HANOVER-HORTON SCHOOL DISTRICT

Jackson County, Michigan

Annual Financial Report

For the year ended June 30, 2026

HUNGERFORD

CPAs • ADVISORS • TECHNOLOGY • WEALTH

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

October 12, 2026

The Board of Education
Hanover-Horton School District
Jackson County, Michigan

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the major funds, and the aggregate remaining fund information of Hanover-Horton School District as of and for the year ended June 30, 2026, and the related notes to the financial statements, which collectively comprise Hanover-Horton School District' 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, the major funds, and the aggregate remaining fund information of Hanover-Horton School District, as of June 30, 2026, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's 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 statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America 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 auditing standards generally accepted in the United States of America 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 and other required supplementary information as listed in the table of contents be presented to supplement the basic financial statements.

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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2026, 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.

Hungerford

Certified Public Accountants
Grand Rapids, Michigan

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Hanover-Horton School District ("the District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2026. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of four parts: Management's Discussion and Analysis (this section), the Basic Financial Statements, Required Supplementary Information, and Supplementary Information. The Basic Financial Statements include two kinds of statements that present different views of the District:

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

The Basic Financial Statements also include Notes to Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data; Required Supplementary Information includes a budgetary comparison schedule and pension and OPEB information schedules; Other Supplementary Information follows and includes combining and individual fund statements and schedules.

District-wide Statements

The district-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District's net position, and how it has changed. Net position - the difference between the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources - is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position is an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, one should consider additional non-financial factors such as changes in the District's property tax-base, economic factors that might influence state aid revenue, and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities are presented as follows:

- Governmental activities: The District's basic services are included here, such as regular and special education, instructional support, transportation, administration, community services, food service, and athletics. State aid and property taxes finance most of these activities.

New Accounting Pronouncement

The Governmental Accounting Standards Board (GASB) issued Statement No. 103, Financial Reporting Model Improvements. The requirements of this statement enhance certain aspects of the existing financial reporting model, including management's discussion and analysis, unusual or infrequent items, and budgetary comparison information. The District implemented this statement for the fiscal year ended June 30, 2026.

Financial Summary

The Statement of Net Position provides financial information on the District as a whole.

	2026	2025	Dollar Change	Percent Change
Assets				
Current assets	$ 10,643,729	$ 6,162,789	$ 4,480,940	72.7%
Net capital assets	10,895,290	11,806,158	(910,868)	-7.7%
Net OPEB asset	4,104,110	2,601,895	1,502,215	57.7%
Total Assets	**25,643,129**	**20,570,842**	**5,072,287**	24.7%
Deferred Outflows of Resources	**4,045,378**	**5,014,075**	**(968,697)**	-19.3%
Liabilities				
Current liabilities	4,145,280	3,364,440	780,840	23.2%
Long-term liabilities	8,748,117	5,527,375	3,220,742	58.3%
Net pension liability	11,831,257	14,728,305	(2,897,048)	-19.7%
Total Liabilities	**24,724,654**	**23,620,120**	**1,104,534**	4.7%
Deferred Inflows of Resources	**7,464,942**	**8,539,829**	**(1,074,887)**	-12.6%
Net Position				
Net investment in capital assets	2,778,295	6,962,783	(4,184,488)	-60.1%
Restricted	5,573,166	3,506,106	2,067,060	59.0%
Unrestricted (deficit)	(10,852,550)	(17,043,921)	6,191,371	-36.3%
Total Net Position	**$ (2,501,089)**	**$ (6,575,032)**	**$ 4,073,943**	**-62.0%**

The Statement of Activities presents changes in net position from operating results:

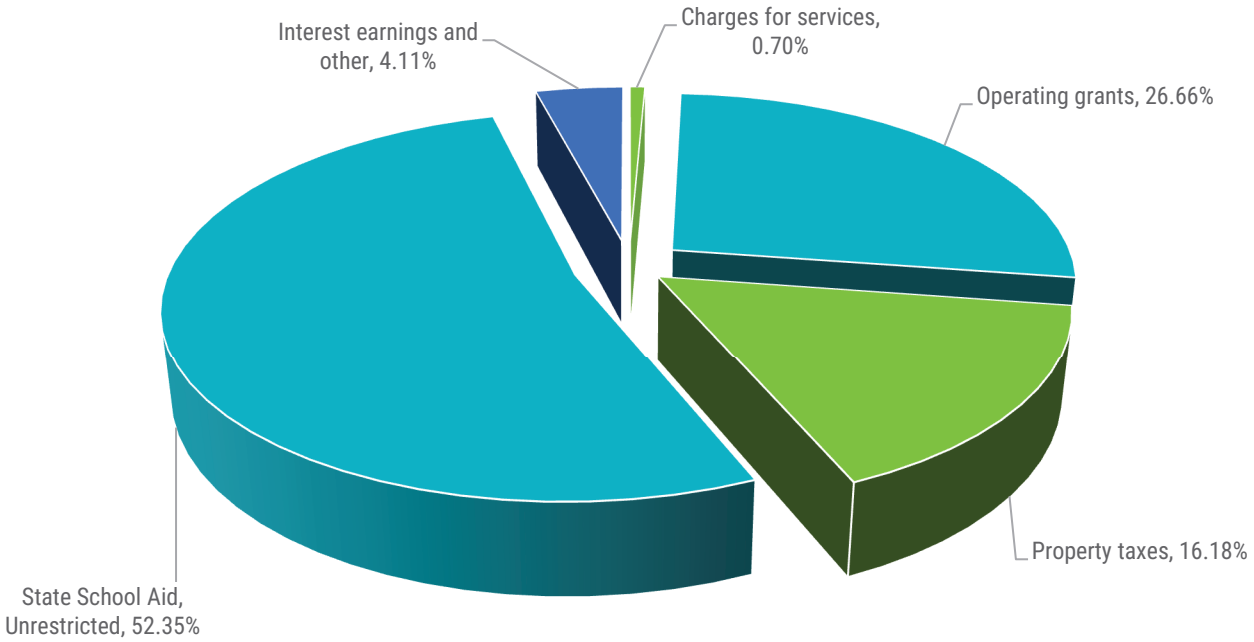
	2026	2025	Dollar Change	Percent Change
Program Revenues				
Charges for services	$ 109,092	$ 169,226	$ (60,134)	-35.5%
Operating grants	4,177,083	4,693,829	(516,746)	-11.0%
General Revenues				
Property taxes	2,535,839	2,361,035	174,804	7.4%
State school aid, unrestricted	8,202,336	7,982,918	219,418	2.7%
Interest and investment earnings	149,736	-	149,736	-
Other	493,961	648,687	(154,726)	-23.9%
Total Revenues	15,668,047	15,855,695	(187,648)	-1.2%
Expenses				
Instruction	5,453,532	6,464,177	(1,010,645)	-15.6%
Supporting services	4,457,314	5,034,743	(577,429)	-11.5%
Community services	1,647	5,814	(4,167)	-71.7%
Food service	468,378	660,559	(192,181)	-29.1%
Interest on long-term debt	302,365	209,379	92,986	44.4%
Depreciation – unallocated	910,868	912,634	(1,766)	-0.2%
Total Expenses	11,594,104	13,287,306	(1,693,202)	-12.7%
Increase in Net Position	4,073,943	2,568,389	1,505,554	58.6%
Net Position, Beginning of Year	(6,575,032)	(9,143,421)	2,568,389	-28.1%
Net Position, End of Year	**$ (2,501,089)**	**$ (6,575,032)**	**$ 4,073,943**	**-62.0%**

Detailed Analysis – District Wide

Total revenues exceeded expenses by $4,073,943 on the Statement of Activities, increasing total net position from a deficit of $6,575,032 at June 30, 2025 to a deficit of $2,501,089 at June 30, 2026. Unrestricted net position increased by $6,191,371 to a deficit of $10,852,550 at June 30, 2026. The District's net pension liability, including deferred outflows and inflows of resources, decreased by $3,106,861 during the fiscal year. In addition, the District's net OPEB asset, including outflows and inflows of resources, increased by $1,398,592 during the fiscal year.

The District's financial position is the product of various financial transactions including the net results of activities, the acquisition and payment of debt, and the acquisition and depreciation of capital assets. A large portion of the District's net position reflects investments in capital assets (e.g. land and improvements, buildings and improvements, vehicles, and furniture and equipment); less any related outstanding debt used to acquire those assets. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

District-Wide Revenues by Type

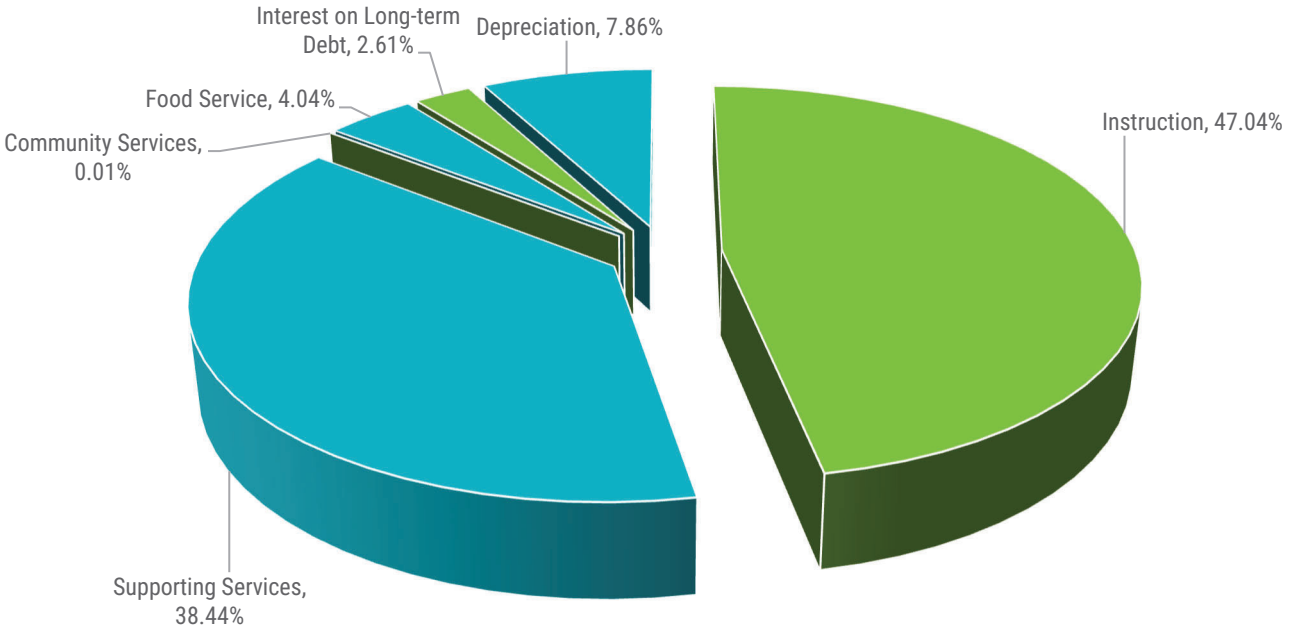


The District's total revenues decreased by 1.2% to $15.7 million for the year ended June 30, 2026. General revenues are primarily derived from state school aid and local property taxes (68.5% of total), both of which are influenced by economic conditions, legislative actions, and student enrollment trends. State school aid, which represents the District's largest source of unrestricted revenue, is dependent upon annual appropriations by the state and funding formulas that consider pupil membership and other factors established by state law. Changes in enrollment or state funding levels may have a significant impact on the District's annual operating revenues. Unrestricted state school aid increased by 2.7% during the year ended June 30, 2026, which resulted primarily from the $442 increase to the per pupil foundation allowance.

