with the applicable provisions of Section 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

Hanover-Horton School District
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

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

District-Wide and Fund Financial Statements (Continued)

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The District maintains two special revenue funds: the Food Service Fund (a major fund) and the Student Activities Fund.

Debt Service Funds – Debt Service Funds are used to record tax, interest, and other revenue for payment of principal and other expenditures and the disbursements thereof on a particular bond issue. The District maintains the 2019 Debt Retirement Fund. The 2017 Debt Retirement Fund was closed out during the year.

Revenues, Assets, Liabilities, and Net Position or Equity

State Revenue - The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a State-wide formula. The foundation allowance is funded from a combination of 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 year ended June 30, 2023, 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 six 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 mainly by non-PRE property (non-homestead) taxes which may be levied at a rate of up to 18 mills. The local portion also includes 6 mills on Commercial Personal Property. The State revenue is recognized during the foundation period and is funded through payments from October to August of each year. Thus, the unpaid portion at June 30 is reported as due from other governmental units.

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

Hanover-Horton School District
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

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

General Fund – Non-primary residence	17.2144
General Fund – Commercial personal property	5.2144
Debt Service – all taxable values	1.0000
Sinking Fund – all taxable values	0.9831

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

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

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

State statutes authorize the District to invest in bonds, securities, and other obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively, 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, contained in the Michigan Compiled Laws. The District is also authorized to invest in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase, U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

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

Hanover-Horton School District
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

Buildings and improvements	15 - 50 years
Buses and other vehicles	5 - 10 years
Furniture and equipment	5 - 20 years
Right-to-use – leased buses	5 years

Leases – The District recognizes lease liabilities and intangible right-to-use assets in the government-wide financial statements with an initial individual value of \$10,000 or more.

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 the lease payments made. The lease right-to-use 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 the straight-line basis over its useful life.

Key estimates and judgments related to leases include how the District determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease terms, 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 any 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 liabilities and remeasures lease assets and liabilities if certain changes occur that are expected to significantly affect the amount of the lease liabilities.

Hanover-Horton School District
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

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

Leases (Continued) - Lease assets are reported with other capital assets, and lease liabilities are reported with long-term obligations on the Statement of Net Position.

Compensated Absences - The liability for compensated absences reported in the district-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-Term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are reported as a deferred inflow or outflow, separate from assets and liabilities, and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bond issuance costs are expensed as incurred.

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

Deferred Outflows of Resources – This separate financial statement element represents a consumption of net position or fund balance that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. For governmental funds, this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period. For district-wide statements, the District currently reports deferred outflows of resources related to deferred pension and OPEB plan expenses which will be expensed in the plan year in which they apply and for pension and OPEB payments made subsequent to measurement date to be recognized as the corresponding time lags are met.

Deferred Inflows of Resources – In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District currently reports deferred inflows of resources related to its net pension liability and net OPEB liability including amounts deferred for MPERS Unfunded Actuarial Accrued Liabilities (UAAL) stabilization statutorily required contributions. The pension and OPEB related future resources will be amortized and recognized over a time period established by the actuary and relate to differences between actuarial estimates and actual results. When applicable, bond premiums are amortized over the life of the bonds.

Defined Benefit Pension Plan – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Michigan Public Employees' Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Related investments are reported at fair value. See Note 9 for detailed information.

Hanover-Horton School District
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

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

Postemployment Benefits Other Than Pensions – For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Michigan Public Employees' Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Related investments are reported at fair value. See Note 9 for detailed information.

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

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

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

Note 2 – Stewardship, Compliance, and Accountability

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and State law for the General Fund and special revenue funds. Annual appropriations lapse at fiscal year-end.

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

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

Hanover-Horton School District
Notes to Financial Statements

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

3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the *Uniform Budgeting and Accounting Act* (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated at the function level per State law. Violations, if any, for the General Fund and Food Service Fund are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts within major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2023.

Note 3 – Cash and Investments

At year-end, the School District's cash and investments were reported in the basic financial statements in the following categories:

	Governmental Activities
Cash and cash equivalents	\$ 2,934,679

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

Deposits (checking and savings accounts, certificates of deposits)	\$ 465,279
Investments in MILAF pooled investment fund	2,467,857
Petty cash	1,543
Total	\$ 2,934,679

The District holds investments in a pooled Michigan Investment Liquid Asset Fund (MILAF) account which is a qualified local government investment pool for Michigan School Districts and is considered an external investment pool as defined by GASB and as such is recorded at amortized cost which approximates fair value. The District's investments under the interlocal agreement (MILAF – Michigan CLASS) in the amount of \$2,467,857 at year-end, are regulated by the Urban Cooperation Act. The Michigan CLASS investment pool invests in U.S. Treasury obligations, federal agency obligations of the U.S. government, high-grade commercial paper, and approved money market funds. The program is designed to meet the needs of Michigan public sector investors. There are no limitations or restrictions on withdrawals from the investments held in the MILAF account except for a one-day minimum investment period on the MILAF cash management funds and a fourteen-day redemption limitation on MILAF MAX Class funds.

Hanover-Horton School District
Notes to Financial Statements

Note 3 – Cash and Investments (Continued)

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

Custodial Credit Risk – Deposits - Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned. The District has not adopted and State law does not require a policy for deposit custodial credit risk. As of year-end, approximately \$2,907,000 of the District’s uncollateralized bank deposits balance of approximately \$3,157,000 was uninsured.

Custodial Credit Risk – Investments – Custodial credit risk of investments is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have an investment policy for custodial credit risk.

Interest Rate Risk – Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The District’s investment policy does not restrict investment maturities beyond State law.

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

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

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

Note 4 – Receivables

Receivables at year end totaling \$2,015,836 consisted primarily of amounts due from Michigan Department of Education.