Property tax revenues are affected by taxable values within the District, millage rates approved by voters, and overall economic conditions. Fluctuations in property values and tax collections may result in increases or decreases in revenues available to support District operations and debt service requirements. Property tax revenue increased by 7.4% during the year ended June 30, 2026; attributed to rising taxable values within the District's boundaries, offset by a small decrease (0.0134 mills) in taxes levied for the sinking fund.

The District also receives operating grants consisting of federal and state grant funding to support specific educational programs and other initiatives. Grant revenues are generally restricted for designated purposes and may vary from year-to-year based on the availability of funding, eligibility requirements, and the timing of program expenditures. As a result, changes in grant activity can contribute to fluctuations in total revenues reported by the District. Operating grant revenues (26.7% of total) decreased by 11.0% during the year ending June 30, 2026. The decrease was caused primarily by not receiving the state aid 31AA Mental Health grant in 2025-2026, which caused a decrease of approximately $177,000. MPSERS also reduced funding by approximately $262,000 in 2025-2026.

District-Wide Expenses by Function



The total cost of all programs decreased by 12.7% to $11.6 million for the year ended June 30, 2026. The District's expenses are predominantly related to instruction (47.0%) and supporting services (38.4%), which includes various functions such as caring for (pupil services) and transporting students, administrative services, and operation and maintenance services.

Functional expenses (instruction, supporting services, food service, community services) reported in the district-wide financial statements include adjustments related to GASB Statement No. 34 that are not reflected in the governmental fund statements. These adjustments consist primarily of additions to capital assets and pension and OPEB-related expenses, which are allocated to the District's various functions. Accordingly, year-over-year changes in functional expenses may reflect both operational changes and fluctuations in these allocated accounting adjustments. In particular, changes in deferred inflows and outflows of resources and the District's proportionate share of net pension and OPEB liabilities may have a significant impact on reported net position and annual operating results reflected in the district-wide financial statements.

The significant change in instruction and supporting services expenses reported between 2025 and 2026 is attributed to the required adjustments for GASB Statement No. 34. However, changes in expenditure levels reported in the governmental fund financial statements, and more specifically the major fund of the District, often serve as the primary driver for changes reflected in the district-wide statements. For consideration of the impact of year over year changes reported in the District's general fund, including those related to costs of instruction and supporting service, see commentary in the *Detailed Analysis – Major Funds* that follows.

Other expenses reported in the district-wide financial statements remained relatively stable compared to the prior year. No significant changes in service levels or operating activities occurred during the year that materially impacted these functions.

Detailed Analysis – Major Funds

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. As a general rule, fund balances from one fund are prohibited from being expended on expenditures of another fund.

The District utilizes one kind of fund:

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

The District reports two major funds individually in the governmental fund financial statements. Those funds include the General Fund and the 2026 Capital Projects Fund. Most of the discussion regarding governmental activities is equally applicable to the finances of those governmental funds. However, certain factors that are relevant to the District's current financial health are more apparent in the fund financial statements than in the district-wide financial statements. The significant changes are shown in the table and discussed in more detail below.

	General Fund		2026 Capital Projects	
	2026	2025	2026	2025
Revenues				
Local sources	$ 2,011,929	$ 1,895,272	$ 379	$ -
State sources	11,044,509	10,792,346	-	-
Federal sources	137,170	256,602	-	-
Interdistrict sources	390,203	392,671	-	-
Total Revenues	13,583,811	13,336,891	379	-
Expenditures				
Instruction	7,634,035	7,969,541	-	-
Supporting services	5,579,656	5,629,085	-	-
Community services	3,932	5,814	-	-
Capital outlay	-	6,888	-	-
Debt service	143,058	150,208	96,462	-
Total Expenditures	13,360,681	13,761,536	96,462	-

General Fund

The General Fund is the District's primary operating fund and accounts for much of the financial activity reported as governmental activities in the district-wide financial statements. Consequently, trends in the district wide financial statements generally mirror the results of operations reported in the General Fund, with state school aid and local property taxes serving as the District's most significant revenue sources. Differences between changes in General Fund balance and changes in net position are primarily attributable to accrual-based adjustments for capital assets, long-term debt, pension and OPEB liabilities, and other long-term obligations reported in the district-wide financial statements.

Significant changes noted for the year ending June 30, 2026 were as follows:

- Local sources increased by 6.2%, attributed to an increase in property taxes for the 2025-26 school year.
- Federal sources decreased by 36.5%, attributed to receiving federal pandemic relief funds totaling $89,498 in 2024-25 while receiving no pandemic funds in 2025-26. Title revenues of $25,710 were also deferred to the 2026-27 school year, adding to the overall decrease.
- Expenses for instruction decreased by 4.2%, attributed in part to the 2024-25 school year receiving one-time funding for the MPSERS Retirement Obligation Reform Reserve Fund to lower the payroll growth assumption. There were also multiple teachers who retired in fiscal year 2025, causing instructional expenses to decrease for fiscal year 2026.

Because GASB Statement No. 103 requires explanations of significant budgetary variances as supplementary information, some factors affecting changes in General Fund revenues and expenditures may also be discussed outside the MD&A, reducing duplication while still providing users with relevant analysis. Users of this report should also consider the Budgetary Comparison Schedule (page 60) and the related Notes to Budgetary Comparison Schedule (page 62) which provide additional discussion of significant budget-to-actual variances that may help explain changes in General Fund operating results and fund balance from the prior year.

Capital Projects Fund

Significant changes noted for the 2026 Construction Capital Projects Fund are due to the issuance of the 2026 Building and Site Bond. See additional discussion in Note G in the Notes to Basic Financial Statements

Significant Capital Asset and Long-Term Financing Activity

Capital Assets

At the end of fiscal year 2025-26, the District had a $24.9 million investment in a broad range of capital assets including land, school buildings, athletic facilities, administrative offices, furniture and equipment, right to use assets, and transportation and other vehicles.

At June 30, 2026, the District's net investment in capital assets (after accumulated depreciation and amortization) was $10,895,290. There were no capital asset additions and accumulated depreciation and amortization increased $910,868, resulting in decrease in capital assets of $910,868.

More detailed information about capital assets can be found in Note E in the Notes to Basic Financial Statements.

Long-term Obligations

At year end, the District had $9.48 million in general obligation bonds and other long-term liabilities outstanding – a net increase of $3,948,777 from last year.

- During the current year, the District issued bonds in the amount of $3,740,000 with a bond premium of $201,413.

- The District continued to pay down its debt, retiring $359,000 of outstanding bonds, $112,804 of lease liabilities, and $6,213 of its equipment loan.

- The District's underling credit rating for general obligation debt was affirmed by Standard and Poor's as A, with a negative outlook. The State limits the amount of general obligation debt that schools can issue to 15% of the assessed value of all taxable property within a District's boundaries.

The District's other obligations include accumulated sick leave and unamortized bond premium. We present more detailed information about our long-term liabilities in Note G in the Notes to Basic Financial Statements.

Currently Known Facts, Decisions, or Conditions

At the time these financial statements were prepared and audited, the District was aware of the following circumstances that could significantly affect its financial health in the future:

- The State of Michigan continues to focus on student achievement. Federal fund allocations have not been released at this time, which could cause slight financial stress on the budget due to the continued support of the programs that assist some students. Results of standardized test score data (Michigan Educational Assessment Program and the Michigan Merit Exam) are compared from year to year to evaluate student needs. The results being tabulated by the school building and by the district assist with data-driven changes. The District continues to follow the yearly progress of students and will address the need for assistance, both academically, socially, and mentally. The District has purchased a new curriculum to assist with the students' knowledge and achievement in academic areas such as Math and ELA.

- Cost increases exceeding the general rate of inflation continue to be expected for the District relative to pension contribution obligations in 2025-2026 and beyond. Affordable health care continues to assist with the savings for the District; however, this year the increase was smaller than the previous year, but the cost is still increasing. These savings allow the District to continue the same coverage and benefits while trending positively for the next school year.

- The District and the staff negotiated contracts will be reviewed and negotiated this year and the following as the support staff contract is active through December 31, 2026, with the teacher contract expiring on December 31, 2026. The approved contract provides health insurance utilizing BC/BS of Michigan as the standard plan, with staff paying a 20% portion of the premium.

- As the District continues to face the budget challenges of the current and upcoming school years, operating efficiencies and balanced budgets will be necessary. The ability to continue to operate an adequate educational system with level revenues and increasing expenditures is the challenge of the future. The Board of Education and the Finance Sub-Committee are continuously reviewing budgets for fiscal oversight, fiscal responsibility, and financial planning.

- During the 2025-2026 school year, Hanover-Horton School District continues to assess learning levels and social-emotional well-being. The District continues to allocate additional resources toward distance learning. Resources allocated included devices, consumables, and teacher time. Distance learning needs will continue to be an issue in the future since more and more families are choosing this avenue for their students' education. Federal and state grant monies have been allocated towards some of these expenditures, but many may need to be covered by traditional general fund dollars.

- For the 2025-2026 school year, Hanover-Horton School District is re-evaluating the District's financial status regularly due to economic concerns and unknown additional costs from the effects of increasing expenditures. The projected funding has helped stabilize the upcoming year; however, the District will be utilizing some of the reserve funds and is working to address a temporary economic downturn. Cost-saving measures are continually being discussed and will be implemented to assist in stabilizing the District reserves for the future.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Hanover-Horton School District, 405 S. Main Street or 10400 Moscow Road, Horton MI 49246.

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BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION

HANOVER-HORTON SCHOOL DISTRICT
June 30, 2026

	Governmental Activities
Assets	
Cash	$ 1,544
Cash equivalents and investments (Note B)	8,550,303
Accounts receivable	17,674
Due from other governmental units (Note C)	2,023,845
Inventory	7,421
Prepaid expenses	42,942
Capital assets not being depreciated (Note E)	1,150
Capital assets being depreciated, net (Note E)	10,894,140
Net OPEB asset (Note I)	4,104,110
Total Assets	25,643,129
Deferred Outflows of Resources	
Deferred pension amounts	3,411,995
Deferred OPEB amounts	633,383
Total Deferred Outflows of Resources	4,045,378
Liabilities	
Accounts payable	168,559
State aid anticipation notes payable (Note F)	1,900,000
Due to other governmental units	392,306
Accrued interest payable	58,330
Accrued expenses	176,193
Salaries payable	601,786
Unearned revenue	120,071
Long-term liabilities (Note G):	
Due within one year	728,035
Due in more than one year	8,748,117
Net pension liability (Note H)	11,831,257
Total Liabilities	24,724,654
Deferred Inflows of Resources	
Deferred pension amounts	3,956,656
Deferred OPEB amounts	3,508,286
Total Deferred Inflows of Resources	7,464,942
Net Position	
Net investment in capital assets	2,778,295
Restricted for:	
Debt service	400,337
Capital projects	3,845,030
Food service	895,899
Student/school activity	431,900
Unrestricted (deficit)	(10,852,550)
Total Net Position	$ (2,501,089)

STATEMENT OF ACTIVITIES

HANOVER-HORTON SCHOOL DISTRICT
For the year ended June 30, 2026

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants	Net (Expense) Revenue and Changes In Net Position
Governmental Activities				
Instruction	$ 5,453,532	$ 775	$ 3,194,426	$ (2,258,331)
Supporting services	4,457,314	18,680	200,004	(4,238,630)
Community services	1,647	-	-	(1,647)
Food service	468,378	89,637	781,827	403,086
Interest on long-term debt	302,365	-	826	(301,539)
Depreciation - unallocated*	910,868	-	-	(910,868)
Total Governmental Activities	$ 11,594,104	$ 109,092	$ 4,177,083	(7,307,929)
General Revenues				
Taxes:				
Property taxes, levied for general operations				1,745,349
Property taxes, levied for debt service				405,132
Property taxes levied for capital projects				385,358
State school aid, unrestricted				8,202,336
Interest and investment earnings				149,736
Other				493,961
Total General Revenues				11,381,872
Change in Net Position				4,073,943
Net Position - Beginning of Year				(6,575,032)
Net Position - End of Year				$ (2,501,089)

*This amount excludes direct depreciation expenses of the various programs.

BALANCE SHEET
GOVERNMENTAL FUNDS

HANOVER-HORTON SCHOOL DISTRICT
June 30, 2026

	2026			
	General	Capital Projects	Nonmajor	Total
Assets				
Cash	$ 1,544	$ -	$ -	$ 1,544
Cash equivalents and investments (Note B)	2,671,282	3,910,330	1,968,691	8,550,303
Accounts receivable	-	-	17,674	17,674
Due from other funds (Note D)	50,833	-	17,871	68,704
Due from other governmental units (Note C)	1,976,981	-	46,864	2,023,845
Inventory	-	-	7,421	7,421
Prepaid expenditures	42,942	-	-	42,942
Total Assets	$ 4,743,582	$ 3,910,330	$ 2,058,521	$ 10,712,433
Liabilities and Fund Balances				
Liabilities				
Accounts payable	$ 74,597	$ 65,300	$ 28,662	$ 168,559
State aid anticipation notes payable	1,900,000	-	-	1,900,000
Due to other funds (Note D)	17,871	-	50,833	68,704
Due to other governmental units	392,243	-	63	392,306
Accrued expenditures	175,449	-	744	176,193
Salaries payable	599,809	-	1,977	601,786
Unearned revenue	145,781	-	-	145,781
Total Liabilities	3,305,750	65,300	82,279	3,453,329
Fund Balances (Note A)				
Nonspendable	42,942	-	7,421	50,363
Restricted	-	3,845,030	1,968,821	5,813,851
Unassigned	1,394,890	-	-	1,394,890
Total Fund Balances	1,437,832	3,845,030	1,976,242	7,259,104
Total Liabilities and Fund Balances	$ 4,743,582	$ 3,910,330	$ 2,058,521	$ 10,712,433

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET POSITION OF GOVERNMENTAL ACTIVITIES

HANOVER-HORTON SCHOOL DISTRICT
June 30, 2026

Total governmental fund balances		$ 7,259,104
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 therefore are not reported as assets in governmental funds. The cost of assets is $24,946,055 and accumulated depreciation/amortization is $14,050,765.		10,895,290
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
General obligation bonds	$ (7,753,000)	
Bond premium, unamortized	(201,413)	
Lease liabilities	(325,670)	
Equipment loan	(26,688)	
Compensated absences	(1,169,381)	(9,476,152)
Accrued interest on long-term debt is not included as a liability in governmental funds.		(58,330)
Deferred inflows of resources represent federal revenue that are not available to finance current period expenditures and therefore are not recognized in the Statement of Net Position.		25,710
Net pension liability and related deferred outflows/inflows of resources are not included as assets/liabilities in governmental funds:		
Net pension liability	(11,831,257)	
Deferred outflows	3,411,995	
Deferred inflows	(3,956,656)	(12,375,918)
Net OPEB asset and related deferred outflows/inflows of resources are not included as assets/liabilities in governmental funds:		
Net OPEB asset	4,104,110	
Deferred outflows	633,383	
Deferred inflows	(3,508,286)	1,229,207
Total net position - governmental activities		$ (2,501,089)

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

HANOVER-HORTON SCHOOL DISTRICT
For the year ended June 30, 2026

	General	2026 Capital Projects	Nonmajor	Total
Revenues				
Local sources	$ 2,011,929	$ 379	$ 1,275,986	$ 3,288,294
State sources	11,044,509	-	348,478	11,392,987
Federal sources	137,170	-	433,394	570,564
Interdistrict sources	390,203	-	-	390,203
Total Revenues	13,583,811	379	2,057,858	15,642,048
Expenditures				
Instruction	7,634,035	-	-	7,634,035
Supporting services	5,579,656	-	322,758	5,902,414
Food service	-	-	728,070	728,070
Community services	3,932	-	-	3,932
Capital outlay	-	-	132,492	132,492
Debt service:				
Principal repayment	112,804	-	359,000	471,804
Interest and fiscal charges	30,254	-	166,432	196,686
Bond issuance costs	-	77,949	-	77,949
Underwriter's discount	-	18,513	-	18,513
Total Expenditures	13,360,681	96,462	1,708,752	15,165,895
Excess (Deficiency) of Revenues Over Expenditures	223,130	(96,083)	349,106	476,153
Other Financing Sources (Uses)				
Proceeds from bond issuance	-	3,740,000	-	3,740,000
Premium from bond issuance	-	201,413	-	201,413
Transfers in	50,000	-	-	50,000
Transfers out	-	-	(50,000)	(50,000)
Other transactions	-	(300)	589	289
Total Other Financing Sources (Uses)	50,000	3,941,113	(49,411)	3,941,702
Net Change in Fund Balances	273,130	3,845,030	299,695	4,417,855
Fund Balances, Beginning of Year	1,164,702	-	1,676,547	2,841,249
Fund Balances, End of Year	$ 1,437,832	$ 3,845,030	$ 1,976,242	$ 7,259,104

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

HANOVER-HORTON SCHOOL DISTRICT
For the year ended June 30, 2026

Net change in fund balances - total governmental funds		$ 4,417,855
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of these assets is capitalized and allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation/amortization exceeded capital outlay in the current period:		
Capital outlay	$ -	
Depreciation/amortization expense	(910,868)	(910,868)
Proceeds from the sale of bonds or loans are an other financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Position.		
Bond issuance	(3,740,000)	
Bond premium	(201,413)	(3,941,413)
Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not effect the Statement of Activities:		
General obligation bonds	359,000	
Lease liabilities	112,804	
Equipment loan	6,213	478,017
Interest on long-term liabilities in the Statement of Activities differs from the amount reported on the governmental funds because interest is recorded as an expenditure in the funds when it is due and paid, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is paid.		(15,430)
In the Statement of Net Position, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amount of these benefits earned exceeded the amount used/paid.		(485,381)

Revenues are recognized in the Statement of Activities when earned. In the governmental funds, however, revenues are recognized only when collected within 60 days of year-end.	$ 25,710
The changes in net pension liability and related deferred outflows/inflows of resources are not included as revenues/expenditures in governmental funds.	3,106,861
The changes in net OPEB asset and related deferred outflows/inflows of resources are not included as revenues/expenditures in governmental funds.	1,398,592
Total changes in net position - governmental activities	$ 4,073,943

NOTES TO BASIC FINANCIAL STATEMENTS

Note A – Summary of Significant Accounting Policies

Hanover-Horton School District (the "District") was organized under the School Code of the State of Michigan, and services a population of approximately 979 students. The District is governed by an elected Board of Education consisting of seven members and administered by a Superintendent who is appointed by the aforementioned Board. The District provides a comprehensive range of educational services as specified by state statute and Board of Education policy. These services include elementary education, secondary education, pre-school programs, athletic activities, special education, community services, and general administrative services. The Board of Education also has broad financial responsibilities, including the approval of the annual budget and the establishment of a system of accounting and budgetary controls.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The District's significant accounting policies are described below.

1. Reporting Entity

The financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and the District is not included in any other governmental reporting entity. Consequently, the District's financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

2. 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) present financial information about the District as a whole. The reported information includes all of the nonfiduciary activities of the District. The District does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the District. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District does not have any *business-type activities*.