Hanover-Horton School District
Notes to Financial Statements

Note 5 – Capital Assets

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Year-End Balance</u>
Assets not being depreciated/amortized:				
Land	\$ 1,150	\$ -	\$ -	\$ 1,150
Subtotal	<u>1,150</u>	<u>-</u>	<u>-</u>	<u>1,150</u>
Capital assets being depreciated/ amortized:				
Land improvements	2,453,349	-	-	2,453,349
Buildings and improvements	18,383,978	1,049,618	-	19,433,596
Buses and other vehicles	533,000	-	-	533,000
Furniture and equipment	769,199	85,251	-	854,450
Right-to-use - leased buses	-	785,768	-	785,768
Subtotal	<u>22,139,526</u>	<u>1,920,637</u>	<u>-</u>	<u>24,060,163</u>
Accumulated depreciation/amortization:				
Land improvements	1,009,209	57,262	-	1,066,471
Buildings and improvements	9,051,159	435,808	-	9,486,967
Buses and other vehicles	195,216	49,659	-	244,875
Furniture and equipment	589,302	51,247	-	640,549
Right-to-use - leased buses	-	78,577	-	78,577
Subtotal	<u>10,844,886</u>	<u>672,553</u>	<u>-</u>	<u>11,517,439</u>
Net capital assets being depreciated/ amortized				
	11,294,640	1,248,084	-	12,542,724
Net capital assets	<u>\$ 11,295,790</u>	<u>\$ 1,248,084</u>	<u>\$ -</u>	<u>\$ 12,543,874</u>

Depreciation/amortization for the fiscal year ended June 30, 2023 totaled \$672,553. The District determined that it was impractical to allocate depreciation/amortization to various governmental activities as the assets serve multiple functions.

Note 6 – Interfund Activity

At year-end, the Food Service Fund owed \$32,722 to the General Fund and the Student Activities Fund owed \$3,305 to the General Fund. All of these amounts were owed for reimbursement of expenditures paid by one fund on behalf of another fund.

The Food Service Fund transferred a net amount of \$38,500 to the General Fund during the year for reimbursement of indirect costs. The 2017 Debt Retirement Fund transferred \$17,159 to the 2019 Debt Retirement Fund to close out the fund after the corresponding debt was paid off.

Hanover-Horton School District
Notes to Financial Statements

Note 7 – Notes Payable

For the fiscal year ended June 30, 2023, the District was issued State Aid Anticipation Notes that totaled \$300,000, with terms as follows:

<u>Notes</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
2022A-1	\$ 200,000	1.97%	7/20/2023
2022A-2	100,000	1.99%	8/21/2023

Note 2022A-1 was borrowed under a set-aside arrangement due in seven increments of \$29,084 per month beginning January, 2023 and ending July, 2023.

The State Aid Anticipation Notes are secured by the full faith and credit of the School District as well as pledged State Aid. At year end, the outstanding balance, including interest, totaled \$131,069. The activity for the year is as follows:

<u>Balance</u> <u>June 30, 2022</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2023</u>
\$ 212,500	\$ 305,575	\$ (387,006)	\$ 131,069

For the fiscal year ending June 30, 2024, the School District issued a State Aid Anticipation Note of \$1,300,000, with an interest rate of 3.46%. The Note plus interest is due August, 2024.

Note 8 – Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment, and right-to-use assets. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences and net pension and OPEB liabilities. See Note 9 for further details regarding the net pension and OPEB liabilities.

Long-term obligation activity can be summarized as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Amounts Due</u> <u>Within One</u> <u>Year</u>
Governmental Activities:					
Bonds	\$ 5,365,000	\$ -	\$ 317,000	\$ 5,048,000	\$ 331,000
Equipment loans	67,852	-	14,255	53,597	14,656
Lease liability payable	-	785,768	143,059	642,709	98,712
Compensated absences	26,893	23,607	-	50,500	-
Total governmental activities	<u>\$ 5,459,745</u>	<u>\$ 809,375</u>	<u>\$ 474,314</u>	<u>\$ 5,794,806</u>	<u>\$ 444,368</u>

Hanover-Horton School District
Notes to Financial Statements

Note 8 – Long-Term Debt (Continued)

General obligation bonds consist of:

\$4,530,000 - 2019 school improvement bonds due in annual installments of \$135,000 - \$295,000 through May, 2043; interest at 4.00%	\$ 4,240,000
\$1,000,000 - 2022 building & site bonds due in annual installments of \$196,000 - \$208,000 through May, 2027; interest at 1.95%	<u>808,000</u>
Total general obligation bonds	<u>\$ 5,048,000</u>

Annual debt service requirements to maturity on the above governmental bond obligations are as follows:

	Bonds Payable		
	Principal	Interest	Total
2024	\$ 331,000	\$ 185,356	\$ 516,356
2025	345,000	176,134	521,134
2026	359,000	166,434	525,434
2027	368,000	156,256	524,256
2028	170,000	145,800	315,800
2029-2033	945,000	622,400	1,567,400
2034-2038	1,155,000	417,200	1,572,200
2039-2043	1,375,000	169,000	1,544,000
Total	<u>\$ 5,048,000</u>	<u>\$ 2,038,580</u>	<u>\$ 7,086,580</u>

Equipment loans payable consist of:

\$64,000 - Equipment loan - financial institution due in annual installments of \$9,022 through June, 2024; interest at 2.75%	\$ 8,783
\$50,524 - Equipment loan - financial institution due in annual installments of \$7,150 through June, 2030; interest at 2.85%	<u>44,814</u>
Total equipment loans	<u>\$ 53,597</u>

Hanover-Horton School District
Notes to Financial Statements

Note 8 – Long-Term Debt (Continued)

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

	Equipment Loans Payable		
	Principal	Interest	Total
2024	\$ 14,656	\$ 1,523	\$ 16,179
2025	6,040	1,110	7,150
2026	6,213	937	7,150
2027	6,390	760	7,150
2028	6,572	578	7,150
2029-2030	13,726	590	14,316
Total	\$ 53,597	\$ 5,498	\$ 59,095

Leases payable consist of:

Lease payable to Tax-Exempt Leasing Corp. due in annual installments of \$143,058 through December, 2026, final payment of \$212,000 due June 2027; interest at 6.90%

\$ 642,709

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

	Leases Payable		
	Principal	Interest	Total
2024	\$ 98,712	\$ 44,346	\$ 143,058
2025	105,523	37,535	143,058
2026	112,804	30,254	143,058
2027	325,670	29,389	355,059
Total	\$ 642,709	\$ 141,524	\$ 784,233

Hanover-Horton School District
Notes to Financial Statements

Note 9 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions

Organization

Pension/OPEB Plan Description – The School District participates in the Michigan Public School Employees' Retirement System ("MPERS" or "the System"), a State-wide, cost-sharing, multiple-employer defined benefit public employee retirement plan governed by the State of Michigan. The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to public school employees, and covers substantially all employees of the School District. There are currently approximately 690 participating employers in the System which meets the definition of a qualified pension trust fund under Section 401(a) of the Internal Revenue Code. In addition, the System maintains a health plan ("OPEB") which provides postemployment healthcare benefits to all eligible retirees as an elective option including health, prescription drug, dental, and vision coverage.

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

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

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

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

Based on current benefit provisions, new hires can opt between two plans. The first plan, called Pension Plus 2, is a hybrid plan that contains a pension component with a required employee contribution and a flexible and transferrable defined contribution tax deferred investment account component that contains a 50/50 cost share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the Pension Plus 2 Plan is 6%. The second option is a Defined Contribution plan under which a participant receives a 4% employer contribution to a tax-deferred 457 account and can choose to make employee contributions up to the maximum allowed per IRS regulations.

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

Hanover-Horton School District
Notes to Financial Statements

**Note 9 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions
(Continued)**

Organization (Continued)

OPEB Benefits Provided – Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree healthcare recipient. For members who first worked before July 1, 2008 (Basic, MIP-Fixed, and MIP Graded plan members), the subsidy is the maximum allowed by statute.

To limit future liabilities of OPEB, members who first worked on or after July 1, 2008 (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended. Public Act 300 of 2012 granted all active members of the MPSERS, who earned service credit in the twelve months ending September 3, 2012 or were on an approved professional service or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013.

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

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

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

Hanover-Horton School District
Notes to Financial Statements

Note 9 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Organization (Continued)

Pension Plan Contributions – The schedule below summarizes pension contribution rates in effect for the fiscal year ended September 30, 2022:

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

Employer contributions range from 13.73% to 20.14% for the plan year ended September 30, 2022 and are determined based on employee elections. The District's required and actual contributions to the pension plan for the year ended September 30, 2022 were \$2,056,319. The District's required and actual pension contributions include an allocation of \$956,137 in revenue received from the State of Michigan, and remitted to the System, to fund the MPSERS unfunded actuarial accrued liability (UAAL) stabilization rate for the year ended September 30, 2022.

OPEB Contributions – OPEB employee contributions in effect for the fiscal year ended September 30, 2022 range from 0% - 3%. Employer contributions range from 7.23% to 8.09% for the plan year ended September 30, 2022 and are determined based on employee elections. Required contributions to the OPEB plan from the District were \$452,908 for the year ended September 30, 2022. The District's required and actual OPEB contributions include an allocation of \$0 in revenue received from the State of Michigan, and remitted to the System, to fund the MPSERS unfunded actuarial accrued liability (UAAL) stabilization rate for the year ended September 30, 2022.

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

Proportionate Share of School District's Net Pension Liability - At June 30, 2023, the District reported a liability of \$22,721,770 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2021. The District's proportionate share of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the System during the measurement period by the percent of statutorily required pension contributions from all applicable employers during the measurement period. At September 30, 2022, the District's proportionate share percent was .06041623 percent, an increase of .00337 percent from its proportion measured as of September 30, 2021.

Pension Expense - For the year ended June 30, 2023, the School District's pension expense was \$2,481,485, inclusive of payments to fund the MPSERS UAAL stabilization rate.

Hanover-Horton School District
Notes to Financial Statements

Note 9 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

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

Proportionate Share of School District’s Net OPEB Liability - At June 30, 2023, the District reported a liability of \$1,259,347 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 30, 2021. The District’s proportionate share of the net OPEB liability was determined by dividing each employer’s statutorily required OPEB contributions to the System during the measurement period by the percent of statutorily required OPEB contributions from all applicable employers during the measurement period. At September 30, 2022, the District’s proportionate share was .05945751 percent, an increase of .0017 percent from its proportion measured as of September 30, 2021.

OPEB Expense - For the year ended June 30, 2023, the School District recognized OPEB benefit of \$558,525.

Deferred Outflows and Deferred Inflows - At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>		<u>Deferred Inflows of Resources</u>	
	<u>Pension</u>	<u>OPEB</u>	<u>Pension</u>	<u>OPEB</u>
Difference between expected and actual experience	\$ 227,297	\$ -	\$ 50,803	\$ 2,466,579
Changes of assumptions	3,904,414	1,122,497	-	91,400
Net difference between projected and actual earnings on pension/OPEB plan investments	53,283	98,428	-	-
Changes in proportion and differences between District’s contributions and proportionate share of contributions	1,279	3,004	729,928	244,302
District’s contributions subsequent to the measurement date	<u>2,594,960</u>	<u>408,077</u>	<u>1,597,705</u>	<u>-</u>
Total	<u>\$ 6,781,233</u>	<u>\$ 1,632,006</u>	<u>\$ 2,378,436</u>	<u>\$ 2,802,281</u>

\$2,594,960, reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2024.

\$408,077, reported as deferred outflows of resources related to OPEB resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2024.

Hanover-Horton School District
Notes to Financial Statements

Note 9 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

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

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

Year Ended June 30	Pension	OPEB
2024	\$ 922,724	\$ (539,372)
2025	639,337	(479,355)
2026	585,825	(433,397)
2027	1,257,656	(79,048)
2028	-	(43,691)
Thereafter	-	(3,489)

Payables to the Pension/OPEB Plan - The District reported an accrued pension/OPEB plan payable at June 30, 2023 of \$132,874. This amount represents employee withholdings and the employer amount payable for wages earned at June 30, 2023 but not yet paid. The District is current on all required pension and OPEB plan payments. Amounts accrued at year end include current payments for June paid in July, accruals for summer pay primarily for teachers, and the contributions due from State Revenue Section 147c restricted to fund the MPSERS unfunded actuarial accrued liability (UAAL).