The Statement of Net Position is reported on the full accrual, economic resources basis, which recognizes all long-term assets as well as all long-term debt and obligations. The District's net position is reported in three parts: net investment in capital assets, restricted net position, and unrestricted net position.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function 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. Property taxes, unrestricted state aid, interest earnings, and other items not included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. The major individual governmental funds are reported as a separate column in the fund financial statements. The General Fund and the 2026 Capital Projects Funds are the District's major funds. Nonmajor funds are aggregated and presented in a single column.

Fund Financial Statements – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities, and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the district-wide level. Reconciliations between the two sets of statements are provided separately.

Revenues are recognized when susceptible to accrual, i.e., both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are property taxes, state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Unearned revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Unearned revenue also arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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 State portion of the foundation allowance is provided from the State's School Aid Fund and is recognized as revenues in accordance with State law and accounting principles generally accepted in the United States of America.

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of a school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The *General Fund* is the general operating fund of the District. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

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.

School Service Funds—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. A school district maintains full control of these funds. The School Service Funds maintained by the District are the Food Service Special Revenue Fund and the Student/School Activity Special Revenue Fund.

Debt Service Funds—Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt (bonds, notes, loans, leases, and school bond loan) principal, interest, and related costs.

Capital Projects Funds—Capital Projects Funds are used to record bond proceeds, property tax revenues or other revenues and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment and for major remodeling and repairs. The funds are retained until the purpose for which the funds were created has been accomplished.

The 2026 Capital Projects Fund includes capital project activities funded with bonds issued after March 29, 2017. For these projects, the District has complied with applicable provisions of Section 1351a of the State of Michigan's School Code.

The Capital Projects Funds also include capital project activities funded with a sinking fund millage. The District has complied with applicable provisions of Section 12121(I) of the State of Michigan's School Code and the Michigan Department of Treasury, Numbered Letter 2023-1.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted as they are needed.

4. Budgets and Budgetary Accounting

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a school district be under budgetary control and that both budgeted and actual financial results do not incur a deficit. Hanover-Horton School District has also adopted budgets for its Food Service Special Revenue Fund and the Student/School Activity Special Revenue Fund. A school district's General Appropriations Resolution (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the budget. A school district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year end. A school district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Education. Expenditures may not legally exceed budgeted appropriations at the function level. All appropriations lapse at the end of the fiscal year.

For the year ended June 30, 2026, the original and final adopted budgets for the General Fund anticipated a budgetary deficit, reflecting expenditures in excess of revenues.

Hanover-Horton School District utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- Starting in the spring, District administrative personnel and department heads work with the Superintendent and Finance Director to establish proposed operating budgets for the fiscal year commencing the following July 1.

- In June, preliminary operating budgets are submitted to the Board of Education. These budgets include proposed expenditures and the means of financing them.

- Prior to June 30, a public hearing is held to obtain taxpayer comments on the proposed budgets.

- After the budgets are finalized, the Board of Education adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.

- The original General Fund budget was amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).

- Budgets for the General and Special Revenue Funds were adopted on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

5. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

6. Investments

Investments are recorded at fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

7. Inventory/Prepaid Items

Inventories are valued at cost (first-in, first-out) and are accounted for using the consumption method. Inventories of the General Fund consist of custodial and transportation maintenance supplies, while inventories of the Food Service Fund consist of food and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the district-wide and fund financial statements. The cost of prepaid items is recorded as expenses/expenditures when consumed rather than when purchased.

8. Capital Assets

Capital assets, which include land, land improvements, buildings, building improvements, vehicles, and furniture and equipment, are reported in the district-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed $5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

Land improvements, buildings and improvements, furniture and equipment, and vehicles are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	15 - 25 years
Buildings and improvements	15 - 50 years
Furniture and equipment	5 - 20 years
Buses and other vehicles	5 - 10 years

The right-to-use assets related to leases of buses are amortized over the lease term.

9. Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported at the total amount of bonds issued.

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

10. Compensated Absences

Compensated absences for employees at the District consist of accumulated sick leave as of June 30, 2026. In accordance with applicable accounting standards, the District accrues a liability for compensated absences when it is more likely than not that the benefit will be realized by the employee, either through future use or payment upon separation from service. As of June 30, 2026, the total accrued compensated absences amounted to $1,169,381.

11. Retirement Plan

Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions,* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, were implemented by the District during the fiscal year ended June 30, 2015. These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, the Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Cost sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans – pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the 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 School 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. Plan investments are reported at fair value.

12. Postemployment Benefits Other Than Pensions

Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was implemented by the District during the fiscal year ended June 30, 2018. This Statement establishes standards for recognizing and measuring (OPEB) liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB plans, the Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about OPEB are also addressed. Distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet specific criteria. Cost-sharing employers are those whose employees are provided with defined benefit OPEB through cost-sharing multiple-employer OPEB plans—OPEB plans in which the OPEB obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides OPEB through the OPEB plan.

For purposes of measuring the net OPEB asset, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Michigan Public School 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. Plan investments are reported at fair value.

13. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has two such items that qualify for reporting in this category: the deferred outflows of resources relating to the recognition of net pension liability on the financial statements and the deferred outflows of resources relating to the recognition of net OPEB asset on the financial statements.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future period(s) and so will *not* be recognized as in inflow of resources (revenue) until that time. The District has two types of items that qualify for reporting in this category: the deferred inflows of resources relating to the recognition of net pension liability on the financial statements and the deferred inflows of resources relating to the recognition of net OPEB asset on the financial statements.

14. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition or construction of those assets. Net position is reported as restricted when there are limitations imposed on their use either through legislation or through external restrictions imposed by creditors, grantors, laws, or regulations from other governments.

15. Fund Balance

The District had adopted Governmental Accounting Standards Board (GASB) Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. The stated objective of GASB Statement No. 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds, detailed as follows:

- Nonspendable – resources that cannot be spent because they are either (a) not in spendable form (inventories and prepaid amounts) or (b) legally or contractually required to be maintained intact (the principal of a permanent fund).

- Restricted – resources that cannot be spent because of (a) constraints externally imposed by creditors (debt covenants), grantors, contributors, or laws or regulations or (b) imposed by law through constitutional provisions or enabling legislation and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

- Committed – resources that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority (Board of Education). Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified uses by taking the same type of action it employed to previously commit those amounts. Committed fund balance does not lapse at year end.

- Assigned – resources that are constrained by the government's *intent* to be used for specific purposes but are neither restricted nor committed. Intent should be expressed by (a) the governing body itself or (b) a body or official to which the governing body has designated the authority to assign amounts to be used for specific purposes. Assigned fund balance does not lapse at year end.

- Unassigned – unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

When the District incurs an expenditure for purposes for which various fund balance classifications can be used, it is the District's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

16. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

17. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note B – Cash Equivalents and Investments

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this State under the laws of this State or the United States.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Securities issued or guaranteed by agencies or instrumentalities of the United States government.
- United States government or Federal agency obligation repurchase agreements.
- Banker's acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation.
- Mutual funds composed entirely of investment vehicles which are legal for direct investment by a school district in Michigan.
- Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district in Michigan.

Balances at June 30, 2026 related to cash equivalents and investments are detailed in the Basic Financial Statements as follows:

Statement of Net Position:	
Governmental activities	$ 8,550,303

Cash Equivalents

Depositories actively used by the District during the year are detailed as follows:

1. County National Bank

Cash equivalents consist of bank public funds checking and savings accounts.

June 30, 2026 balances are detailed as follows:

Cash equivalents	$ 1,122,543

Custodial Credit Risk Related to Bank Deposits
Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to the District. Protection of District cash equivalents is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the District's cash equivalents was $1,122,543, and the bank balance was $1,157,001. Of the bank balance $250,000 was insured and $907,001 was uninsured and uncollateralized.

Investments

As of June 30, 2026 the District had the following investments:

Surplus Funds Investment Pool Account:	
Michigan Liquid Asset Fund Plus (MILAF+) – Cash Management	$ 3,910,330
Michigan Liquid Asset Fund Plus (MILAF+) – MAX Class	3,517,430
	$ 7,427,760

The Michigan Liquid Asset Fund Plus (MILAF+) is an external pooled investment fund that includes qualified investments in accordance with the applicable sections of the School Code. MILAF+ is not regulated or registered with the Securities Exchange Commission and reported the same value of the pool shares as the fair value of the District's investment at June 30, 2026. The MILAF+ fund is carried at amortized cost and rated AAAm by Standard & Poor's rating agency. The MILAF+ MAX Class requires a 14-day redemption notice.

The District's policies to minimize investment risk are as follows:

Custodial Credit Risk Related to Investments
Custodial credit risk is the risk that, in the event of a failure of the counterparty, the District may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District will minimize custodial credit risk by limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the District will do business. At June 30, 2026, the District had no investments that were subject to custodial credit risk.

Credit Risk
Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The District's investment policy does not specifically address credit risk but minimizes its credit risk by limiting investments to the types allowed by the State.

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

Concentration of Credit Risk
The District minimizes concentration of credit risk which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The District's investment policy places no restrictions on the amount or percentage that may be invested in any one type of security.

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

Note C – State School Aid/Property Taxes

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts.

These additional State revenues pass through to Michigan school districts in the form of a per pupil "Foundation Allowance" paid on a "blended count" of District pupil membership in February 2025 and October 2025. The 2025-26 "Foundation Allowance" for Hanover-Horton School District was $10,050 for 981 "Full Time Equivalent" students, generating $11,303,418 in State aid payments to the District of which $1,998,135 was paid to the District in July and August, 2026, and included in "Due From Other Governmental Units" of the General Fund and Food Service Special Revenue Fund of the District.

Property taxes for the District are levied July 1 (the tax lien date) by Counties of Jackson and Hillsdale, and are due 75 days after levy dates. The taxes are then collected by each governmental unit and remitted to the District. The Counties, through their Delinquent Tax Revolving Funds, advances all delinquent real property taxes at March 1 to the District each year prior to June 30.

Section 1211(1) of 1993 PA 312 states that beginning in 1994, the board of a school district shall levy not more than 18 mills, if approved by voters, for school operating purposes, or the number of mills levied in 1993, whichever is less, on non-homestead property only, in order to be eligible to receive funds under the State School Aid Act of 1979. After 1996, electors may approve a 3 mill “Local Enhancement Millage” which must be shared between all local districts in each respective county intermediate district.