Actuarial Assumptions

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

A summary of actuarial assumptions as of the latest actuarial valuation follows:

Valuation date	September 30, 2021
Actuarial cost method	Entry age, normal
Asset valuation method	Fair value
Wage inflation rate	2.75%
Investment rate of return:	
MIP and Basic plans	6.00%, net of investment expenses
Pension Plus Plan	6.00%, net of investment expenses
Pension Plus 2 Plan	6.00%, net of investment expenses
OPEB	6.00%, net of investment expenses
Projected salary increases	2.75 – 11.55%, including wage inflation at 2.75%

Hanover-Horton School District
Notes to Financial Statements

Note 9 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Actuarial Assumptions (Continued)

Healthcare cost trend rate	Pre-65: 7.75% Year 1 graded to 3.5% Year 15; 3.0% Year 120 Post-65: 5.25% Year 1 graded to 3.5% Year 15; 3.0% Year 120
Cost of living pension adjustments	3.0 % annual non-compounded for MIP members
Mortality: Retirees:	RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Active Members:	RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Disabled Retirees:	RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Other Assumptions (OPEB) – applies to individuals hired before September 4, 2012:

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

Additional assumption information includes the following:

- Assumption changes as a result of an experience study for the periods 2012 through 2017 have been adopted by the System for use in the determination of the total pension and OPEB liabilities beginning with the September 30, 2018 valuation. The total pension/OPEB liability as of September 30, 2022 is based on the results of an actuarial valuation date of September 30, 2021, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years – 4.3922 for pension plan employers and 6.2250 for OPEB plan employers.
- Recognition period for assets in years is 5.0000.
- Full actuarial assumptions are available in the 2022 MPSERS Annual Comprehensive Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Rate of Return on Plan Assets – The long-term expected rate of return on pension/OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension/OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Hanover-Horton School District
Notes to Financial Statements

Note 9 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Actuarial Assumptions (Continued)

Best estimates of arithmetic real rates of return for each major asset class included in the pension/OPEB plan's target asset allocation as of September 30, 2022, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return*</u>
Domestic equity pools	25.0%	5.1%
Private equity pools	16.0%	8.7%
International equity pools	15.0%	6.7%
Fixed income pools	13.0%	(0.2)%
Real estate and infrastructure pools	10.0%	5.3%
Absolute return pools	9.0%	2.7%
Real return/opportunistic pools	10.00%	5.8%
Short-term investment pools	<u>2.0%</u>	(0.5)%
Total	<u>100.0%</u>	

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

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

Discount Rate – A discount rate of 6.00% was used to measure the total pension and OPEB liabilities. This discount rate was based on the long-term expected rates of return on pension and OPEB plan investments of 6.00%.

The projection of cash flows used to determine these discount rates assumed that plan member contributions will be made at the current contribution rates and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on these assumptions, the pension/OPEB plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension/OPEB plan investments was applied to all periods of projected benefits payments to determine the total pension/OPEB liabilities.

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

<u>1% Decrease 5.00%</u>	<u>Current Single Discount Rate Assumption 6.00%</u>	<u>1% Increase 7.00%</u>
<u>\$29,984,296</u>	<u>\$22,721,770</u>	<u>\$16,737,122</u>

Hanover-Horton School District
Notes to Financial Statements

Note 9 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Actuarial Assumptions (Continued)

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

1% Decrease 5.00%	Current Discount Rate 6.00%	1% Increase 7.00%
<u>\$2,112,434</u>	<u>\$1,259,347</u>	<u>\$540,942</u>

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

1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
<u>\$527,354</u>	<u>\$1,259,347</u>	<u>\$2,081,024</u>

Note 10 – Risk Management

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

Note 11 – Federal and State Grants

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

Required Supplementary Information

Hanover-Horton School District
 Budgetary Comparison Schedule - General Fund
 Year Ended June 30, 2023

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
Local sources	\$ 1,371,850	\$ 1,445,900	\$ 1,463,772
State sources	9,921,533	10,607,000	10,603,838
Federal sources	676,409	747,400	721,272
Interdistrict and other	474,900	460,700	460,667
Total revenues	<u>12,444,692</u>	<u>13,261,000</u>	<u>13,249,549</u>
Expenditures:			
Instruction:			
Basic programs	6,552,609	6,857,400	6,843,535
Added needs	923,565	1,111,300	1,109,640
Support services:			
Pupil	650,950	521,100	532,765
Instructional staff	128,200	145,300	148,173
General administration	435,200	456,800	463,357
School administration	988,600	1,159,300	1,129,586
Business	221,800	265,600	265,043
Operation and maintenance	1,352,000	1,399,247	1,373,570
Pupil transportation	808,600	938,800	1,582,697
Information management services	207,700	216,800	218,705
Athletics	303,500	338,600	333,811
Community and welfare services	7,600	100	53
Debt service	-	-	159,230
Capital outlay	65,400	154,053	125,052
Total expenditures	<u>12,645,724</u>	<u>13,564,400</u>	<u>14,285,217</u>
Revenues Over (Under) Expenditures	<u>(201,032)</u>	<u>(303,400)</u>	<u>(1,035,668)</u>
Other Financing Sources (Uses):			
Proceeds from issuance of lease	-	-	785,678
Operating transfers in	25,000	25,000	38,500
Total other financing sources (uses)	<u>25,000</u>	<u>25,000</u>	<u>824,178</u>
Net Changes in Fund Balances	(176,032)	(278,400)	(211,490)
Fund Balances - Beginning of Year	<u>2,088,502</u>	<u>2,088,502</u>	<u>2,088,502</u>
Fund Balances - End of Year	<u>\$ 1,912,470</u>	<u>\$ 1,810,102</u>	<u>\$ 1,877,012</u>

Hanover-Horton School District
 Budgetary Comparison Schedule - Food Service Fund
 Year Ended June 30, 2023

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
Local sources	\$ 54,400	\$ 246,485	\$ 254,771
State sources	13,500	18,541	16,459
Federal sources	611,814	374,147	434,872
Interdistrict and other	100	10,714	5,138
Total revenues	<u>679,814</u>	<u>649,887</u>	<u>711,240</u>
Expenditures:			
Food services	<u>747,127</u>	<u>561,668</u>	<u>622,051</u>
Total expenditures	<u>747,127</u>	<u>561,668</u>	<u>622,051</u>
Revenues Over (Under) Expenditures	<u>(67,313)</u>	<u>88,219</u>	<u>89,189</u>
Other Financing Sources (Uses):			
Proceeds from sale of capital assets	-	-	5,881
Operating transfers out	<u>(28,000)</u>	<u>(28,000)</u>	<u>(38,500)</u>
Total other financing sources (uses)	<u>(28,000)</u>	<u>(28,000)</u>	<u>(32,619)</u>
Net Changes in Fund Balances	(95,313)	60,219	56,570
Fund Balances - Beginning of Year	<u>472,444</u>	<u>472,444</u>	<u>472,444</u>
Fund Balances - End of Year	<u>\$ 377,131</u>	<u>\$ 532,663</u>	<u>\$ 529,014</u>

Hanover-Horton School District

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of net pension liability (%)	<u>0.06042%</u>	<u>0.06221%</u>	<u>0.06379%</u>	<u>0.06406%</u>	<u>0.06431%</u>	<u>0.06452%</u>	<u>0.06593%</u>	<u>0.06811%</u>	<u>0.06747%</u>
District's proportionate share of net pension liability	<u>\$ 22,721,770</u>	<u>\$ 14,727,345</u>	<u>\$ 21,910,883</u>	<u>\$ 21,214,316</u>	<u>\$ 19,333,297</u>	<u>\$ 16,719,211</u>	<u>\$ 16,449,080</u>	<u>\$ 16,636,044</u>	<u>\$ 15,140,274</u>
District's covered payroll	<u>\$ 5,713,182</u>	<u>\$ 5,475,046</u>	<u>\$ 5,610,679</u>	<u>\$ 5,555,834</u>	<u>\$ 5,445,050</u>	<u>\$ 5,435,731</u>	<u>\$ 5,335,135</u>	<u>\$ 5,304,335</u>	<u>\$ 5,774,396</u>
District's proportionate share of net pension liability as a percentage of its covered payroll	<u>397.71%</u>	<u>268.99%</u>	<u>390.52%</u>	<u>381.84%</u>	<u>355.06%</u>	<u>307.58%</u>	<u>308.32%</u>	<u>313.63%</u>	<u>262.20%</u>
Plan fiduciary net position as a percentage of total pension liability	<u>60.77%</u>	<u>72.60%</u>	<u>59.72%</u>	<u>60.31%</u>	<u>62.36%</u>	<u>64.21%</u>	<u>63.27%</u>	<u>63.17%</u>	<u>66.20%</u>

Hanover-Horton School District

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required pension contributions	\$ 2,739,963	\$ 1,867,788	\$ 1,752,898	\$ 1,701,762	\$ 1,751,225	\$ 1,513,277	\$ 1,480,500	\$ 1,313,943	\$ 1,456,714
Pension contributions in relation to statutorily required contributions	<u>2,739,963</u>	<u>1,867,788</u>	<u>1,752,898</u>	<u>1,701,762</u>	<u>1,751,225</u>	<u>1,513,277</u>	<u>1,480,500</u>	<u>1,313,943</u>	<u>1,456,714</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	<u>\$ 6,080,738</u>	<u>\$ 5,661,603</u>	<u>\$ 5,455,752</u>	<u>\$ 5,646,749</u>	<u>\$ 5,773,152</u>	<u>\$ 5,435,731</u>	<u>\$ 5,335,135</u>	<u>\$ 5,304,335</u>	<u>\$ 5,774,396</u>
Pension contributions as a percentage of covered payroll	<u>45.06%</u>	<u>32.99%</u>	<u>32.13%</u>	<u>30.14%</u>	<u>30.33%</u>	<u>27.84%</u>	<u>27.75%</u>	<u>24.77%</u>	<u>25.23%</u>

Hanover-Horton School District

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
District's proportion of net OPEB liability (%)	<u>0.05946%</u>	<u>0.06117%</u>	<u>0.06362%</u>	<u>0.06382%</u>	<u>0.06416%</u>	<u>0.06454%</u>
District's proportionate share of net OPEB liability	<u>\$ 1,259,347</u>	<u>\$ 933,723</u>	<u>\$ 3,408,284</u>	<u>\$ 4,581,020</u>	<u>\$ 5,100,387</u>	<u>\$ 5,715,224</u>
District's covered payroll	<u>\$ 5,713,182</u>	<u>\$ 5,475,046</u>	<u>\$ 5,610,679</u>	<u>\$ 5,555,834</u>	<u>\$ 5,445,050</u>	<u>\$ 3,604,066</u>
District's proportionate share of net OPEB liability as a percentage of its covered payroll	<u>22.04%</u>	<u>17.05%</u>	<u>60.75%</u>	<u>82.45%</u>	<u>93.67%</u>	<u>158.58%</u>
Plan fiduciary net position as a percentage of total OPEB liability	<u>83.09%</u>	<u>87.33%</u>	<u>59.44%</u>	<u>48.46%</u>	<u>42.95%</u>	<u>36.39%</u>

Hanover-Horton School District
 Schedule of the District's OPEB Contributions to the MPSERS Plan
 Last Six Fiscal Years (Amounts Determined Each Year as of June 30)

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily required OPEB contributions	\$ 465,862	\$ 430,543	\$ 449,490	\$ 438,210	\$ 416,488	\$ 502,642
OPEB contributions in relation to statutorily required contributions	<u>465,862</u>	<u>430,543</u>	<u>449,490</u>	<u>438,210</u>	<u>416,488</u>	<u>502,642</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	<u>\$ 6,080,738</u>	<u>\$ 5,661,603</u>	<u>\$ 5,455,752</u>	<u>\$ 5,646,749</u>	<u>\$ 5,773,152</u>	<u>\$ 5,435,731</u>
OPEB contributions as a percentage of covered payroll	<u>7.66%</u>	<u>7.60%</u>	<u>8.24%</u>	<u>7.76%</u>	<u>7.21%</u>	<u>9.25%</u>

Hanover-Horton School District

Notes to Required Supplementary Information Pension and OPEB Schedules
Year Ended June 30, 2023

Changes of Benefit Terms:

There were no changes of benefit terms in fiscal year 2022.