Hanover-Horton School District's electors previously approved nine-year non-homestead operating millage extensions (February 2024 and August 2024). After application of the Headlee Amendment reduction fraction, the maximum allowable levy for 2025 was 16.7695 mills for the February 2024 authorization, and 1.9682 mills for the August 2024 authorization. The District levied a combined 18 mills on non-homestead property in 2025, the maximum allowed under state law.

The District levied 0.9576 mills for debt service purposes and 1 mill for building and site in 2025, applied on all taxable property in the District.

Taxable property in the District is assessed initially at 50% of true cash value by the assessing officials of the various units of government that comprise the District. These valuations are then equalized by the county and finally by the State of Michigan, generating the State Equalized Valuation. Taxable valuation increases will be limited, or capped (known as capped valuation), at 5% or the rate of inflation, whichever is less. With the implementation of Proposal A and Public Act 36, taxable property is now divided into two categories: PRE and NPRE.

A principal residence exemption property (PRE) is exempt from the 18 mill "School Operating" tax. It is not exempt from the 6 mill "State Education" tax, any voted “Local Enhancement Millage” nor any additional voted millage for the retirement of debt.

Non-principal residence exemption property (NPRE) is subject to all District levies. However, since Public Act 36, establishing the Michigan Business Tax, was signed into law, Public Acts 37-40 of 2007 now exempt Industrial Personal Property from the 6 mill State Education Tax and up to 18 mills of local school district operating millage (includes property under Industrial Facilities Tax exemptions); and exempt Commercial Personal Property from up to 12 mills of local school district operating millage (exceptions may apply).

The District is subject to tax abatements granted by the Counties of Jackson and Hillsdale with local businesses under the Plant Rehabilitation and Industrial Development Districts Act, (known as the Industrial Facilities Exemption) PA 198 of 1974, as amended, provides a tax incentive to manufacturers to enable renovation and expansion of aging facilities, assists in the building of new facilities, and promotes the establishment of high tech facilities. An Industrial Facilities Exemption (IFE) certificate entitles the facility to exemption from ad valorem real and/or personal property taxes for a term up to 12 years as determined by the local unit of government. The agreements entered into by each local unit include claw back provisions should the recipient of the tax abatement fail to fully meet its commitments, such as employment levels and timelines for relocation. The tax abated property taxes are calculated by applying half the local property tax millage rate on the total IFT taxable value. This amounts to a reduction in property tax revenue of approximately 50%.

For the year ended June 30, 2026, the District’s property tax revenues were reduced by approximately $11,597 under these agreements.

Note D – Interfund Receivables/Payables

Amounts due from (to) other funds, representing interfund receivables and payables for year-end expenditure allocations not reimbursed at June 30, 2026, are detailed as follows:

	Due From	Due To
Major Funds		
General Fund		
Special Revenue Funds:		
Student/School Activity	$ 473	$ -
Food Service	50,360	15,978
Debt Service Funds:		
2019 Debt Service Fund	-	967
Capital Projects Funds:		
Sinking Fund	-	926
Total Major Fund	$ 50,833	$ 17,871
Nonmajor Funds		
Special Revenue Funds:		
Food Service:		
General Fund	$ 15,978	$ 50,360
Student/School Activity:		
General Fund	-	473
Debt Service Funds:		
2019 Debt:		
General Fund	967	-
Capital Projects Funds:		
Sinking Fund:		
General Fund	926	-
Total Nonmajor Funds	17,871	50,833
Total All Funds	$ 68,704	$ 68,704

Operating transfers between funds during the year ended June 30, 2026 were as follows:

	Transfers In	Transfers Out
Major Funds		
General Fund:		
Special Revenue Funds:		
Food Service	$ 50,000	$ -
Nonmajor Funds		
Special Revenue Funds:		
Food Service:		
General Fund	-	50,000
Total All Funds	$ 50,000	$ 50,000

There was one interfund transfer during the year ended June 30, 2026 between the General Fund and Food Service. This transfer was for reimbursement of indirect costs associated with administering the school nutrition program.

Note E – Capital Assets

Capital asset activity for the year ended June 30, 2026 was as follows:

	Balances July 1, 2025	Additions	Deductions	Balances June 30, 2026
Capital assets not being depreciated:				
Land	$ 1,150	$ -	$ -	$ 1,150
Capital assets being depreciated and amortized:				
Land improvements	2,971,344	$ -	$ -	2,971,344
Buildings and improvements	19,524,300	-	-	19,524,300
Furniture and equipment	1,179,856	-	-	1,179,856
Buses and other vehicles	483,637	-	-	483,637
Intangible right-to-use assets:				
Leased buses	785,768	-	-	785,768
Total capital assets being depreciated and amortized	24,944,905	$ -	$ -	24,944,905
Less accumulated depreciation for:				
Land improvements	1,202,043	$ 78,482	$ -	1,280,525
Buildings and improvements	10,552,612	548,801	-	11,101,413
Furniture and equipment	697,527	83,918	-	781,445
Buses and other vehicles	294,831	42,513	-	337,344
Less accumulated amortization for:				
Leased buses	392,884	157,154	-	550,038
Total accumulated depreciation and amortization	13,139,897	$ 910,868	$ -	14,050,765
Total capital assets being depreciated and amortized, net	11,805,008			10,894,140
Net Capital Assets	$ 11,806,158			$ 10,895,290

Depreciation and amortization expense for the District was $910,868. The District determined that it was impractical to allocate depreciation to various governmental activities as the assets serve multiple functions.

Note F – Short-term Obligations

On August 20, 2025, the District borrowed $1,900,000 in anticipation of State aid. The note was due and paid in full on August 20, 2026. The interest rate on the borrowing was 3.45%, resulting in a net interest cost of $65,550 in the current year. Which has been recorded in the General Fund's Other Business Services expenditure function as of June 30, 2026, as required by the Michigan Department of Education.

Note G – Long-term Obligations

Changes in long-term obligations for the year ended June 30, 2026 are summarized as follows:

	Debt Outstanding July 1, 2025	Adjustment	Debt Added	Debt Retired	Debt Outstanding June 30, 2026
General obligation bonds:					
August 8, 2019	$ 3,960,000	$ -	$ -	$ 155,000	$ 3,805,000
March 31, 2022	412,000	-	-	204,000	208,000
June 30, 2026	-	-	3,740,000	-	3,740,000
Bond premium	-	-	201,413	-	201,413
Lease liabilities	438,474	-	-	112,804	325,670
Equipment loan	32,901	-	-	6,213	26,688
Compensated absences	684,000	390,742 *	94,639	-	1,169,381
	$ 5,527,375	$ 390,742	$ 4,036,052	$ 478,017	$ 9,476,152

**See Note N – Change in Accounting Estimate*

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

	Final Maturity Dates	Interest Rates	Outstanding Balance	Amount Due Within One Year
General Obligation Bonds				
$4,530K 2019 Building and Site:				
Annual maturities of $160K to $295K	May 1, 2043	4.00%	$ 3,805,000	$ 160,000
$1,000K 2022 Building and Site:				
Annual maturity of $208K	May 1, 2043	1.95	208,000	208,000
$3,740K 2026 Building and Site:				
Annual maturities of $30K to $360K	May 1, 2051	5.00	3,740,000	225,000
Bond premium		N/A	201,413	8,057
Lease Liabilities				
$785,768 Bus Lease:				
Annual maturities of $121K to $205K	June 21, 2027	6.90	325,670	120,588
Note Payable				
Equipment loan:				
Annual maturities of $6,390 to $6,967	June 1, 2030	2.85	26,688	6,390
Other Obligations				
Compensated absences			1,169,381	-
			$ 9,476,152	$ 728,035

The annual requirements to pay principal and interest on general obligation bonds and other long-term debt are as follows:

Years Ending June 30	General Obligation Bonds		Lease Liabilities		Equipment Loan		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2027	$ 593,000	$ 312,609	$ 120,588	$ 22,471	$ 6,390	$ 760	$ 1,055,818
2028	170,000	321,550	205,082	6,918	6,572	578	710,700
2029	175,000	314,750	-	-	6,759	391	496,900
2030	180,000	307,750	-	-	6,967	199	494,916
2031	190,000	300,550	-	-	-	-	490,550
2032	225,000	292,950	-	-	-	-	517,950
2033	235,000	283,650	-	-	-	-	518,650
2034	255,000	273,950	-	-	-	-	528,950
2035	265,000	263,350	-	-	-	-	528,350
2036	285,000	252,300	-	-	-	-	537,300
2037	310,000	240,350	-	-	-	-	550,350
2038	330,000	227,250	-	-	-	-	557,250
2039	350,000	213,250	-	-	-	-	563,250
2040	385,000	198,300	-	-	-	-	583,300
2041	410,000	181,700	-	-	-	-	591,700
2042	435,000	163,950	-	-	-	-	598,950
2043	465,000	145,050	-	-	-	-	610,050
2044	260,000	124,750	-	-	-	-	384,750
2045	275,000	111,750	-	-	-	-	386,750
2046	290,000	98,000	-	-	-	-	388,000
2047	305,000	83,500	-	-	-	-	388,500
2048	320,000	68,250	-	-	-	-	388,250
2049	335,000	52,250	-	-	-	-	387,250
2050	350,000	35,500	-	-	-	-	385,500
2051	360,000	18,000	-	-	-	-	378,000
	$ 7,753,000	$ 4,885,259	$ 325,670	$ 29,389	$ 26,688	$ 1,928	$ 13,021,934

Note H – Retirement Plan

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) (the "System") is a cost- sharing, multiple-employer, state-wide, defined benefit public employee retirement plan and fiduciary component unit of the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members – eleven appointed by the Governor, and the State Superintendent of Instruction, who serves as the ex-officio member.

The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

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

The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

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. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The age and service requirements range from attaining the age of 46 to 60 with years of service ranging from 5 to 30 years, depending on when the employee became a member. Early retirement is computed in the same manner as a regular pension but is permanently reduced by .50 percent for each full and partial month between the pension effective date and the date the member will attain age 60. There is no mandatory retirement age. The System also provides disability and survivor benefits to DB plan members.

Certain employees have the option to participate in the defined contribution (DC) plan that provides a 50 percent employer match (up to 3 percent of salary) on employee contributions.

Benefit terms provide for annual cost of living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustment, if applicable, is 3 percent. Some members who do not receive an annual increase are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions.