Changes of Assumptions:

For the State's fiscal year ended September 30, 2022:

The recognition period for liabilities, an average of the expected remaining service lives of all employees, changed to 4.3922 from 4.4367 for pension plan employers and to 6.2250 from 6.1312 for OPEB plan employers.

The investment rate of return for pension and OPEB plans decreased to 6.00% from 6.80% for MIP and Basic and Pension Plus pension plans and from 6.95% for OPEB plans.

Other Supplementary Information

Hanover-Horton School District
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2023

Assets	Student Activities Fund	Debt Service Funds	Sinking Fund	Total Nonmajor Governmental Funds
Cash and cash equivalents	\$ 356,163	\$ 225,259	\$ 308,947	\$ 890,369
Total assets	\$ 356,163	\$ 225,259	\$ 308,947	\$ 890,369
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 692	\$ -	\$ 123,802	\$ 124,494
Due to other funds	3,305	-	-	3,305
Total liabilities	3,997	-	123,802	127,799
Fund balances:				
Restricted	352,166	225,259	185,145	762,570
Total fund balances	352,166	225,259	185,145	762,570
 Total liabilities and fund balances	\$ 356,163	\$ 225,259	\$ 308,947	\$ 890,369

Hanover-Horton School District

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2023

	Student Activities Fund	Debt Service Funds	Sinking Fund	Total Nonmajor Governmental Funds
Revenues:				
Local sources	\$ 278,600	\$ 332,076	\$ 332,531	\$ 943,207
Investment earnings	9,118	-	-	9,118
Total revenues	<u>287,718</u>	<u>332,076</u>	<u>332,531</u>	<u>952,325</u>
Expenditures:				
Student activities	231,849	-	-	231,849
Debt service:				
Principal	-	125,000	192,000	317,000
Interest	-	174,600	21,179	195,779
Capital outlay	-	-	980,156	980,156
Total expenditures	<u>231,849</u>	<u>299,600</u>	<u>1,193,335</u>	<u>1,724,784</u>
Revenues Over (Under) Expenditures	<u>55,869</u>	<u>32,476</u>	<u>(860,804)</u>	<u>(772,459)</u>
Other Financing Sources (Uses):				
Operating transfers in	-	17,159	-	17,159
Operating transfers out	-	(17,159)	-	(17,159)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	55,869	32,476	(860,804)	(772,459)
Fund Balances - Beginning of Year	<u>296,297</u>	<u>192,783</u>	<u>1,045,949</u>	<u>1,535,029</u>
Fund Balances - End of Year	<u><u>\$ 352,166</u></u>	<u><u>\$ 225,259</u></u>	<u><u>\$ 185,145</u></u>	<u><u>\$ 762,570</u></u>

Hanover-Horton School District

Schedule of Bonded Indebtedness

June 30, 2023

	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Fiscal Year Interest Requirements</u>	<u>Amount of Annual Maturity</u>	<u>Bonds Outstanding June 30, 2023</u>
2019 Building & Site Bonds	August 8, 2019	\$ 4,530,000	4.000%	5/1/2024	\$ 169,600	\$ 135,000	\$ 135,000
			4.000%	5/1/2025	164,200	145,000	145,000
			4.000%	5/1/2026	158,400	155,000	155,000
			4.000%	5/1/2027	152,200	160,000	160,000
			4.000%	5/1/2028	145,800	170,000	170,000
			4.000%	5/1/2029	139,000	175,000	175,000
			4.000%	5/1/2030	132,000	180,000	180,000
			4.000%	5/1/2031	124,800	190,000	190,000
			4.000%	5/1/2032	117,200	195,000	195,000
			4.000%	5/1/2033	109,400	205,000	205,000
			4.000%	5/1/2034	101,200	215,000	215,000
			4.000%	5/1/2035	92,600	220,000	220,000
			4.000%	5/1/2036	83,800	230,000	230,000
			4.000%	5/1/2037	74,600	240,000	240,000
			4.000%	5/1/2038	65,000	250,000	250,000
			4.000%	5/1/2039	55,000	255,000	255,000
			4.000%	5/1/2040	44,800	265,000	265,000
			4.000%	5/1/2041	34,200	275,000	275,000
			4.000%	5/1/2042	23,200	285,000	285,000
4.000%	5/1/2043	11,800	295,000	295,000			
						<u>\$ 4,240,000</u>	
2022 Building & Site Bonds	March 31, 2022	\$ 1,000,000	1.950%	5/1/2024	\$ 15,756	\$ 196,000	\$ 196,000
			1.950%	5/1/2025	11,934	200,000	200,000
			1.950%	5/1/2026	8,034	204,000	204,000
			1.950%	5/1/2027	4,056	208,000	208,000

Hanover-Horton School District

Single Audit Report

Year Ended June 30, 2023

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

Board of Education
Hanover-Horton School District
Horton, Michigan

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

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hanover-Horton 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 Hanover-Horton School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Hanover-Horton 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2023-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hanover-Horton 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 an instance of noncompliance or other matters that is required to be reported under *Government*

Auditing Standards and which is described in the accompanying schedule of findings and questioned costs as item 2023-001.

Hanover-Horton School District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Hanover-Horton School District's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Hanover-Horton School District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

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

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

September 30, 2023



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

Board of Education
Hanover-Horton School District
Horton, Michigan

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

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

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

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Hanover-Horton School District's compliance based on our audit.