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

Contributions

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of September 30, 2022 is amortized over a 14-year period beginning October 1, 2024 and ending September 30, 2038.

The schedule below summarizes pension contribution rates in effect for the plan fiscal year ended September 30, 2025.

		Pension Contribution Rates:	
Plan Name	**Plan Status**	**Member**	**District**
Basic	Closed	0.0 – 4.0%	30.11%
Member Investment Plan (MIP)	Closed	3.0 – 7.0%	30.11%
Pension Plus (Hybrid)	Closed	3.0 – 6.4%	26.27%
Pension Plus 2 (Hybrid)	Open	6.2%	27.16%
Defined Contribution	Open	0.0%	20.96%

The District's contributions to MPSERS under all pension plans for the year ended June 30, 2026 inclusive of the MSPERS UAAL Stabilization, totaled $2,625,180.

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

As of June 30, 2026, the District reported a liability of $11,831,257 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2025, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2024. The District's proportion 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 the pension contributions required from all applicable employers during the measurement period. As of September 30, 2025 the District's proportion was 0.05905887% which was a decrease from 0.06159690% at September 30, 2024.

For the year ended June 30, 2026, the District recognized pension credit of $265,281. As of June 30, 2026, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 458,259	$ 105,380
Changes of assumptions	424,658	625,310
Net difference between projected and actual earnings on pension plan investments	—	2,827,417
Changes in proportion and differences between District contributions and proportionate share of contributions	112,603	398,549
District contributions subsequent to the measurement date*	2,416,475	—
Total	$ 3,411,995	$ 3,956,656

* This amount, reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2027.

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

Years Ending June 30	Amount
2027	$ (297,676)
2028	(1,327,091)
2029	(1,017,294)
2030	(319,075)

Actuarial 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.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

Valuation Date:	September 30, 2024
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return:	
MIP and Basic Plans:	6.00% net of investment expenses
Pension Plus Plan:	6.00% net of investment expenses
Pension Plus 2:	6.00% net of investment expenses
Projected Salary Increases:	2.75% - 11.55%, including wage inflation of 2.75%
Cost-of-Living Adjustments:	3% annual non-compounded for MIP members
Mortality:	
Retirees:	PubT-2010 Male and Female Retiree Mortality Tables scaled by 116% for males and 116% for females and adjusted for mortality improvements using projection scale MP-2021 from 2010.
Active Members:	PubT-2010 Male and Female Employee Mortality Tables scaled by 100% and adjusted for mortality improvements using projection scale MP-2021 from 2010.

Notes:

- Assumption changes as a result of an experience study for the period 2017 through 2022 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2023 valuation. The total pension liability as of September 30, 2025 is based on the results of an actuarial valuation date of September 30, 2024 and rolled forward using generally accepted actuarial procedures, including the experience study.

- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: [4.4524 for non-university employers].

- Recognition period for assets in years: 5.0000.

- Full actuarial assumptions are available in the 2025 MPSERS Annual Comprehensive Financial Report found on the ORS website at (www.michigan.gov/orsschools).

Long-Term Expected Rate of Return on Plan Investments

The long-term expected rate of return on pension 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 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. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2025 are summarized in the following table:

Investment Category	Target Allocation	Long-term Expected Real Rate of Return*
Domestic Equity Pools	21.0%	5.8%
International Equity Pools	14.0	5.6
Private Equity Pools	16.0	9.3
Real Estate and Infrastructure Pools	8.0	7.0
Fixed Income Pools	15.0	2.5
Absolute Return Pools	13.0	4.4
Real Return/Opportunistic Pools	9.0	7.0
Short-term Investment Pools	4.0	1.3
Total	**100.0%**	

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

Rate of Return

For the fiscal year ended September 30, 2025, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 9.81%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 6.00% was used to measure the total pension liability (6.00% for the Pension Plus Plan , 6.00% for the Pension Plus 2 Plan, hybrid plans provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 6.00% (6.00% for the Pension Plus Plan, 6.00% for the Pension Plus 2 plan). The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.00% (6.00% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan), 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 1 percentage point lower or 1 percentage point higher:

	1% Decrease 5.00%	Current Single Discount Rate Assumption 6.00%	1% Increase 7.00%
District's proportionate share of the net pension liability	$ 18,670,377	$ 11,831,257	$ 6,135,146

Michigan Public School Employees' Retirement System (MPSERS) Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees' Retirement System September 30, 2025 Annual Comprehensive Financial Report, available on the ORS website: (www.michigan.gov/orsschools).

Payables to the Michigan Public School Employees' Retirement System (MPSERS)

Payables to the pension plan totaling $333,715 arise from the normal legally required contributions based on the accrued salaries payable at year end, expected to be liquidated with expendable available financial resources. The payables are included in the "Due to Other Governmental Units" at June 30, 2026.

Note I – Other Postemployment Benefits

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS or "System") is a cost-sharing, multiple- employer, state-wide, defined benefit public employee retirement plan and a fiduciary component unit of the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. 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's health plan provides all eligible retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

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

The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

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 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 Other Postemployment Benefits, members who first worked on or after July 1, 2008 (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date. 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 Michigan Public School Employees' Retirement System, who earned service credit in the 12 months ending September 3, 2012 or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013.

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

Beginning October 1, 2025, active members who have the premium subsidy healthcare benefit are no longer required to pay the 3% contribution toward future healthcare benefits.

Contributions

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

Employer OPEB 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 portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of September 30, 2022 is amortized over a 14-year period beginning October 1, 2024 and ending September 30, 2038.

The schedule below summarizes OPEB contribution rates in effect for fiscal year ended September 30, 2025:

OPEB Contribution Rates:

Benefit Structure	Member	District
Premium Subsidy	3.0%	1.25%
Personal Healthcare Fund (PHF)	0.0%	0.00%

Required contributions to the OPEB plan from the District were $45,383 for the year ended June 30, 2026.

OPEB Assets, OPEB Credit, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

As of June 30, 2026, the District reported an asset of $4,104,110 for its proportionate share of the MPSERS net OPEB asset. The net OPEB asset was measured as of September 30, 2025, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation rolled forward from September 2024. The District's proportion of the net OPEB asset was determined by dividing each employer's statutorily required OPEB contributions to the System during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. As of September 30, 2025 the District's proportion was 0.06751161%, which was an increase from 0.06044737% at September 30, 2024.

For the year ended June 30, 2026, the District recognized OPEB credit of $41,885. At June 30, 2026, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ —	$ 2,809,868
Changes of assumptions	547,738	43,528
Net difference between projected and actual earnings on OPEB plan investments	—	576,717
Changes in proportion and differences between District contributions and proportionate share of contributions	44,290	78,173
District contributions subsequent to the measurement date*	41,355	—
Total	$ 633,383	$ 3,508,286

* This amount, reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date, will be recognized as an addition of the net OPEB asset in the year ended June 30, 2027.

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

Years Ending June 30	Amount
2027	$ (802,814)
2028	(766,159)
2029	(694,108)
2030	(448,669)
2031	(156,612)
Thereafter	(47,896)

Actuarial 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.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

Valuation Date:	September 30, 2024
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return:	6.00% net of investment expense
Projected Salary Increases:	2.75% - 11.55%, including wage inflation of 2.75%
Healthcare Cost Trend Rate:	Pre-65 - 7.75% Year 1 graded to 3.5% Year 15 Post-65 – 6.50% Year 1 graded to 3.5% Year 15
Mortality:	
Retirees:	PubT-2010 Male and Female Retiree Mortality Tables, scaled by 116% for males and 116% for females and adjusted for mortality improvements using projection scale MP-2021 from 2010.
Active Members:	PubT-2010 Male and Female Employee Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2021 from 2010.

Other Assumptions:

Opt Out Assumptions:	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 one or more dependents.

Notes:

- Assumption changes as a result of an experience study for the period 2017 through 2022 have been adopted by the System for use in the annual OPEB valuations beginning with the September 30, 2023 valuation. The total OPEB liability as of September 30, 2025 is based on the results of an actuarial valuation date of September 30, 2024 and rolled forward using generally accepted actuarial procedures, including the experience study.

- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: [6.4654 for non-university employers].

- Recognition period for assets in years: 5.0000.

- Full actuarial assumptions are available in the 2025 MPSERS Annual Comprehensive Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Rate of Return on Plan Investments

The long-term expected rate of return on 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 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. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2025, are summarized in the following table:

Investment Category	Target Allocation	Long-term Expected Real Rate of Return*
Domestic Equity Pools	16.0%	5.8%
International Equity Pools	11.0	5.6
Private Equity Pools	16.0	9.3
Real Estate and Infrastructure Pools	5.0	7.0
Fixed Income Pools	26.0	2.5
Absolute Return Pools	15.0	4.4
Real Return/Opportunistic Pools	7.0	7.0
Short-term Investment Pools	4.0	1.3
Total	**100.0%**	

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

Rate of Return

For the fiscal year ended September 30, 2025, the annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense, was 9.24%. 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 OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 6.00%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability (Asset) to Changes in the Discount Rate

The following presents the District's proportionate share of the net OPEB liability (asset) calculated using the discount rate of 6.00 percent, as well as what the District's proportionate share of the net OPEB liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

	1% Decrease 5.00%	Current Discount Rate 6.00%	1% Increase 7.00%
District's proportionate share of the net OPEB liability (asset)	$ (3,535,951)	$ (4,104,110)	$ (4,601,373)

Sensitivity of the District's Proportionate Share of the Net OPEB Liability (Asset) to Healthcare Cost Trend Rate

The following presents the District's proportionate share of the net OPEB liability (asset) calculated using assumed trend rates, as well as what the District's proportionate share of the net OPEB liability (asset) would be if it were calculated using a trend rate that is 1 percentage point lower or 1 percentage point higher:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's proportionate share of the net OPEB liability (asset)	$ (4,596,836)	$ (4,104,110)	$ (3,586,765)

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2025 MPSERS Annual Comprehensive Financial Report, available on the ORS website at www.michigan.gov/orsschools.

Payables to the OPEB Plan

Payables to the OPEB plan totaling $4,543 arise from the normal legally required contributions based on the accrued salaries payable at year end, expected to be liquidated with expendable available financial resources. The payables are included in the "Due to Other Governmental Units" at June 30, 2026.

Note J – Risk Management and Employee Benefits

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for property loss, errors and omissions, workers' compensation, health benefits, and dental and vision benefits provided to employees. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

There were no significant reductions in insurance coverage in fiscal 2025-26, and as of year ended June 30, 2026, there were no material pending claims against the District.

Note K – Stewardship, Compliance and Accountability

The District has an unrestricted net position deficit of $10,852,550 and a total net position deficit of $2,501,089 as of June 30, 2026. The unrestricted net position deficit results primarily from the net pension liability of $12,375,918 (including deferred outflows and inflows of resources).

Note L – Commitments

On June 30, 2026, the District issued $3,740,000 of general obligation 2026 Building and Site bonds and related bond premium of $201,413, whose proceeds are being used for land improvements, building renovations and additions, and furniture and equipment purchases. At June 30, 2026, unspent balances committed to these construction projects totaled $3,910,330.

Note M – New Accounting Pronouncement

The District adopted GASB Statement No. 103, *Financial Reporting Model Improvements,* during the fiscal year ended June 30, 2026. This statement modifies certain requirements related to management's discussion and analysis, unusual or infrequent items, proprietary fund reporting, budgetary comparison information, and other financial reporting presentations. The implementation of this statement resulted in changes to financial statement presentation and disclosures but had no effect on the District's net position.

Note N – Change within the Financial Reporting Entity

During the year ended June 30, 2026, the District reassessed the classification of governmental funds. As a result of this reassessment, the Food Service Fund, previously reported as a major fund, is now reported as a nonmajor fund. In addition, the governmental fund financial statements now include the 2026 Capital Projects Fund as a result of the issuance of bonds for future capital improvements.

Note O– Change in Accounting Estimate

During the fiscal year ended June 30, 2025, the District re-evaluated its policies and estimates used to recognize liabilities for compensated absences to more accurately reflect obligations related to current employment arrangements, as required by applicable accounting standards.

This change, which enhances the accuracy and consistency of the District's financial reporting, led to an increase of $390,742 to the compensated absences liability reported in the government-wide financial statements.

Note P– Related Party Transactions

The District is aware of certain related-party relationships involving members of the Board of Education. A son of a current Board member is employed by the District as the Maintenance Supervisor. The individual was hired and compensated in accordance with the District's established personnel policies and procedures.

In addition, a current Board member serves as the Treasurer of the Township in which the District is located. During the ordinary course of business, the District may engage in transactions with the Township for governmental services and activities. Management is now aware of any transactions that occurred outside the normal course of business or that were conducted on terms other than those available to unrelated parties.

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REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

	Budgeted Amounts		Variance -- Final to Original
	Original	Final	Budgeted
Revenues			
Local sources	$ 1,855,000	$ 2,006,800	$ 151,800
State sources	10,351,897	10,975,500	623,603
Federal sources	148,100	164,200	16,100
Interdistrict sources	391,400	393,300	1,900
Total Revenues	12,746,397	13,539,800	793,403
Expenditures			
Current:			
Instruction:			
Basic programs	6,213,715	6,216,100	2,385
Added needs	1,312,496	1,546,200	233,704
Supporting services:			
Pupil services	474,675	543,800	69,125
Instructional staff services	224,227	186,100	(38,127)
General administrative services	421,000	421,400	400
School administrative services	1,116,500	1,164,500	48,000
Business services	332,500	324,400	(8,100)
Operation and maintenance services	1,386,800	1,481,800	95,000
Pupil transportation services	795,100	856,300	61,200
Central services	274,400	273,800	(600)
Other supporting services	390,400	428,900	38,500
Community services	4,000	4,100	100
Debt service:			
Principal repayment	112,804	112,804	-
Interest and fiscal charges	30,296	30,296	-
Total Expenditures	13,088,913	13,590,500	501,587
Excess (Deficiency) of Revenues Over Expenditures	(342,516)	(50,700)	291,816
Other Financing Sources (Uses)			
Transfers in	40,000	50,000	10,000
Net Change in Fund Balances	(302,516)	(700)	301,816
Fund Balances, Beginning of Year	1,164,702	1,164,702	-
Fund Balances, End of Year	$ 862,186	$ 1,164,002	$ 301,816

Actual Amounts	Variance -- Final Budgeted to Actual Amounts
$ 2,011,929	$ 5,129
11,044,509	69,009
137,170	(27,030)
390,203	(3,097)
13,583,811	44,011
6,089,824	126,276
1,544,211	1,989
537,740	6,060
184,618	1,482
411,951	9,449
1,157,075	7,425
320,432	3,968
1,436,524	45,276
833,757	22,543
278,025	(4,225)
419,534	9,366
3,932	168
112,804	-
30,254	42
13,360,681	229,819
223,130	273,830
50,000	-
273,130	273,830
1,164,702	-
$ 1,437,832	$ 273,830

NOTES TO BUDGETARY COMPARISON SCHEDULE

HANOVER-HORTON SCHOOL DISTRICT
June 30, 2026

Variances - Final Budget Over (Under) Original Budget	Amount	Variance Explanations
Revenues		
Local sources	$ 151,800	*Local revenue exceeded budgeted expectations for the 2025-26 school year, primarily due to increased property tax collections, grant funding, higher event attendance, and greater-than-anticipated insurance reimbursements. These factors collectively resulted in revenues exceeding the original budget.*
State sources	623,603	*State revenue exceeded original budget projections due to additional funding received after the budget was adopted, including Section 27l Educator Compensation funding, Section 35m literacy funding, increased At-Risk and Special Education allocations, and a higher MPSERS UAAL offset. Collectively, these factors resulted in state revenues exceeding budgeted expectations for the 2025-26 school year.*
Expenditures		
Added needs	233,704	*Instructional expenditures exceeded the original budget due to the addition of an At-Risk teacher, increased compensation and benefit costs, the allocation of Section 27l Educator Compensation funding, and the use of Section 35m literacy funding to support instructional programming and curriculum enhancements.*
Operation and maintenance services	95,000	*Operations and maintenance expenditures exceeded the original budget due to higher-than-anticipated facility and vehicle maintenance costs, the addition of a liaison officer position, the allocation of Section 27l Educator Compensation funding, and increased MPSERS UAAL costs. Collectively, these factors resulted in expenditures exceeding budgeted expectations for the 2025-26 school year.*
Pupil transportation services	61,200	*Pupil transportation services expenditures exceeded the original budget due to an increase in UAAL and health insurance costs. Additionally, the District distributed state-allocated funding of Section 27l payments to transportation, and there was an increase in bus maintenance and repairs in 2025-2026.*

NOTES TO BUDGETARY COMPARISON SCHEDULE

HANOVER-HORTON SCHOOL DISTRICT
June 30, 2026

Variances - Actual Amounts Over (Under) Final Budget	Amount	Variance Explanations
Revenues		
State sources	$ 69,009	*Even after increasing the budgeted amount for MPSERS, actual MPSERS funding received exceeded projections, resulting in revenues above the final budget.*
Expenditures		
Basic programs	(126,276)	*Basic programs expenditures were less than the final budgeted amount because a teacher's payroll costs were moved from elementary to At-Risk mid-year.*
Pupil transportation services	(22,543)	*The cost of pupil transportation services was less than the final budget amount due to a bus driver resigning mid-year and fuel costs being less than expected.*

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY MPSERS COST-SHARING MULTIPLE-EMPLOYER PLAN

	Year Ended June 30, 2026	Year Ended June 30, 2025	Year Ended June 30, 2024
District's proportion of the net pension liability	0.05905887%	0.06159690%	0.05952000%
District's proportionate share of the net pension liability	$ 11,831,257	$ 14,728,305	$ 19,264,470
District's covered-employee payroll	$ 6,409,332	$ 6,270,057	$ 5,909,138
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	184.59%	234.90%	326.01%
Plan fiduciary net position as a percentage of the total pension liability	79.44%	74.44%	65.91%

Note: The amounts presented for the last ten fiscal years were determined as of September 30 of the preceding year.

There were no changes to benefit terms or assumptions in 2025-26.

Year Ended June 30, 2023	Year Ended June 30, 2022	Year Ended June 30, 2021	Year Ended June 30, 2020	Year Ended June 30, 2019	Year Ended June 30, 2018	Year Ended June 30, 2017
0.06042000%	0.06221000%	0.06379000%	0.06406000%	0.06431000%	0.06452000%	0.06593000%
$ 22,721,770	$ 14,727,345	$ 21,910,883	$ 21,214,316	$ 19,333,297	$ 16,719,211	$ 16,449,080
$ 5,713,182	$ 5,475,046	$ 5,610,679	$ 5,555,834	$ 5,445,050	$ 5,435,731	$ 5,335,135
397.71%	268.99%	390.52%	379.73%	350.35%	307.58%	308.32%
60.77%	72.60%	59.72%	60.31%	62.36%	64.21%	63.27%

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY (ASSET)
MPSERS COST-SHARING MULTIPLE-EMPLOYER PLAN

	Year Ended June 30, 2026	Year Ended June 30, 2025	Year Ended June 30, 2024
District's proportion of the net OPEB liability (asset)	0.06751161%	0.06044737%	0.05970000%
District's proportionate share of the net OPEB liability (asset)	$ (4,104,110)	$ (2,601,895)	$ (337,741)
District's covered-employee payroll	$ 6,409,332	$ 6,270,057	$ 5,909,138
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	(64.03%)	(41.50%)	(5.72%)
Plan fiduciary net position as a percentage of the total OPEB liability	164.94%	143.08%	105.04%

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

Note: GASB Statement No 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

There were no changes to benefit terms or assumptions in 2025-26.