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

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

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

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

Report on Internal Control Over Compliance

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

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

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

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

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

September 30, 2023

Hanover-Horton School District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal Assistance Listing Number</u>	<u>Pass-through Grantor's Number</u>	<u>Award/Grant Entitlement Program Amount</u>	<u>Accrued (Deferred) Revenue 7/1/2022</u>	<u>Prior Year Expenditures (Memorandum Only)</u>	<u>Prior Year Adjustments</u>	<u>Current Year Receipts</u>	<u>Current Year Expenditures</u>	<u>Accrued (Deferred) Revenue 6/30/2023</u>
U.S. Department of Agriculture									
Child Nutrition Cluster:									
Passed through Michigan Department of Education:									
Non-cash Assistance (Commodities):									
National School Lunch Program - Regular	10.555		\$ 36,251	\$ -	\$ -	\$ -	\$ 36,251	\$ 36,251	\$ -
National School Lunch Program - Bonus	10.555		4,087	-	-	-	4,087	4,087	-
			<u>40,338</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,338</u>	<u>40,338</u>	<u>-</u>
Cash Assistance:									
COVID-19 School Lunch Program	10.555	221960	27,527	-	-	-	27,527	27,527	-
COVID-19 Supply Chain Assistance	10.555	230910	14,586	-	-	-	14,586	-	(14,586)
National School Lunch Program	10.555	231960	185,923	-	-	-	185,923	185,923	-
COVID-19 Supply Chain Assistance	10.555	220910	47,468	(12,814)	10,568	-	23,734	30,042	(6,506)
			<u>275,504</u>	<u>(12,814)</u>	<u>10,568</u>	<u>-</u>	<u>251,770</u>	<u>243,492</u>	<u>(21,092)</u>
Total National School Lunch Program			<u>315,842</u>	<u>(12,814)</u>	<u>10,568</u>	<u>-</u>	<u>292,108</u>	<u>283,830</u>	<u>(21,092)</u>
COVID-19 School Breakfast Program	10.553	221970	5,601	-	-	-	5,601	5,601	-
School Breakfast Program	10.553	231970	46,230	-	-	-	46,230	46,230	-
			<u>51,831</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,831</u>	<u>51,831</u>	<u>-</u>
Total Cash Assistance			<u>327,335</u>	<u>(12,814)</u>	<u>10,568</u>	<u>-</u>	<u>303,601</u>	<u>295,323</u>	<u>(21,092)</u>
Total Child Nutrition Cluster			<u>367,673</u>	<u>(12,814)</u>	<u>10,568</u>	<u>-</u>	<u>343,939</u>	<u>335,661</u>	<u>(21,092)</u>
Local Food for Schools	10.185	230985-2023	5,027	-	-	-	5,027	5,027	-
COVID-19 Pandemic EBT Local Level Costs	10.649	220980-2022	628	-	-	-	628	628	-
Total U.S. Department of Agriculture			<u>373,328</u>	<u>(12,814)</u>	<u>10,568</u>	<u>-</u>	<u>349,594</u>	<u>341,316</u>	<u>(21,092)</u>
U.S. Department of Education:									
Passed through Michigan Department of Education:									
Title I Grants to Local Educational Agencies	84.010	221530-2122	101,392	13,921	78,055	-	18,941	5,020	-
Title I Grants to Local Educational Agencies	84.010	231530-2223	124,885	-	-	-	79,668	105,458	25,790
			<u>226,277</u>	<u>13,921</u>	<u>78,055</u>	<u>-</u>	<u>98,609</u>	<u>110,478</u>	<u>25,790</u>
Supporting Effective Instruction State Grants	84.367	221520-2122	51,118	3,953	17,702	-	5,222	1,269	-
Supporting Effective Instruction State Grants	84.367	231520-2223	50,570	-	-	-	25,746	26,702	956
			<u>101,688</u>	<u>3,953</u>	<u>17,702</u>	<u>-</u>	<u>30,968</u>	<u>27,971</u>	<u>956</u>

See Accompanying Footnotes.

Hanover-Horton School District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal Assistance Listing Number</u>	<u>Pass-through Grantor's Number</u>	<u>Award/Grant Entitlement Program Amount</u>	<u>Accrued (Deferred) Revenue 7/1/2022</u>	<u>Prior Year Expenditures (Memorandum Only)</u>	<u>Prior Year Adjustments</u>	<u>Current Year Receipts</u>	<u>Current Year Expenditures</u>	<u>Accrued (Deferred) Revenue 6/30/2023</u>
U.S. Department of Education (Continued)									
Passed through Michigan Department of Education (Continued):									
Student Support and Academic Enrichment	84.424A	220750-2122	10,777	3,702	10,777	(2,555)	1,147	-	-
Student Support and Academic Enrichment	84.424A	230750-2223	12,555	-	-	-	7,843	10,558	2,715
			<u>23,332</u>	<u>3,702</u>	<u>10,777</u>	<u>(2,555)</u>	<u>8,990</u>	<u>10,558</u>	<u>2,715</u>
Education Stabilization Fund									
COVID-19 Governor's Emergency Education Relief Fund (ESSER III - 11t)	84.425U	213723-2122	489,732	5,956	5,956	-	138,318	184,243	51,881
COVID-19 Governor's Emergency Education Relief Fund (ESSER II - 23b2a)	84.425D	213722-2122	33,000	13,540	33,000	-	13,540	-	-
COVID-19 Governor's Emergency Education Relief Fund (ESSER II - 23b2b)	84.425D	213742-2122	15,950	2,350	9,875	-	8,425	6,075	-
COVID-19 Governor's Emergency Education Relief Fund (ESSER II - 23b2c)	84.425D	213752-2122	25,000	3,212	4,875	-	3,294	10,562	10,480
COVID-19 Governor's Emergency Education Relief Fund (ESSER II - Benchmark)	84.425D	213762-2022	9,213	6,224	9,213	-	6,224	-	-
COVID-19 Governor's Emergency Education Relief Fund (ESSER II)	84.425D	213712-2021	326,919	16,717	294,311	-	39,072	22,355	-
COVID-19 Governor's Emergency Education Relief Fund (ESSER III - 98C Learning Loss)	84.425U	213782-2223	55,054	-	-	-	-	10,750	10,750
COVID-19 Governor's Emergency Education Relief Fund (ESSER III)	84.425U	213713-2122	734,734	97,891	97,891	-	517,193	425,086	5,784
			<u>1,689,602</u>	<u>145,890</u>	<u>455,121</u>	<u>-</u>	<u>726,066</u>	<u>659,071</u>	<u>78,895</u>
Total passed through Michigan Department of Education			<u>2,040,899</u>	<u>167,466</u>	<u>561,655</u>	<u>(2,555)</u>	<u>864,633</u>	<u>808,078</u>	<u>108,356</u>
Passed through Jackson County ISD:									
Homeless Students Assistance Grant	84.196	2022-2023	821	-	-	-	821	821	-
Total U.S. Department of Education			<u>2,041,720</u>	<u>167,466</u>	<u>561,655</u>	<u>(2,555)</u>	<u>865,454</u>	<u>808,899</u>	<u>108,356</u>
U.S. Department of Health and Human Services:									
Medicaid Cluster									
Passed through Jackson County ISD:									
Medicaid Outreach	93.778	2022-2023	5,929	-	-	-	5,929	5,929	-
Total U.S. Department of Health and Human Services			<u>5,929</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,929</u>	<u>5,929</u>	<u>-</u>
			<u>\$ 2,420,977</u>	<u>\$ 154,652</u>	<u>\$ 572,223</u>	<u>\$ (2,555)</u>	<u>\$ 1,220,977</u>	<u>\$ 1,156,144</u>	<u>\$ 87,264</u>