Year Ended June 30, 2023	Year Ended June 30, 2022	Year Ended June 30, 2021	Year Ended June 30, 2020	Year Ended June 30, 2019	Year Ended June 30, 2018
0.05946000%	0.06117000%	0.06362000%	0.06382000%	0.06416000%	0.06454000%
$ 1,259,347	$ 933,723	$ 3,408,284	$ 4,581,020	$ 5,100,387	$ 5,715,224
$ 5,713,182	$ 5,475,046	$ 5,610,679	$ 5,555,834	$ 5,445,050	$ 3,604,066
22.04%	17.05%	60.75%	82.45%	93.67%	158.58%
83.09%	87.33%	59.44%	48.46%	42.95%	36.39%

SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS
MPSERS COST-SHARING MULTIPLE-EMPLOYER PLAN

	Year Ended June 30, 2026	Year Ended June 30, 2025	Year Ended June 30, 2024
Contractually required contribution	$ 2,625,180	$ 2,417,420	$ 2,492,390
Contributions in relation to the contractually required contribution	2,625,180	2,417,420	2,492,390
Contribution deficiency (excess)	$ -	$ -	$ -
District's covered-employee payroll	$ 6,378,929	$ 6,470,945	$ 6,191,048
Contributions as a percentage of covered employee payroll	41.15%	37.36%	40.26%

Year Ended June 30, 2023	Year Ended June 30, 2022	Year Ended June 30, 2021	Year Ended June 30, 2020	Year Ended June 30, 2019	Year Ended June 30, 2018	Year Ended June 30, 2017
$ 2,739,963	$ 1,867,788	$ 1,752,898	$ 1,701,762	$ 1,751,225	$ 1,513,277	$ 1,480,500
2,739,963	1,867,788	1,752,898	1,701,762	1,751,225	1,513,277	1,480,500
$ -	$ -	$ -	$ -	$ -	$ -	$ -
$ 6,080,738	$ 5,661,603	$ 5,455,752	$ 5,646,749	$ 5,773,152	$ 5,435,731	$ 5,335,135
45.06%	32.99%	32.13%	30.14%	30.33%	27.84%	27.75%

SCHEDULE OF DISTRICT OPEB CONTRIBUTIONS
MPSERS COST-SHARING MULTIPLE-EMPLOYER PLAN

	Year Ended June 30, 2026	Year Ended June 30, 2025	Year Ended June 30, 2024
Contractually required contribution	$ 45,383	$ 117,343	$ 499,712
Contributions in relation to the contractually required contribution	45,383	117,343	499,712
Contribution deficiency (excess)	$ -	$ -	$ -
District's covered-employee payroll	$ 6,378,929	$ 6,470,945	$ 6,191,048
Contributions as a percentage of covered employee payroll	0.71%	1.81%	8.07%

Note: GASB Statement No 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Year Ended June 30, 2023	Year Ended June 30, 2022	Year Ended June 30, 2021	Year Ended June 30, 2020	Year Ended June 30, 2019	Year Ended June 30, 2018
$ 465,862	$ 430,543	$ 449,490	$ 438,210	$ 416,488	$ 502,642
465,862	430,543	449,490	438,210	416,488	502,642
$ -	$ -	$ -	$ -	$ -	$ -
$ 6,080,738	$ 5,661,603	$ 5,455,752	$ 5,646,749	$ 5,773,152	$ 5,435,731
7.66%	7.60%	8.24%	7.76%	7.21%	9.25%

SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

HANOVER-HORTON SCHOOL DISTRICT
June 30, 2026

	Special Revenue		Debt Service	Capital Projects	
	Food Service	Student/School Activity	2019	Sinking Fund	Total
Assets					
Cash equivalents	$ 900,511	$ 414,699	$ 457,700	$ 195,781	$1,968,691
Accounts receivable	-	17,674	-	-	17,674
Due from other funds	15,978	-	967	926	17,871
Due from other governmental units	46,864	-	-	-	46,864
Inventory	7,421	-	-	-	7,421
Total Assets	$ 970,774	$ 432,373	$ 458,667	$ 196,707	$2,058,521
Liabilities and Fund Balances					
Liabilities					
Accounts payable	$ 21,731	$ -	$ -	$ 6,931	$ 28,662
Due to other funds	50,360	473	-	-	50,833
Due to other governmental units	63	-	-	-	63
Accrued expenditures	744	-	-	-	744
Salaries payable	1,977	-	-	-	1,977
Total Liabilities	74,875	473	-	6,931	82,279
Fund Balances					
Nonspendable	7,421	-	-	-	7,421
Restricted	888,478	431,900	458,667	189,776	1,968,821
Total Fund Balances	895,899	431,900	458,667	189,776	1,976,242
Total Liabilities and Fund Balances	$ 970,774	$ 432,373	$ 458,667	$ 196,707	$2,058,521

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS

HANOVER-HORTON SCHOOL DISTRICT
For the year ended June 30, 2026

	Special Revenue		Debt Service	Capital Projects	
	Food Service	Student/School Activity	2019	Sinking Fund	Total
Revenues					
Local sources:					
Property taxes	$ -	$ -	$ 405,132	$ 385,358	$ 790,490
Interest earnings	29,158	1,748	9,403	12,500	52,809
Food sales	89,637	-	-	-	89,637
Other	498	342,505	47	-	343,050
Total local sources	119,293	344,253	414,582	397,858	1,275,986
State sources	348,433	-	-	45	348,478
Federal sources	433,394	-	-	-	433,394
Total Revenues	901,120	344,253	414,582	397,903	2,057,858
Expenditures					
Current:					
Supporting services	-	305,570	-	17,188	322,758
Food service	728,070	-	-	-	728,070
Capital outlay	76	-	-	132,416	132,492
Debt service:					
Principal repayment	-	-	155,000	204,000	359,000
Interest and fiscal charges	-	-	158,398	8,034	166,432
Total Expenditures	728,146	305,570	313,398	361,638	1,708,752
Excess (Deficiency) of Revenues Over Expenditures	172,974	38,683	101,184	36,265	349,106
Other Financing Sources (Uses)					
Transfers out	(50,000)	-	-	-	(50,000)
Other transactions	589	-	-	-	589
Total Financing Sources (Uses)	(49,411)	-	-	-	(49,411)
Net Change in Fund Balances	123,563	38,683	101,184	36,265	299,695
Fund Balances, Beginning of Year	772,336	393,217	357,483	153,511	1,676,547
Fund Balances, End of Year	$ 895,899	$ 431,900	$ 458,667	$ 189,776	$ 1,976,242

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL - FOOD SERVICE SPECIAL REVENUE FUND

HANOVER-HORTON SCHOOL DISTRICT
For the year ended June 30, 2026

	Budget	Actual	Variance
Revenues			
Local sources	$ 118,800	$ 119,293	$ 493
State sources	260,700	348,433	87,733
Federal sources	458,300	433,394	(24,906)
Total Revenues	837,800	901,120	63,320
Expenditures			
Current:			
Food service	737,300	728,070	9,230
Capital outlay	12,500	76	12,424
Total Expenditures	749,800	728,146	21,654
Excess (Deficiency) of Revenues Over Expenditures	88,000	172,974	84,974
Other Financing Sources (Uses)			
Transfers out	(50,000)	(50,000)	-
Other transactions	600	589	(11)
Total Other Financing Sources (Uses)	(49,400)	(49,411)	(11)
Net Change in Fund Balances	38,600	123,563	84,963
Fund Balances, Beginning of Year	772,336	772,336	-
Fund Balances, End of Year	$ 810,936	$ 895,899	$ 84,963

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL – STUDENT/SCHOOL ACTIVITY SPECIAL REVENUE FUND

HANOVER-HORTON SCHOOL DISTRICT
For the year ended June 30, 2026

	Budget	Actual	Variance
Revenues			
Local sources	$ 289,000	$ 344,253	$ 55,253
Expenditures			
Current:			
Other student/school activity	284,000	305,570	(21,570)
Net Change in Fund Balance	5,000	38,683	33,683
Fund Balance, Beginning of Year	393,217	393,217	-
Fund Balance, End of Year	$ 398,217	$ 431,900	$ 33,683

INTERNAL CONTROL AND COMPLIANCE

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

October 12, 2026

The Board of Education
Hanover-Horton School District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of Hanover-Horton School District (the "District"), as of and for the year ended June 30, 2026, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 12, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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.

Hungerford

Certified Public Accountants
Grand Rapids, Michigan

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October 12, 2026

The Board of Education
Hanover-Horton School District
Jackson County, Michigan

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Hanover-Horton School District for the year ended June 30, 2026. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and Government Auditing Standards and the Uniform Guidance, as applicable), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 1, 2026. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Hanover-Horton School District are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2026. As described in Note M to the financial statements, Hanover-Horton School District adopted GASB No. 103, Financial Reporting Model Improvements, during the fiscal year ended June 30, 2026, resulting in changes to financial statement presentation and disclosures but had no effect on the District's net position. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

> Management's estimate of the liability of the payout for the employee compensated absences upon their retirement is based on expected payout. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the lives of capital assets. We evaluated the key factors and assumptions used to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole. Certain amounts included in capital assets have been estimated by appraisers based on historical information for assets placed in service prior to implementation of GASB Statement No. 34.

Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. The most sensitive disclosures affecting the financial statements were related to the District's share of the net pension and net OPEB liabilities related to GASB Statements No. 68 and 75.

The disclosure of the net pension liability and the net OPEB liability in the Notes to the financial statements were recorded as of June 30, 2026 based on information received from the Michigan Office of Retirement Services. We evaluated the key factors and assumptions used to develop these liabilities 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 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 trivial, and communicate them to the appropriate level of management. Material adjustments identified in the audit of the period ended June 30, 2026 include:

- $65,000 to record bond issuance costs in the 2026 Capital Projects Fund.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 12, 2026.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Per 7 CFR Part 210.14(b), and as detailed in the Michigan Department of Education (MDE) School Auditing Manual, the District must limit its net cash resources in the Food Service Fund to an amount that does not exceed 3 months average expenditures for its nonprofit school food service. As of June 30, 2026, Hanover-Horton School District has excess fund balance in its Food Service Fund and must work with MDE to gain approval of a spend down plan for the subsequent school year.

Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis and Schedules related to the Proportionate Share and Contributions of the District's Net Pension and Net OPEB Liabilities, 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.

Other Comments

The District General Fund balance increased by $273,130 to $1,437,832 at June 30, 2026. This balance represents approximately 10.9 percent of the District's 2026-27 expenditure budget (up from 8.9 percent at June 30, 2025). Maintaining a fund balance of at least 20 of the ensuing year's expenditure budget is advisable for Hanover-Horton School District, as recommended by the Michigan Department of Education.

Restriction on Use

This communication is intended solely for the information and use of the Hanover-Horton School District Board of Education and management and is not intended to be, and should not be, used by anyone other than these specified parties. We have furnished a copy of this letter to the Michigan Departments of Education and Treasury as an enclosure with the audited financial statements as required by the State of Michigan.

Hungerford

Hungerford
Grand Rapids, Michigan