See Accompanying Footnotes.

Hanover-Horton School District
Schedule of Reconciliation of Revenues with
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

	<u>Amount</u>
Revenue from federal sources - per financial statements (includes all funds)	\$ <u>1,156,144</u>
Federal expenditures per the Schedule of Expenditures of Federal Awards	\$ <u>1,156,144</u>

Hanover-Horton School District
Notes to Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

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

Note 2 – Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the modified accrual basis of accounting, which is described in Note 1 to the District's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

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

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

Expenditures are in agreement with amounts reported in the financial statements and the financial reports with any reconciling items noted on page 8. The amounts on the Grant Auditor Report reconcile with this Schedule. The amounts reported on the Recipient Entitlement Balance (PAL) Report agree with this Schedule for USDA donated food commodities and the expenditures include any spoilage or pilferage. There are additional commodities recorded that were not included on the PAL report.

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

Note 3 – Subrecipients

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

Hanover-Horton School District
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2023

Section I – Summary of Auditors’ Results

Financial Statements

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

Federal Awards

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

Type of auditors’ report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)	<u> </u> yes <u> X </u> no

Identification of major programs:

<u>Assistance Listing Number</u> 84.425	<u>Name of Federal Program</u> Education Stabilization Fund
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Dollar threshold used to distinguish between Type A and Type B programs:	<u> \$ 750,000 </u>
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Auditee qualified as low-risk	<u> X </u> yes <u> </u> no
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Section II – Financial Statement Findings

2023-001 – Material Adjustment/Budget Overage

Criteria or Specific Requirement: It is management’s responsibility to prepare the financial statements in accordance with generally accepted accounting principles (GAAP) and implement adequate controls over financial reporting including the budget.

Condition: As noted in the supplementary information of the audit report, there were several functions where expenditures exceeded the budget.

Cause and Effect: The most significant of the overages relate to the adoption of GASB 87 and the recording of a long-term bus lease. While the net effect to the bottom line of these adjustments was zero, this caused the District to be out of compliance with the Uniform Budget and Accounting Act.

Hanover-Horton School District
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2023

Section II – Financial Statement Findings (Continued)

2023-001 – Budget Overage (Continued)

Recommendation: We recommend management review control procedures in these areas to determine the budget is sufficient to cover all actual expenditures.

Views of Responsible Officials and Planned Corrective Action: We will be reviewing our budgeting procedure to ensure adequate budget amounts are approved to allow for year-end adjustments. This update is expected to be completed by June 30, 2024.

Hanover-Horton School District
Comments on Resolution of Findings from June 30, 2022
Single Audit Report

Financial Statement Findings

None

Federal Award Findings and Questioned Costs

None



Hanover-Horton School District

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John Denney, Superintendent



Corrective Action Plan Fiscal Year 2022-2023

Finding 2023-001

The LEA Business Manager will prepare the monthly financial reports by function code in addition to the current format. Additionally, when performing budget amendments a review of actual to budget by function code will be performed and reviewed by the LEA Business Manager and Superintendent. This corrective action will begin January 2024.



WILLIS & JURASEK

CPAS AND CONSULTANTS

September 30, 2023

To the Board of Education
Hanover-Horton School District
Horton, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hanover-Horton School District for the year ended June 30, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Hanover-Horton School District are described in Note 1 to the financial statements. The District adopted Statement of Governmental Accounting Standards Board (GASB Statement) No. 96, *Subscription-Based Information Technology Arrangements*. We noted no transactions entered into by the 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 government-wide financial statements were:

Management has estimated the value of capitalized assets and the related accumulated depreciation. The bulk of the capitalized costs is based upon an asset appraisal done in a prior year. Related depreciation is based upon estimated usage using estimated lives and methods to formulate net book value. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statements contain estimates for net pension and OPEB liabilities and related deferred inflows and deferred outflows of resources. This information has been provided by ORS to all school districts participating in the MPSERS pension/OPEB system. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Management has also estimated the liability for compensated absences. We have evaluated the key factors and assumptions used to develop the liability for compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements of any significance including one material adjustment to correct the recording of bus leases.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as per the auditors' report.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the 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 Budgetary Comparison Schedule, the Schedule of the District's Proportionate Share of the Net Pension/OPEB Liability of the MPERS Plan, and the Schedule of the District's Contributions to the MPERS Pension/OPEB Plan and related notes which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

Comments and Recommendations

- The Food Service Fund has a fund balance in excess of the allowable threshold. We recommend the District continue to work with MDE on a spend down plan of these funds to bring the fund balance back into compliance.

Restriction on Use

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

Very truly yours,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.